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FOREST MUNICIPAL SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2014



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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Forest Municipal School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Municipal School District as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and

analysis and budgetary comparison information on pages 11-18 and 53-61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

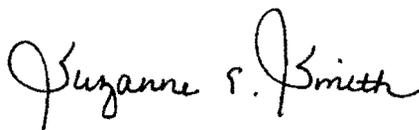
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Forest Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2015, 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* in considering Forest Municipal School District's internal control over financial reporting and compliance.



Suzanne E. Smith, CPA, PLLC

Meridian, MS
January 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

The following discussion and analysis of Forest Municipal School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2014 decreased \$263,773, including a prior period adjustment of \$46,258, which represents a 3.9% decrease from fiscal year 2013. Total net position for 2013 decreased \$367,461, which represents a 5.1% decrease from fiscal year 2012.
- General revenues amounted to \$9,873,542 and \$10,195,113, or 78.2% and 80.2% of all revenues for fiscal years 2014 and 2013, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,755,789, or 21.8% of total revenues for 2014, and \$2,523,543, or 19.8% of total revenues for 2013.
- The District had \$12,939,362 and \$13,086,117 in expenses for fiscal years 2014 and 2013; only \$2,755,789 for 2014 and \$2,523,543 for 2013 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$9,873,542 for 2014 and \$10,195,113 for 2013 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$9,629,693 in revenues and \$10,266,602 in expenditures for 2014, and \$9,699,990 in revenues and \$10,357,823 in expenditures in 2013. The General Fund's fund balance decreased by \$395,062 from 2013 to 2014, including a prior period adjustment of \$27,793, and decreased by \$329,258 from 2012 to 2013.
- Capital assets, net of accumulated depreciation, increased by \$60,100 for 2014 and decreased by \$143,650 for 2013. The increase for 2014 was due primarily to the addition of \$245,750 of construction-in-progress.
- Long-term debt, including the liability for compensated absences, increased by \$2,902,903 for 2014 and decreased by \$438,538 for 2013. This increase for 2014 was due primarily to the issuance of certificates of participation in the amount of \$2,950,000. The liability for compensated absences increased by \$16,081 for 2014 and decreased by \$2,304 for 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplementary information, supplementary information, and other information.

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 Position 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 Position presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net position." Over time, increases or decreases in the District's net position 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 position changed during the most recent fiscal year. All changes in net position 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.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

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 Position, 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.

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.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

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 Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary 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.

Supplementary 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 position

Net position may serve over time as a useful indicator of the District's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,537,380 as of June 30, 2014.

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.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Table 1 presents a summary of the District's net position at June 30, 2014 and June 30, 2013.

Table 1
Condensed Statement of Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Current assets	\$ 6,061,890	\$ 3,547,861	70.86 %
Restricted assets	260,260	411,585	-36.77 %
Capital assets, net	5,689,149	5,629,049	1.07 %
Total assets	<u>12,011,299</u>	<u>9,588,495</u>	25.27 %
Current liabilities	374,184	590,510	-36.63 %
Long-term debt outstanding	5,099,735	2,196,832	132.14 %
Total liabilities	<u>5,473,919</u>	<u>2,787,342</u>	96.38 %
Net position:			
Net investment in capital assets	3,489,758	3,537,243	-1.34 %
Restricted	1,007,730	1,217,612	-17.24 %
Unrestricted	2,039,892	2,046,298	-0.31 %
Total net position	<u>\$ 6,537,380</u>	<u>\$ 6,801,153</u>	-3.88 %

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

- Increase in net capital assets in the amount of \$60,100.
- The principal retirement of \$1,762,886 of long-term debt.
- The issuance of \$4,650,000 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$12,629,331 and \$12,718,656, respectively. The total cost of all programs and services was \$12,939,362 for 2014 and \$13,086,117 for 2013.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 2
Changes in Net Position

	Year Ended June 30, 2014	Year Ended June 30, 2013	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 223,762	\$ 290,265	(22.91) %
Operating grants and contributions	2,532,027	2,233,278	13.38 %
General revenues:			
Property taxes	3,835,161	3,944,642	(2.78) %
Grants and contributions not restricted	5,896,326	6,057,544	(2.66) %
Investment earnings	16,609	26,367	(37.01) %
Sixteenth section sources	104,752	135,337	(22.60) %
Other	20,694	31,223	(33.72) %
Total revenues	12,629,331	12,718,656	(0.70) %
Expenses:			
Instruction	6,946,989	7,168,428	(3.09) %
Support services	4,964,898	4,866,410	2.02 %
Non-instructional	949,879	907,269	4.70 %
Sixteenth section	16,295	44,825	(63.65) %
Interest on long-term liabilities	61,301	99,185	(38.20) %
Total expenses	12,939,362	13,086,117	(1.12) %
Increase (Decrease) in net position	(310,031)	(367,461)	(15.63) %
Net Position, July 1, as previously reported	6,801,153	7,168,614	(5.13) %
Prior Period Adjustment	46,258	-	N/A %
Net Position, July 1, as restated	6,847,411	7,168,614	(4.48) %
Net Position, June 30	\$ 6,537,380	\$ 6,801,153	(3.88) %

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 liabilities. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		Percentage Change
	<u>2014</u>	<u>2013</u>	
Instruction	\$ 6,946,989	\$ 7,168,428	(3.09) %
Support services	4,964,898	4,866,410	2.02 %
Non-instructional	949,879	907,269	4.70 %
Sixteenth section	16,295	44,825	(63.65) %
Interest on long-term liabilities	61,301	99,185	(38.20) %
Total expenses	<u>\$ 12,939,362</u>	<u>\$ 13,086,117</u>	(1.12) %
	<u>Net (Expense) Revenue</u>		
	<u>2014</u>	<u>2013</u>	Percentage Change
Instruction	\$ (5,996,645)	\$ (6,251,003)	(4.07) %
Support services	(4,190,446)	(4,215,577)	(0.60) %
Non-instructional	81,114	48,016	68.93 %
Sixteenth section	(16,295)	(44,825)	(63.65) %
Interest on long-term liabilities	(61,301)	(99,185)	(38.20) %
Total net (expense) revenue	<u>\$ (10,183,573)</u>	<u>\$ (10,562,574)</u>	(3.59) %

- Net cost of governmental activities [(\$10,183,573) for 2014 and (\$10,562,574) for 2013] was financed by general revenue, which is primarily made up of property taxes (\$3,835,161 for 2014 and \$3,944,642 for 2013) and state and federal revenues (\$5,896,326 for 2014 and \$6,057,544 for 2013). In addition, there was \$104,752 and \$135,337 in Sixteenth Section sources for 2014 and 2013, respectively.
- Investment earnings amounted to \$16,609 for 2014 and \$26,367 for 2013.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned 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 \$5,989,676, an increase of \$2,610,965, which includes an increase in inventory of \$3,401 and a prior period adjustment of \$44,254. \$1,710,307 or 28.6% 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 \$4,279,369 or 71.4% 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.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$395,062, which includes a prior period adjustment of \$27,793. The fund balance of Other Governmental Funds showed an increase in the amount of \$322,404, which includes an increase in reserve for inventory of \$3,401 and a prior period adjustment of \$16,461. The increase (decrease) in the fund balances for the other major funds was as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Fund	No change
Idea Part B Fund	No change
Vo-Tech Maintenance Fund	\$ 4,386
Local Capital Projects Fund	\$ 2,679,237

BUDGETARY HIGHLIGHTS

During 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 major special revenue funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2014, the District's total capital assets were \$11,350,924 including land, construction-in-progress, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$250,069 from 2013, which includes a prior period adjustment of \$17,118. Total accumulated depreciation as of June 30, 2014, was \$5,661,775, and total depreciation expense for the year was \$300,159, resulting in total net capital assets of \$5,689,149.

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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Land	\$ 15,485	15,485	0.00 %
Construction-in-progress	245,750	-	N/A %
Buildings	3,492,145	3,579,493	(2.44) %
Building improvements	1,134,460	1,198,091	(5.31) %
Improvements other than buildings	100,164	106,411	(5.87) %
Mobile equipment	579,417	576,331	0.54 %
Furniture and equipment	121,728	153,238	(20.56) %
Total	<u>\$ 5,689,149</u>	<u>\$ 5,629,049</u>	1.07 %

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

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Debt Administration. At June 30, 2014, the District had \$5,099,735 in outstanding long-term debt, of which \$406,766 is due within one year. The liability for compensated absences increased \$16,081 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Limited obligation notes payable	\$ -	\$ 265,000	(100.00) %
Three mill notes payable	1,700,000	1,415,000	20.14 %
Obligations under energy efficiency leases	328,628	411,806	(20.20) %
Certificates of participation	2,950,000	-	N/A %
Compensated absences payable	121,107	105,026	15.31 %
Total	<u>\$ 5,099,735</u>	<u>\$ 2,196,832</u>	132.14 %

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

CURRENT ISSUES

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. The district plans to continue its sound fiscal management to meet the challenges of the future.

The district actively pursues grant funding to supplement local, state, and federal revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Forest Municipal School District, 325 Cleveland Street, Forest, Mississippi.

FINANCIAL STATEMENTS

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FOREST MUNICIPAL SCHOOL DISTRICT

Statement of Net Position
June 30, 2014

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,930,924
Cash with fiscal agents	2,785,782
Due from other governments	321,989
Other receivables, net	6,475
Inventories	16,720
Restricted assets	260,260
Capital assets, net of accumulated depreciation	5,689,149
Total Assets	12,011,299
Liabilities	
Accounts payable and accrued liabilities	331,785
Interest payable on long-term liabilities	41,710
Unearned revenue	517
Other payables	172
Long-term liabilities, due within one year:	
Capital related liabilities	406,766
Long-term liabilities, due beyond one year:	
Capital related liabilities	4,571,862
Non-capital related liabilities	121,107
Total Liabilities	5,473,919
Net Position	
Net investment in capital assets	3,489,758
Restricted for:	
Expendable:	
School-based activities	390,508
Debt service	289,063
Forestry improvements	40,229
Unemployment benefits	27,670
Non-expendable:	
Sixteenth section	260,260
Unrestricted	2,039,892
Total Net Position	\$ 6,537,380

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

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FOREST MUNICIPAL SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2014

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$ 6,946,989	122,037	828,307		(5,996,645)
Support services	4,964,898		774,452		(4,190,446)
Non-instructional	949,879	101,725	929,268		81,114
Sixteenth section	16,295				(16,295)
Interest on long-term liabilities	61,301				(61,301)
Total Governmental Activities	\$ 12,939,362	223,762	2,532,027	0	(10,183,573)
General Revenues:					
Taxes:					
					3,683,778
					151,383
Unrestricted grants and contributions:					
					5,817,143
					79,183
					16,609
					104,752
					20,694
					<u>9,873,542</u>
					<u>(310,031)</u>
					6,801,153
					46,258
					<u>6,847,411</u>
					<u>\$ 6,537,380</u>

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

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FOREST MUNICIPAL SCHOOL DISTRICT

Governmental Funds

Balance Sheet

Exhibit C

June 30, 2014

	Major Funds						Total Governmental Funds
	General Fund	Title I Fund	Idea Part B Fund	Vo-Tech Maintenance Fund	Local Capital Projects Fund	Other Governmental Funds	
Assets							
Cash and cash equivalents	\$ 1,476,978	25	312	199,954	87,173	1,426,742	3,191,184
Cash with fiscal agents					2,785,782		2,785,782
Due from other governments	105,216	105,538	58,856	2,860		49,519	321,989
Other receivables, net						6,475	6,475
Due from other funds	207,010						207,010
Inventories						16,720	16,720
Total assets	1,789,204	105,563	59,168	202,814	2,872,955	1,499,456	6,529,160
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	32,770	25	312	198,428	93,718	6,532	331,785
Due to other funds	172	105,538	58,856			42,616	207,182
Unearned revenue						517	517
Total Liabilities	32,942	105,563	59,168	198,428	93,718	49,665	539,484
Fund Balances:							
Nonspendable:							
Inventory						16,720	16,720
Permanent fund principal						260,260	260,260
Restricted:							
Debt service						330,773	330,773
Forestry improvement purposes						40,229	40,229
Grant activities						373,788	373,788
Unemployment benefits						27,670	27,670
Capital improvements					2,779,237		2,779,237
Committed:							
Capital improvements						200,000	200,000
Assigned:							
Vocational				4,386		4,161	8,547
Student activities	45,955						45,955
Sixteenth section						196,190	196,190
Unassigned	1,710,307						1,710,307
Total Fund Balances	1,756,262	0	0	4,386	2,779,237	1,449,791	5,989,676
Total Liabilities and Fund Balances	\$ 1,789,204	105,563	59,168	202,814	2,872,955	1,499,456	6,529,160

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

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FOREST MUNICIPAL SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014**

Exhibit C-1

Total fund balances for governmental funds \$ 5,989,676

Amounts reported for governmental activities in the statement of Net Position 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	
Construction-in-progress	245,750	
Buildings	7,276,331	
Building improvements	1,590,785	
Improvements other than buildings	156,182	
Mobile equipment	1,631,018	
Furniture and equipment	435,373	
Accumulated depreciation	<u>(5,661,775)</u>	5,689,149

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:

Three mill notes payable	(1,700,000)	
Certificates of participation payable	(2,950,000)	
Obligations under energy efficiency leases	(328,628)	
Compensated absences	(121,107)	
Accrued interest payable	<u>(41,710)</u>	(5,141,445)

Net Position of governmental activities \$ 6,537,380

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

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FOREST MUNICIPAL SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Exhibit D

For the Year Ended June 30, 2014

	Major Funds						Total Governmental Funds
	General Fund	Title I Fund	Idea Part B Fund	Vo-Tech Maintenance Fund	Local Capital Projects Fund	Other Governmental Funds	
Revenues:							
Local sources	\$ 3,630,054			203,992	430	256,330	4,090,806
State sources	5,920,456					99,992	6,020,448
Federal sources	79,183	574,149	367,806			1,389,853	2,410,991
Sixteenth section sources						107,086	107,086
Total Revenues	9,629,693	574,149	367,806	203,992	430	1,853,261	12,629,331
Expenditures:							
Instruction	5,892,661	413,155	133,430	199,606		162,645	6,801,497
Support services	4,255,401	140,298	221,723			308,356	4,925,778
Noninstructional services	6,731	6,193	75			900,244	913,243
Sixteenth section						16,295	16,295
Facilities acquisition and construction	12,812				232,938		245,750
Debt service:							
Principal	82,886					1,680,000	1,762,886
Interest	16,111					13,255	29,366
Other					25,000	2,425	27,425
Total Expenditures	10,266,602	559,646	355,228	199,606	257,938	3,083,220	14,722,240
Excess (Deficiency) of Revenues over (under) Expenditures	(636,909)	14,503	12,578	4,386	(257,508)	(1,229,959)	(2,092,909)
Other Financing Sources (Uses):							
Proceeds of notes						1,700,000	1,700,000
Sale of transportation equipment	5,362						5,362
Sale of other property	857						857
Proceeds of certificates of participation					2,950,000		2,950,000
Operating transfers in	207,837				81,943	81,945	371,725
Operating transfers out	(2)	(14,503)	(12,578)		(95,198)	(249,444)	(371,725)
Total Other Financing Sources (Uses)	214,054	(14,503)	(12,578)	0	2,936,745	1,532,501	4,656,219
Net Change in Fund Balances	(422,855)	0	0	4,386	2,679,237	302,542	2,563,310
Fund Balances:							
July 1, 2013, as originally presented	2,151,324	0	0	0	100,000	1,127,387	3,378,711
Adjustments	27,793					16,461	44,254
July 1, 2013, as adjusted	2,179,117	0	0	0	100,000	1,143,848	3,422,965
Increase (Decrease) in reserve for inventory						3,401	3,401
June 30, 2014	\$ 1,756,262	0	0	4,386	2,779,237	1,449,791	5,989,676

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

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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, 2014**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 2,563,310

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

- 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	\$ 370,824	
Depreciation expense	<u>(300,159)</u>	70,665

- 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 Position differs from the change in fund balance by the cost of the assets sold. (12,277)

- 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 Position:

Proceeds of notes payable	(1,700,000)	
Proceeds of certificates of participation payable	(2,950,000)	
Payments of debt principal	1,762,886	
Accrued interest payable	<u>(31,935)</u>	(2,919,049)

- 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	(16,081)	
Change in inventory reserve	3,401	(12,680)

Change in Net Position of governmental activities \$ (310,031)

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

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FOREST MUNICIPAL SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

Exhibit E

June 30, 2014

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 515,423
Due from other funds	172
Total Assets	<u>\$ 515,595</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 488,013
Due to student clubs	27,248
Other payables	334
Total Liabilities	<u>\$ 515,595</u>

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

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FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

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. 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, Mississippi, since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position 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 Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2014

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 I Fund – This is a special revenue fund that accounts for the revenues and related expenditures of the Federal Title I grants to local educational agencies flowing through the Mississippi Department of Education.

Idea Part B Fund – This is a special revenue fund that accounts for the revenues and related expenditures of the federal special education grant flowing through the Mississippi Department of Education.

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

Local Capital Projects Fund – This is a capital projects fund used to account for and report financial resources that are restricted to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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 position and changes in net position.

The District's fiduciary funds include the following:

Payroll Clearing Fund – This is a fiduciary fund that accounts for the assets and liabilities associated with the imprest clearing activities of the payroll expenditure control cycle.

Accounts Payable Clearing Fund – This is a fiduciary fund that accounts for the assets and liabilities associated with the imprest clearing activities of the non-payroll expenditure control cycle.

Student Club Account Funds – These funds are fiduciary funds that account for the assets and liabilities associated with student club activities.

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.

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.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

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.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position 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.

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 is both restricted and unrestricted net position 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 2012 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.

D. Encumbrances

An encumbrance system is maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the school district attempts to liquidate all encumbrances

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

E. Assets, liabilities, deferred outflows/inflows, and net position/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.

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 Position 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.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

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 Position. 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	*	*

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

8. 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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2014

9. Long-term Liabilities and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. 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.

10. 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 formal order of the School Board to approve certain committed fund balances.

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 business manager pursuant to authorization established by school board 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/expense 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/expenses 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 and 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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

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.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,191,184 and \$515,423, 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, 2014, none of the district's bank balance of \$4,364,915 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of the school district's cash with fiscal agents was \$2,785,782. This amount represents proceeds from the issuance of certificates of participation held by the banking institution awaiting draw-down to match construction expenditures.

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 I Fund	\$ 105,538
	IDEA Part B Fund	58,856
	Other governmental funds	42,616
Fiduciary funds	General Fund	172
Total		\$ 207,182

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

The interfund balances primarily represent loans created by negative individual fund cash in a pooled bank account caused by the time lag between expending federal funds and receiving reimbursement for those expenditures.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 2
Title I Fund	General Fund	14,503
Idea Part B Fund	General Fund	12,578
Local Capital Projects Fund	General Fund	95,198
Other governmental funds	General Fund	85,558
	Local Capital Projects Fund	81,943
	Other governmental funds	81,943
Total		<u>\$ 371,725</u>

The transfers constitute transfers of indirect costs from special revenue funds to the General Fund and operating transfers between governmental funds.

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling \$260,260, 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, 2014

Note 5 – Capital Assets

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

	Balance 7/1/2013	Increases	Decreases	Adjustments	Balance 6/30/2014
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 15,485	-	-	-	15,485
Construction-in-progress	-	245,750	-	-	245,750
Total non-depreciable capital assets	15,485	245,750	-	-	261,235
Depreciable capital assets:					
Buildings	7,276,331	-	-	-	7,276,331
Building improvements	1,590,785	-	-	-	1,590,785
Improvements other than buildings	156,182	-	-	-	156,182
Mobile equipment	1,619,256	115,735	121,091	17,118	1,631,018
Furniture and equipment	442,816	9,339	16,782	-	435,373
Total depreciable capital assets	11,085,370	125,074	137,873	17,118	11,089,689
Less accumulated depreciation for:					
Buildings	3,696,838	87,348	-	-	3,784,186
Building improvements	392,694	63,631	-	-	456,325
Improvements other than buildings	49,771	6,247	-	-	56,018
Mobile equipment	1,042,925	102,252	108,982	15,406	1,051,601
Furniture and equipment	289,578	40,681	16,614	-	313,645
Total accumulated depreciation	5,471,806	300,159	125,596	15,406	5,661,775
Total depreciable capital assets, net	5,613,564	(175,085)	12,277	1,712	5,427,914
Governmental activities capital assets, net	\$ 5,629,049	70,665	12,277	1,712	5,689,149

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 135,843
Support services	125,887
Non-instructional	38,429
Total depreciation expense - Governmental activities	\$ 300,159

Construction in progress is composed of:

	June 30, 2014	Commitment
Governmental Activities:		
Forest Elementary School Cafeteria Renovation	\$ 222,975	2,281,552
Forest High School Gym HVAC Project	22,775	230,524
	<u>\$ 245,750</u>	<u>2,512,076</u>

Construction projects included in governmental activities are funded with proceeds from certificates of participation payable. (See Note 6 and Note 13 for details of these trust certificates.)

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

Note 6 – Long-term Liabilities

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

	Balance 7/1/2013	Additions	Reductions	Adjustments	Balance 6/30/2014	Amounts due within one year
A. Limited obligation bonds payable	\$ 265,000		265,000	-	-	-
B. Three mill notes payable	1,415,000	1,700,000	1,415,000	-	1,700,000	170,000
C. Obligations under energy efficiency leases	411,806		82,886	(292)	328,628	86,766
D. Certificates of participation payable	-	2,950,000	-	-	2,950,000	150,000
E. Compensated absences payable	105,026	16,081	-	-	121,107	
Subtotal	\$ 2,196,832	4,666,081	1,762,886	(292)	5,099,735	406,766

A. Limited obligation refunding bonds payable

These bonds were paid in full during the year ended June 30, 2014.

B. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2013	2.14%	15-Aug-13	15-Aug-23	\$ 1,700,000	1,700,000

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

Series 2013 three mill notes payable issue of August 15, 2013

Year Ending June 30	Principal	Interest	Total
2015	\$ 170,000	36,380	206,380
2016	153,000	32,742	185,742
2017	157,000	29,468	186,468
2018	161,000	26,108	187,108
2019	165,000	22,663	187,663
2020-2024	894,000	58,357	952,357
Total	\$ 1,700,000	205,718	1,905,718

The debt will be retired from the Note Retirement Fund (Fund 4021).

The three mill notes payable are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi in the form of sales tax revenues for buildings and buses from the Education Enhancement Fund ("EEF") created under Section 37-61-33 Mississippi Code Ann. (1972). The amount of the annual pledge is \$57,452, which is 100% of such expected revenues. The pledge will continue through June 30, 2023.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

C. Obligations under energy efficiency leases

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
MS Power Lease, Series 2007	4.23%	15-Dec-07	15-Feb-18	\$ 806,101	328,628

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2015	\$ 86,766	12,231	98,997
2016	90,508	8,489	98,997
2017	94,412	4,586	98,998
2018	56,942	807	57,749
Total	\$ 328,628	26,113	354,741

This debt will be retired from the District Maintenance Fund.

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 on the lease shall be made from the District Maintenance Fund and shall not exceed fifteen (15) 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.

D. Certificates of participation payable

As more fully explained in Note 13, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2014	2.64%	1-May-14	1-May-28	\$ 2,950,000	2,950,000

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 150,000	77,880	227,880
2016	155,000	73,920	228,920
2017	160,000	69,828	229,828
2018	170,000	65,604	235,604
2019	175,000	61,116	236,116
2020-2024	1,020,000	231,924	1,251,924
2025-2028	1,120,000	72,732	1,192,732
Total	<u>\$ 2,950,000</u>	<u>653,004</u>	<u>3,603,004</u>

The debt will be retired from the District Maintenance Fund (General Fund).

The certificates of participation payable are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi in the form of sales tax revenues for buildings and buses from the Education Enhancement Fund ("EEF") created under Section 37-61-33 Mississippi Code Ann. (1972). The amount of the annual pledge is \$57,452, which is 100% of such expected revenues. The pledge will begin July 1, 2023 and remain in effect until June 30, 2028. Such EEF funds are currently pledged to the District's \$1,700,000 Three Mill Note Payable, series 2013, through June 30, 2023.

E. Compensated absences payable

As more fully explained in Note 1(E)(8), 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 – Other Commitments

Commitments under construction contracts are described in Note 5.

Operating Leases:

The school district has an operating lease for eighteen (18) copiers. Lease rentals for the year ended June 30, 2014, amounted to \$28,778. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2015	\$ \$ 28,882
2016	\$ 28,882
2017	\$ 105
	<u>\$ \$ 57,869</u>

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

Note 8 – 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 as of June 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2014, 2013 and 2012 were \$1,059,619, \$974,334 and \$840,953, respectively, which equaled the required contributions for each year.

Note 9 – 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
2015	\$ 92,673
2016	92,673
2017	92,673
2018	85,370
2019	85,370
2020 – 2024	415,170
2025 – 2029	396,693
2030 – 2034	345,574
Thereafter	466,277
Total	<u>\$ 2,072,473</u>

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

Note 10 – Prior Period Adjustments

A summary of significant Net Position/Fund Balance adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
1. Adjustments to capital assets	\$ 1,712
2. Adjustments to long term debt	292
3. Adjustment to a prior period asset or liability	44,254
Total	<u>\$ 46,258</u>

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

Fund	Explanation	Amount
General Fund	Correction of a prior period asset or liability	\$ 27,793
Other governmental funds	Correction of a prior period asset or liability	16,461
	Total	<u>\$ 44,254</u>

Note 11 – 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.

Note 12 – 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 94 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.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2014

Note 13 – Trust Certificates

A trust agreement dated May 1, 2014, was executed by and between the school district and Forest Municipal Schools Leasing Authority, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$2,950,000. Approximately \$2,925,000 will be used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$25,000 was used to pay the costs of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, et seq., Miss. Code Ann. (1972). The lease represents a capital lease under which the ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

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 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). During the current fiscal year Scott County School District did not file lists of educable children with Forest Municipal School District as required by Section 29-3-121, Miss. Code Ann. (1972).

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 Scott County School District received. The district has not recorded any receivables or payables that may arise from the revenues earned in both districts during the year ended June 30, 2014.

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. The consortium includes Newton County School District, Forest Municipal School District, Newton Municipal School District, Philadelphia Public School District, Scott County School District, Neshoba County 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 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.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2014

Note 16 – Vocational School Consortium

The school district entered into a Vocational Education 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 detailed procedures for student admission and transportation services for students attending the center.

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.

Note 17 - Subsequent Events

Events that occur after the Statement of Net Position 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 Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Forest Municipal School District evaluated the activity of the district through January 9, 2015, and determined that the following subsequent event that has occurred requiring disclosure in the notes to the financial statements.

An organized group of parents filed a complaint against the school district October 21, 2014, with the Office of Civil Rights, alleging that the district fails to provide equal athletic opportunities to female student athletes at Forest High School with regard to the provision of locker rooms, practice and competitive facilities, primarily with respect to the softball field and related facilities.

The Office of Civil Rights has opened the complaintant's allegation for investigation. The district intends to cooperate with the investigators. At this time any financial impact of the results of the investigation are not known.

REQUIRED SUPPLEMENTARY INFORMATION

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Forest Municipal School District
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,623,624	3,629,548	3,630,054	5,924	506
State sources	5,770,104	5,913,446	5,920,456	143,342	7,010
Federal sources	65,000	77,122	79,183	12,122	2,061
Total Revenues	9,458,728	9,620,116	9,629,693	161,388	9,577
Expenditures:					
Instruction	6,229,516	5,892,661	5,892,661	336,855	0
Support services	3,495,713	4,255,401	4,255,401	(759,688)	0
Noninstructional services	5,000	6,731	6,731	(1,731)	0
Facilities acquisition and construction	0	12,812	12,812	(12,812)	0
Debt service:					
Principal	79,460	83,178	82,886	(3,718)	292
Interest	19,539	15,819	16,111	3,720	(292)
Total Expenditures	9,829,228	10,266,602	10,266,602	(437,374)	0
Excess (Deficiency) of Revenues over (under) Expenditures	(370,500)	(646,486)	(636,909)	(275,986)	9,577
Other Financing Sources (Uses):					
Sale of transportation equipment	0	5,362	5,362	5,362	0
Sale of other property	0	858	857	858	(1)
Operating transfers in	622,843	319,178	207,837	(303,665)	(111,341)
Operating transfers out	(252,343)	(137,918)	(2)	114,425	137,916
Total Other Financing Sources (Uses)	370,500	187,480	214,054	(183,020)	26,574
Net Change in Fund Balances	0	(459,006)	(422,855)	(459,006)	36,151
Fund Balances:					
July 1, 2013, as originally presented	2,481,606	2,179,117	2,151,324	(302,489)	(27,793)
Adjustments	0	0	27,793	0	27,793
July 1, 2013, as adjusted	2,481,606	2,179,117	2,179,117	(302,489)	0
June 30, 2014	\$ 2,481,606	1,720,111	1,756,262	(761,495)	36,151

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

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Forest Municipal School District
Required Supplementary Information

Budgetary Comparison Schedule
Title I Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive	Negative
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 447,991	574,149	574,149	126,158	0
Total Revenues	447,991	574,149	574,149	126,158	0
Expenditures:					
Instruction	328,937	413,155	413,155	(84,218)	0
Support services	98,054	140,298	140,298	(42,244)	0
Noninstructional services	1,000	6,193	6,193	(5,193)	0
Total Expenditures	427,991	559,646	559,646	(131,655)	0
Excess (Deficiency) of Revenues over (under) Expenditures	20,000	14,503	14,503	(5,497)	0
Other Financing Sources (Uses):					
Operating transfers out	(20,000)	(14,503)	(14,503)	5,497	0
Total Other Financing Sources (Uses)	(20,000)	(14,503)	(14,503)	5,497	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2013	0	0	0	0	0
June 30, 2014	\$ 0	0	0	0	0

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

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Forest Municipal School District
Required Supplementary Information

Budgetary Comparison Schedule
IDEA Part B Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Original	Final
	Original	Final			
Revenues:					
Federal sources	\$ 393,413	367,806	367,806	(25,607)	0
Total Revenues	393,413	367,806	367,806	(25,607)	0
Expenditures:					
Instruction	136,661	133,430	133,430	3,231	0
Support services	249,052	221,723	221,723	27,329	0
Noninstructional services	3,000	75	75	2,925	0
Total Expenditures	388,713	355,228	355,228	33,485	0
Excess (Deficiency) of Revenues over (under) Expenditures	4,700	12,578	12,578	7,878	0
Other Financing Sources (Uses):					
Operating transfers out	(4,700)	(12,578)	(12,578)	(7,878)	0
Total Other Financing Sources (Uses)	(4,700)	(12,578)	(12,578)	(7,878)	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2013	0	0	0	0	0
June 30, 2014	\$ 0	0	0	0	0

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

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Forest Municipal School District
Required Supplementary Information

Budgetary Comparison Schedule
Vo-Tech Maintenance Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Original to Final	Final to Actual
	Original	Final		Positive	Negative
Revenues:					
Local sources	\$ 153,494	203,992	203,992	50,498	0
Total Revenues	153,494	203,992	203,992	50,498	0
Expenditures:					
Instruction	153,494	199,606	199,606	(46,112)	0
Total Expenditures	153,494	199,606	199,606	(46,112)	0
Excess (Deficiency) of Revenues over (under) Expenditures	0	4,386	4,386	4,386	0
Other Financing Sources (Uses):					
Operating transfers out	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	0	4,386	4,386	4,386	0
Fund Balances:					
July 1, 2013	0	0	0	0	0
June 30, 2014	\$ 0	4,386	4,386	4,386	0

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

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FOREST MUNICIPAL SCHOOL DISTRICT

**Notes to the Required Supplementary Information
For the Year Ended June 30, 2014**

Budgetary Comparison Schedule

(1) Basis of Presentation

The Budgetary Comparison Schedules present 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.

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SUPPLEMENTARY INFORMATION

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FOREST MUNICIPAL SCHOOL DISTRICT

Supplementary Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal 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	\$ 304,735
National school lunch program	10.555	772,439
Total child nutrition cluster		<u>1,077,174</u>
U. S. Healthy Schools Challenge	10.574	24,000
Total passed-through Mississippi Department of Education		<u>1,101,174</u>
Total U.S. Department of Agriculture		<u>1,101,174</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	67,014
Total Federal Communications Commission		<u>67,014</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	623,082
Rural and low	84.358	27,384
English language acquisition grants	84.365	54,018
Improving teacher quality-State Grants	84.367	132,384
Subtotal		<u>836,868</u>
Special education cluster:		
Special education - grants to states	84.027	367,806
Special education - preschool grants	84.173	25,961
Total special education cluster		<u>393,767</u>
Total passed-through Mississippi Department of Education		<u>1,230,635</u>
Total U.S. Department of Education		<u>1,230,635</u>
Total for All Federal Awards		<u>\$ 2,398,823</u>

NOTES TO SCHEDULE

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

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FOREST MUNICIPAL SCHOOL DISTRICT

**Supplementary Information
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2014**

<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	\$ 9,385,084	6,660,729	780,582	734,309	1,209,464
Other	5,337,156	1,310,874	134,294	15,437	3,876,551
 Total	 <u>\$ 14,722,240</u>	 <u>7,971,603</u>	 <u>914,876</u>	 <u>749,746</u>	 <u>5,086,015</u>
 Total number of students *	 <u>1,616</u>				
 Cost per student	 <u>\$ 9,110</u>	 <u>4,933</u>	 <u>566</u>	 <u>464</u>	 <u>3,147</u>

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

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OTHER INFORMATION

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FOREST MUNICIPAL SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 3,630,054	3,848,621	3,775,797	3,685,589
State sources	5,920,456	5,775,745	5,872,280	5,509,327
Federal sources	79,183	75,624	72,330	70,962
Total Revenues	9,629,693	9,699,990	9,720,407	9,265,878
Expenditures:				
Instruction	5,892,661	6,115,925	5,986,499	5,088,763
Support services	4,255,401	4,128,813	3,719,217	4,167,534
Noninstructional services	6,731	5,838	7,264	6,847
Facilities acquisition and construction	12,812			
Debt service:				
Principal	82,886	86,234	84,658	77,663
Interest	16,111	21,013	22,824	25,973
Total Expenditures	10,266,602	10,357,823	9,820,462	9,366,780
 Excess (Deficiency) of Revenues over (under) Expenditures	 (636,909)	 (657,833)	 (100,055)	 (100,902)
Other Financing Sources (Uses):				
Insurance recovery		56,000	72,748	221,663
Sale of transportation equipment	5,362			3,300
Sale of other property	857			
Operating transfers in	207,837	374,247	133,197	233,052
Operating transfers out	(2)	(101,672)	(41,116)	(28,484)
Total Other Financing Sources (Uses)	214,054	328,575	164,829	429,531
 Net Change in Fund Balances	 (422,855)	 (329,258)	 64,774	 328,629
 Fund Balances:				
Beginning of period, as previously reported	2,151,324	2,480,582	2,415,808	2,087,179
Prior period adjustments	27,793			
Beginning of period, as restated	2,179,117	2,480,582	2,415,808	2,087,179
End of Period	\$ 1,756,262	2,151,324	2,480,582	2,415,808

*SOURCE - PRIOR YEAR AUDIT REPORTS

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FOREST MUNICIPAL SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 4,090,806	4,232,898	4,184,412	4,110,111
Intermediate sources		5,000	26,967	
State sources	6,020,448	6,142,614	6,256,747	5,890,297
Federal sources	2,410,991	2,143,207	2,263,576	3,444,547
Sixteenth section sources	107,086	138,937	114,976	158,552
Total Revenues	12,629,331	12,662,656	12,846,678	13,603,507
Expenditures:				
Instruction	6,801,497	7,031,468	7,053,542	6,830,329
Support services	4,925,778	4,900,126	4,322,065	5,240,006
Noninstructional services	913,243	871,534	968,478	850,726
Sixteenth section	16,295	44,825	16,418	15,257
Facilities acquisition and construction	245,750			
Debt service:				
Principal	1,762,886	436,234	444,787	433,300
Interest	29,366	102,885	120,233	209,446
Other	27,425			
Total Expenditures	14,722,240	13,387,072	12,925,523	13,579,064
Excess (Deficiency) of Revenues over (under) Expenditures	(2,092,909)	(724,416)	(78,845)	24,443
Other Financing Sources (Uses):				
Insurance recovery		56,000	72,748	245,526
Proceeds of notes	1,700,000			
Proceeds of certificates of participation	2,950,000			
Sale of transportation equipment	5,362			3,300
Sale of other property	857		210	
Operating transfers in	371,725	565,959	174,313	261,536
Operating transfers out	(371,725)	(565,959)	(174,313)	(261,536)
Total Other Financing Sources (Uses)	4,656,219	56,000	72,958	248,826
Net Change in Fund Balances	2,563,310	(668,416)	(5,887)	273,269
Fund Balances:				
Beginning of period, as previously reported	3,378,711	4,044,760	4,052,543	3,778,121
Prior period adjustments	44,254			
Beginning of period, as restated	3,422,965	4,044,760	4,052,543	3,778,121
Increase (Decrease) in reserve for inventory	3,401	2,367	(1,896)	1,153
End of Period	\$ 5,989,676	3,378,711	4,044,760	4,052,543

*SOURCE - PRIOR YEAR AUDIT REPORTS

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REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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Member MSCPA

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*

To the School Board
Forest Municipal School District

We have audited, in accordance with the auditing standards 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forest Municipal School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Forest Municipal School District's basic financial statements, and have issued our report thereon dated January 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Forest Municipal School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Forest Municipal School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Forest Municipal School District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies. (Findings 2014-1 and 2014-2)

Compliance and Other Matters

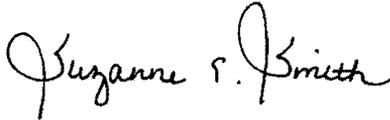
As part of obtaining reasonable assurance about whether Forest Municipal School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

School District's Response to Findings

Forest Municipal School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. Forest Municipal School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Suzanne E. Smith, CPA, PLLC
Meridian, MS

January 9, 2015

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Member MSCPA

Independent Auditor's Report on Compliance for Each Major Federal Award Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the School Board
Forest Municipal School District

Report on Compliance for Each Major Federal Program

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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Forest Municipal School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Forest Municipal School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Forest Municipal School District complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of Forest Municipal School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Forest Municipal School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing

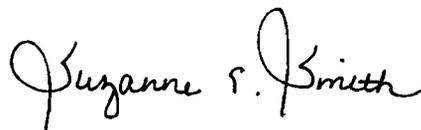
procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness 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. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs (Finding 2014-3), that we consider to be a significant deficiency.

Forest Municipal School District's response to the internal control over compliance finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. Forest Municipal School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Suzanne E Smith, CPA, PLLC
Meridian, MS

January 9, 2015

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, 2014, which collectively comprise Forest Municipal School District's basic financial statements and have issued our report thereon dated January 9, 2015. 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."

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 no instances of noncompliance. The district reported no classroom supply funds carried over from previous years.

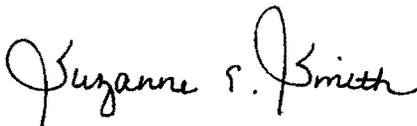
Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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



Suzanne E. Smith, CPA, PLLC

Meridian, MS
January 9, 2015

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? (Yes/No) | No |
| 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: | Unmodified |
| 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>
10.553/10.555	Child Nutrition Cluster
84.027/84.173	Special Education Cluster

- | | |
|---|-----------|
| 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 |

Section II: Financial Statement Findings

Significant deficiencies not considered to be Material Weaknesses:

Finding 2014-1: Control deficiencies surrounding student activity fund receipts/deposits/revenues.

The school district is charged with the responsibility of designing and implementing an effective system of internal control that will minimize misappropriation of district assets and that will protect the integrity of the

district's financial information. The area of student activity fund receipts is an especially vulnerable area because of the amount of cash and coins that is handled at locations remote to the central administrative offices.

Our control testing of student activity fund receipts/deposits/revenues revealed fifteen (15) instances where deposits of revenues were not made on a timely basis. Our test sample included sixty-two (62) receipts. A timely deposit is considered a deposit made the same day as the receipt warrant is written but no later than the business day subsequent to the day the receipt warrant is written. Many receipts in the area of student activity funds are made up of cash and coin deposits. A delay between receipting the money and making a bank deposit provides opportunity for the receipt to be misappropriated or converted to personal use. Such delays in making deposits constitute a control deficiency.

Recommendation:

We recommend that all receipts of student activity fund revenues be deposited promptly in order to offset the inherent risks associated with cash/coin deposits. Such controls should be monitored by personnel in the central office business department.

Finding 2014-2: Control deficiencies surrounding capital assets and other assets requiring inventory tracking

The school district is charged with the responsibility of designing and implementing an effective system of internal control that will provide for the safekeeping of capital assets and other assets requiring inventory tracking and that will help to ensure the accuracy of financial records detailing these assets. Deficiencies in the control cycle surrounding these assets can result in misappropriation of such assets or the conversion of the assets to personal use and inaccuracies in the subsidiary records detailing such equipment.

Our testing of certain expenditures revealed three (3) purchases made where assets meeting the threshold and criteria for inventory tracking were not properly tagged and included in the district's subsidiary inventory records at the time of audit testing. There were thirty-three (33) items included in the three (3) purchases that were not included in the district's subsidiary equipment/asset records. The district asset coordinator was able to provide documentation on the existence of the items, but the equipment tag numbers and equipment information had not be entered into the subsidiary records. Twenty-five (25) of the thirty-three (33) items were computer workstations that were being installed at the audit date, which was six (6) months subsequent to fiscal year end.

Our physical observation of equipment revealed five (5) instances where equipment existed but did not have a proper inventory tag and one (1) instance where the equipment listed in the subsidiary inventory records was not available for observation.

Recommendation:

We recommend that the district review the control cycle surrounding capital assets and related expenditures and strengthen controls through re-design or monitoring to eliminate the control deficiencies listed above.

Section III: Federal Award Findings and Questioned Costs

Significant deficiency not considered to be a material weakness

Finding 2014-3: Control deficiencies surrounding capital assets and other assets requiring inventory tracking.

Federal Award Program: Title I grants to local educational agencies (84.010)

Pass-through entity number: none assigned

Award year: 2013-2014

Federal agency: United States Department of Education

Pass-through entity: Mississippi Department of Education

Compliance requirement: Equipment and Real Property Management

Criteria: The school district is charged with the responsibility of designing and implementing an effective system of internal control that will provide for the safekeeping of capital assets and other assets requiring inventory tracking and that will help to ensure the accuracy of financial records detailing these assets.

Condition: Our testing of certain expenditures revealed three (3) purchases made where assets meeting the threshold and criteria for inventory tracking were not properly tagged and included in the district's subsidiary inventory records at the time of audit testing. There were thirty-three (33) items included in the three (3) purchases that were not included in the district's subsidiary equipment/asset records. The district asset coordinator was able to provide documentation on the existence of the items, but the equipment tag numbers and equipment information had not been entered into the subsidiary records. Twenty-five (25) of the thirty-three (33) items were computer workstations that were being installed at the audit date, which was six (6) months subsequent to fiscal year end.

Questioned costs: none

Cause: The control cycle design and controls were not being followed or were being circumvented. Annual physical inventory efforts did not identify the items not appropriately tagged. There was no reconciliation between items purchased during the fiscal year requiring inventory tags and items actually being tagged.

Effect: Deficiencies in the control cycle surrounding these assets can result in misappropriation of such assets or the conversion of the assets to personal use and inaccuracies in the subsidiary records detailing such equipment.

Recommendation:

We recommend that the district review the control cycle surrounding capital assets and related expenditures and strengthen controls through re-design or monitoring to eliminate the control deficiencies listed above.

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FOREST MUNICIPAL SCHOOL DISTRICT

◆ 325 Cleveland Street ◆ Forest, Mississippi 39074 ◆
◆ Office: (601) 469-3250 ◆ FAX: 601-469-3101 ◆

AUDITEE'S CORRECTIVE ACTION PLAN

Finding 2014-1. Control deficiencies surrounding student activity fund receipts/deposits/revenue.

Corrective Action: The Superintendent and Business Manager have reviewed current policies and procedures and will meet with each school Principal and Assistant Principal to stress internal controls along with policies and procedures already in place. In addition to reiterating current policies and procedures, the reasons these policies and procedures will also be stressed along with the repercussions of not following the current policies and procedures.

Who is implementing the Plan: A. Superintendent - Dr. Joseph White
B. Business Manager – Jeff Jones

When was the Plan Implemented: 01/16/2015

Finding 2014-2. Control deficiencies surrounding capital assets and other assets requiring inventory tracking.

Corrective Action: The Superintendent and Business Manager have met with both members of the Technology Department in charge of fixed assets. Current policies and procedures have been reviewed and will be amended before retraining each site-based asset clerk on the new policies and procedures surrounding fixed assets. A new inventory method will be implemented to prevent recurring problems detected during current audit.

Who is implementing the Plan: A. Superintendent - Dr. Joseph White
B. Business Manager – Jeff Jones

When was the Plan Implemented: 01/16/2015

Finding 2014-3. Control deficiencies surrounding capital assets and other assets requiring inventory tracking. Title I grants to local education agencies (84.010).

Corrective Action: The Superintendent and Business Manager have met with both members of the Technology Department in charge of fixed assets. Policies and procedures have been reviewed and will be amended before retraining each site-based asset clerk on the new policies and procedures surrounding fixed assets. A new inventory method will be implemented to prevent recurring problems detected during current audit.

Who is implementing the Plan: A. Superintendent - Dr. Joseph White
B. Business Manager – Jeff Jones

When was the Plan Implemented: 01/16/2015

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Forest Municipal School District

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

Dr. Joseph White
Superintendent

Follow up on Prior Year Federal Audit Findings

From the 2012 Audit Report:

2012-4. Controls over capital assets purchased with federal funds should be strengthened.

Title I Cluster
Special Education Cluster

Current Year Status: Repeat Finding

From the 2013 Audit Report:

2013-3. Internal Controls Over Determining Student Eligibility Should be Strengthened.

Child Nutrition Cluster

Current Year Status: Resolved

2013-4. Equipment and Real Property Maintenance

Title I Cluster

Current Year Status: Repeat Finding



Dr. Joseph White, Superintendent of Education
January 16, 2015

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