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**FOREST MUNICIPAL SCHOOL DISTRICT**

**Audited Financial Statements  
For the Year Ended June 30, 2013**

**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, 2013, 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, 2013, 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 5-14 and 43-47 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 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 information 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 February 14, 2014, 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.

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi

February 14, 2014

*Watkins, Ward and Stafford, PLLC*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013. 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 2013 decreased \$367,461, which represents a 5.1% decrease from fiscal year 2012. Total net position for 2012 increased \$295,919, which represents a 4.3% increase/decrease from fiscal year 2011.
- General revenues amounted to \$10,195,113 and \$10,110,764, or 80.2% and 78.3% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,523,543, or 19.8% of total revenues for 2013, and \$2,808,662, or 21.7% of total revenues for 2012.
- The District had \$13,086,117 and \$12,623,507 in expenses for fiscal years 2013 and 2012; only \$2,523,543 for 2013 and \$2,808,662 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$10,195,113 for 2013 were not adequate to provide for these programs and \$10,110,764 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$9,699,990, in revenues and \$10,357,823, in expenditures for 2013, and \$9,720,407 in revenues and \$9,820,462 in expenditures in 2012. The General Fund's fund balance decreased by \$329,258, from 2012 to 2013, and increased by \$64,774 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, decreased by \$143,650 for 2013 and decreased by \$152,727 for 2012. The decrease for 2013 was due to depreciation on capital assets being greater than additions to capital assets during the year.
- Long-term debt decreased by \$438,538, for 2013 and decreased by \$444,787 for 2012. This decrease for 2013 was due primarily to payments on outstanding long-term debt. The liability for compensated absences decreased by \$2,304 for 2013 and decreased by \$11,490 for 2012.

**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.

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

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.

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.

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Reconciliation of Government-wide and Fund Financial Statements**

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

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

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

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

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

**Notes to the financial statements**

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

**Required 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.

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net position**

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$6,801,153 as of June 30, 2013.

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

Table 1 presents a summary of the District's net position at June 30, 2013 and June 30, 2012.

**Table 1  
Condensed Statement of Net Position**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Current assets	\$ 3,547,861	\$ 4,080,714	-13.06 %
Restricted assets	411,585	431,354	-4.58 %
Capital assets, net	5,629,049	5,772,699	-2.49 %
<b>Total assets</b>	<b><u>9,588,495</u></b>	<b><u>10,284,767</u></b>	<b>-6.77 %</b>
Current liabilities	590,510	480,783	22.82 %
Long-term debt outstanding	2,196,832	2,635,370	-16.64 %
<b>Total liabilities</b>	<b><u>2,787,342</u></b>	<b><u>3,116,153</u></b>	<b>-10.55 %</b>
<b>Net position:</b>			
Net investment in capital assets	3,537,243	3,244,659	9.02 %
Restricted	1,217,612	1,550,703	-21.48 %
Unrestricted	2,046,298	2,373,252	-13.78 %
<b>Total net position</b>	<b><u>\$ 6,801,153</u></b>	<b><u>\$ 7,168,614</u></b>	<b>-5.13 %</b>

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

- Decrease in net capital assets in the amount of \$143,650.
- The principal retirement of \$436,234 of long-term debt.

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Changes in net position**

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$12,718,656 and \$12,919,426, respectively. The total cost of all programs and services was \$13,086,117 for 2013 and \$12,623,507 for 2012.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

	<b>Table 2 Changes in Net Position</b>		
	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>	<u>Percentage Change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 290,265	\$ 385,570	(24.72) %
Operating grants and contributions	2,233,278	2,423,092	(7.83) %
General revenues:			
Property taxes	3,944,642	3,810,472	3.52 %
Grants and contributions not restricted	6,057,544	6,124,199	(1.09) %
Investment earnings	26,367	40,579	(35.02) %
Sixteenth section sources	135,337	105,410	28.39 %
Other	31,223	30,104	3.72 %
<b>Total revenues</b>	<u><b>12,718,656</b></u>	<u><b>12,919,426</b></u>	<b>(1.55) %</b>
<b>Expenses:</b>			
Instruction	7,168,428	7,167,252	0.02 %
Support services	4,866,410	4,430,021	9.85 %
Non-instructional	907,269	889,735	1.97 %
Sixteenth section	44,825	16,418	173.02 %
Interest on long-term liabilities	99,185	120,081	(17.40) %
<b>Total expenses</b>	<u><b>13,086,117</b></u>	<u><b>12,623,507</b></u>	<b>3.66 %</b>
<b>Increase (Decrease) in net position</b>	<u><b>(367,461)</b></u>	<u><b>295,919</b></u>	<b>(224.18) %</b>
<b>Net Position, July 1,</b>	<u><b>7,168,614</b></u>	<u><b>6,872,695</b></u>	<b>4.31 %</b>
<b>Net Position, June 30</b>	<u><b>\$ 6,801,153</b></u>	<u><b>\$ 7,168,614</b></u>	<b>(5.13) %</b>

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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.

**Table 3  
Net Cost of Governmental Activities**

	2013		2012		Change
	2013	2012	2013	2012	
Instruction	\$ 7,168,428	\$ 7,167,252			0.02 %
Support services	4,866,410	4,430,021			9.85 %
Non-instructional	907,269	889,735			1.97 %
Sixteenth section	44,825	16,418			173.02 %
Interest on long-term liabilities	99,185	120,081			(17.40) %
<b>Total expenses</b>	<b>\$ 13,086,117</b>	<b>\$ 12,623,507</b>			<b>3.66 %</b>
	<b>Net (Expense) Revenue</b>				<b>Percentage</b>
	2013		2012		Change
	2013	2012	2013	2012	
Instruction	\$ (6,251,003)	\$ (5,966,174)			4.77 %
Support services	(4,215,577)	(3,748,031)			12.47 %
Non-instructional	48,016	32,099			49.59 %
Sixteenth section	(44,825)	(12,658)			254.12 %
Interest on long-term liabilities	(99,185)	(120,081)			(17.40) %
<b>Total net (expense) revenue</b>	<b>\$ (10,562,574)</b>	<b>\$ (9,814,845)</b>			<b>7.62 %</b>

- Net cost of governmental activities (\$10,562,574 for 2013 and \$9,814,845 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$3,944,642 for 2013 and \$3,810,472 for 2012) and state and federal revenues (\$6,047,544 for 2013 and \$6,124,199 for 2012). In addition, there was \$135,337 and \$105,410 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$26,367 for 2013 and \$40,579 for 2012.

**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.

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,378,711, a decrease of \$666,049 which includes an increase in inventory of \$2,367. \$2,077,767 or 61.5% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$1,300,944 or 38.5% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$329,258. The fund balance of Other Governmental Funds showed an increase in the amount of \$82,724, which includes an increase in reserve for inventory of \$2,367. The increase (decrease) in the fund balances for the other major funds were as follows:

Title I		no increase or decrease
16th Section Interest	\$	(144,613)
Vo-Tech Maintenance		no increase or decrease
Capital Projects	\$	(274,902)

### **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.

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2013, the District's total capital assets were \$11,100,855 including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$112,925 from 2012. Total accumulated depreciation as of June 30, 2013, was \$5,471,806, and total depreciation expense for the year was \$293,986, resulting in total net capital assets of \$5,629,049.

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Land	\$ 15,485	\$ 15,485	0.00 %
Buildings	3,579,493	3,666,842	(2.38) %
Building improvements	1,198,091	1,261,722	(5.04) %
Improvements other than buildings	106,411	112,658	(5.55) %
Mobile equipment	576,331	539,472	6.83 %
Furniture and equipment	153,238	176,520	(13.19) %
<b>Total</b>	<b>\$ 5,629,049</b>	<b>\$ 5,772,699</b>	<b>(2.49) %</b>

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

**Debt Administration.** At June 30, 2013, the District had \$2,196,832 in outstanding long-term debt, of which \$446,112 is due within one year. The liability for compensated absences decreased \$2,304 from the prior year.

The District maintains an A bond rating.

**Table 5  
Outstanding Long-Term Debt**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Limited obligation notes payable	\$ 265,000	\$ 515,000	(48.54) %
Three mill notes payable	1,415,000	1,515,000	(6.60) %
Obligations under energy efficiency leases	411,806	498,040	(17.31) %
Compensated absences payable	105,026	107,330	(2.15) %
<b>Total</b>	<b>2,196,832</b>	<b>2,635,370</b>	<b>(16.64) %</b>

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

**FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CURRENT ISSUES**

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

The District has committed itself to financial excellence for many years. The millage has not increased in several years. In addition, the District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

**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 St., Forest MS. The District's telephone number is (601)469-3250.

**FINANCIAL STATEMENTS**

**Forest Municipal School District**  
**Statement of Net Position**  
**June 30, 2013**

**Exhibit A**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,119,957
Due from other governments	401,707
Other receivables, net	12,877
Inventories	13,320
Restricted assets	411,585
Capital assets, non-depreciable:	
Land	15,485
Capital assets, net of accumulated depreciation:	
Buildings	3,579,493
Building improvements	1,198,091
Improvements other than buildings	106,411
Mobile equipment	576,331
Furniture and equipment	153,238
Total Assets	<u>9,588,495</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	580,218
Unearned revenue	517
Interest payable on long-term liabilities	9,775
Long-term liabilities, due within one year:	
Capital related liabilities	446,112
Long-term liabilities, due beyond one year:	
Capital related liabilities	1,645,694
Non-capital related liabilities	105,026
Total Liabilities	<u>2,787,342</u>
<b>Net Position</b>	
Net investment in capital assets	3,537,243
Restricted for:	
Expendable:	
School-based activities	450,458
Debt service	319,860
Capital improvements	100,000
Forestry improvements	41,513
Unemployment benefits	38,278
Non-expendable:	
Sixteenth section	267,503
Unrestricted	2,046,298
Total Net Position	<u>\$ 6,801,153</u>

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

**Forest Municipal School District  
Statement of Activities  
For The Fiscal Year Ended June 30, 2013**

**Exhibit B**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction	\$ 7,168,428	\$ 127,612	\$ 789,813	\$ -	\$ (6,251,003)
Support services	4,866,410	56,000	594,833	-	(4,215,577)
Non-instructional	907,269	106,653	848,632	-	48,016
Sixteenth section	44,825	-	-	-	(44,825)
Interest on long-term liabilities	99,185	-	-	-	(99,185)
<b>Total Governmental Activities</b>	<b>\$ 13,086,117</b>	<b>\$ 290,265</b>	<b>\$ 2,233,278</b>	<b>\$ -</b>	<b>\$ (10,562,574)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
					3,826,428
					118,214
<b>Unrestricted grants and contributions:</b>					
					5,981,920
					75,624
					26,367
					135,337
					31,223
					<u>10,195,113</u>
					<u>(367,461)</u>
					<u>7,168,614</u>
					<u>\$ 6,801,153</u>

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

Forest Municipal School District  
 Governmental Funds  
 Balance Sheet  
 June 30, 2013

Exhibit C

	Major Funds						Total Governmental Funds
	General Fund	Title I Fund	16th Section Interest Fund	Vo-Tech Maintenance Fund	Capital Projects Fund	Other Governmental Funds	
<b>Assets</b>							
Cash and cash equivalents	\$ 1,688,251	\$ 56,809	\$ 265,824	\$ 236,471	\$ 242,339	\$ 897,766	\$ 3,387,460
Cash with fiscal agents	-	-	-	-	-	144,082	144,082
Due from other governments	114,656	75,410	-	2,633	-	209,008	401,707
Other receivables, net	-	-	5,484	-	-	-	5,484
Due from other funds	491,896	-	-	-	15,896	1,024	508,816
Advance to other funds	5,000	-	-	-	-	-	5,000
Inventories	-	-	-	-	-	13,320	13,320
<b>Total assets</b>	<b>\$ 2,299,803</b>	<b>\$ 132,219</b>	<b>\$ 271,308</b>	<b>\$ 239,104</b>	<b>\$ 258,235</b>	<b>\$ 1,265,200</b>	<b>\$ 4,465,869</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 147,455	\$ 56,820	\$ 24,277	\$ 195,416	\$ -	\$ 156,250	\$ 580,218
Due to other funds	1,024	75,399	162,777	43,688	158,235	65,300	506,423
Unearned revenue	-	-	-	-	-	517	517
<b>Total Liabilities</b>	<b>148,479</b>	<b>132,219</b>	<b>187,054</b>	<b>239,104</b>	<b>158,235</b>	<b>222,067</b>	<b>1,087,158</b>
<b>Fund Balances:</b>							
<b>Nonspendable:</b>							
Inventory	-	-	-	-	-	13,320	13,320
Permanent fund principal	-	-	-	-	-	267,503	267,503
Advances	5,000	-	-	-	-	-	5,000
<b>Restricted:</b>							
Debt service	-	-	-	-	-	329,635	329,635
Capital projects	-	-	-	-	100,000	-	100,000
Forestry improvement purposes	-	-	-	-	-	41,513	41,513
Grant activities	-	-	-	-	-	352,884	352,884
Unemployment benefits	-	-	-	-	-	38,278	38,278
16th section interest	-	-	84,254	-	-	-	84,254
<b>Assigned:</b>							
Activity funds	68,557	-	-	-	-	-	68,557
<b>Unassigned</b>	<b>2,077,767</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,077,767</b>
<b>Total Fund Balances</b>	<b>2,151,324</b>	<b>-</b>	<b>84,254</b>	<b>-</b>	<b>100,000</b>	<b>1,043,133</b>	<b>3,378,711</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,299,803</b>	<b>\$ 132,219</b>	<b>\$ 271,308</b>	<b>\$ 239,104</b>	<b>\$ 258,235</b>	<b>\$ 1,265,200</b>	<b>\$ 4,465,869</b>

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

**Forest Municipal School District  
Governmental Funds**

**Exhibit C-1**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2013**

**Total fund balances for governmental funds** **\$ 3,378,711**

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	
Buildings		7,276,331	
Building improvements		1,590,785	
Improvements other than buildings		156,182	
Mobile equipment		1,619,256	
Furniture and equipment		442,816	
Accumulated depreciation		<u>(5,471,806)</u>	5,629,049

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

General obligation bonds			
Limited obligation bonds	\$	(265,000)	
Notes payable		(1,415,000)	
Obligations under energy efficiency lease		(411,806)	
Compensated absences		(105,026)	
Accrued interest payable		<u>(9,775)</u>	(2,206,607)

**Net position of governmental activities** **\$ 6,801,153**

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

Forest Municipal School District  
Governmental Funds

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances  
For The Year Ended June 30, 2013

	Major Funds						Total Governmental Funds
	General Fund	Title I Fund	16th Section Interest Fund	Vo-Tech Maintenance Fund	Capital Projects Fund	Other Governmental Funds	
<b>Revenues:</b>							
Local sources	\$ 3,848,621	\$ -	\$ -	\$ 154,361	\$ 2,034	\$ 227,882	\$ 4,232,898
Intermediate Sources	-	-	-	-	-	5,000	5,000
State sources	5,775,745	-	-	-	-	366,869	6,142,614
Federal sources	75,624	542,727	-	-	-	1,524,856	2,143,207
Sixteenth section sources	-	-	134,594	-	-	4,343	138,937
<b>Total Revenues</b>	<b>9,699,990</b>	<b>542,727</b>	<b>134,594</b>	<b>154,361</b>	<b>2,034</b>	<b>2,126,950</b>	<b>12,662,656</b>
<b>Expenditures:</b>							
Instruction	6,115,925	388,989	-	195,416	-	331,138	7,031,468
Support services	4,128,813	147,950	46	-	134,597	468,720	4,900,126
Noninstructional services	5,838	4,549	-	-	-	861,147	671,534
Sixteenth section	-	-	42,240	-	-	2,585	44,825
Debt service:							
Principal	86,234	-	-	-	-	350,000	436,234
Interest	21,013	-	-	-	-	81,872	102,885
<b>Total Expenditures</b>	<b>10,357,823</b>	<b>541,488</b>	<b>42,286</b>	<b>195,416</b>	<b>134,597</b>	<b>2,115,462</b>	<b>13,387,072</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(657,833)	1,239	92,308	(41,055)	(132,563)	13,488	(724,416)
<b>Other Financing Sources (Uses):</b>							
Insurance recovery	56,000	-	-	-	-	-	56,000
Operating transfers in	374,247	21,698	-	41,055	15,896	113,063	565,959
Operating transfers out	(101,672)	(22,937)	(236,921)	-	(158,235)	(46,194)	(565,959)
<b>Total Other Financing Sources (Uses)</b>	<b>328,575</b>	<b>(1,239)</b>	<b>(236,921)</b>	<b>41,055</b>	<b>(142,339)</b>	<b>66,869</b>	<b>56,000</b>
<b>Net Change in Fund Balances</b>	<b>(329,258)</b>	<b>0</b>	<b>(144,613)</b>	<b>0</b>	<b>(274,902)</b>	<b>80,357</b>	<b>(668,416)</b>
<b>Fund Balances:</b>							
July 1, 2012,	2,480,582	0	228,867	0	374,902	960,409	4,044,760
Increase (Decrease) in reserve for inventory	-	-	-	-	-	2,367	2,367
<b>June 30, 2013</b>	<b>\$ 2,151,324</b>	<b>\$ 0</b>	<b>\$ 84,254</b>	<b>\$ 0</b>	<b>100,000</b>	<b>\$ 1,043,133</b>	<b>\$ 3,378,711</b>

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

Forest Municipal School District  
 Governmental Funds  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2013

Exhibit D-1

Net change in fund balances - total governmental funds \$ (668,416)

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

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

Capital outlay	\$ 211,543	
Depreciation expense	<u>(293,986)</u>	(82,443)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold. (61,207)

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

Payments of debt principal	436,234	
Accrued interest payable	3,700	
	<u>439,934</u>	439,934

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

Change in compensated absences	2,304	
Change in inventory reserve	2,367	
	<u>4,671</u>	4,671

Change in net position of governmental activities \$ (367,461)

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

**Forest Municipal School District  
Fiduciary Funds  
Statement of Fiduciary Net Position  
June 30, 2013**

**Exhibit E**

	Private-Purpose Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 1,271	\$ 484,477
<b>Total Assets</b>	<b>1,271</b>	<b>\$ 484,477</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ -	\$ 467,170
Due to other funds	-	2,393
Advances from other funds	-	5,000
Due to student clubs	-	9,914
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 484,477</b>
<b>Net Position</b>		
Reserved for endowments	1,271	
Held in trust		
<b>Total Net Position</b>	<b>\$ 1,271</b>	

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

**Forest Municipal School District  
 Fiduciary Funds  
 Statement of Changes in Fiduciary Net Position  
 For the Year Ended June 30, 2013**

**Exhibit F**

	<u>Private-Purpose Trust Funds</u>
<b>Additions</b>	
Interest on investments	\$ 1
Contributions and donations from private sources	<u>1,270</u>
Total Additions	<u>1,271</u>
<b>Deductions</b>	
Scholarships awarded	<u>0</u>
Total Deductions	<u>0</u>
Change in Net Assets	<u>1,271</u>
<b>Net Position</b>	
July 1, 2012,	0
June 30, 2013	<u>\$ 1,271</u>

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

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2013

#### 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 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 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.

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2013

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

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

The school district reports the following major governmental funds:

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

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

**16<sup>th</sup> Section Interest Fund** - This is the special revenue fund which serves to collect expendable sixteenth section revenues from various sixteenth section sources. Expendable revenues from this fund are transferred to the district's General Fund per specific statutory board order.

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

**Capital Projects Fund** - This is the 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 fund services as a clearing fund for payroll type transactions.

**Accounts Payable Clearing Fund** - The fund serves as a clearing fund for accounts payable type transactions.

**Student Club Accounts** - This fund services as a clearing fund for accounts payable type transactions.

Additionally, the school district reports the following fund types

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2013

#### 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.

#### FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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.

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2013

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

#### **E. Assets, liabilities, 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.

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2013

#### 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 16<sup>th</sup> 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, 2013**

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. 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, 2013

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

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

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

#### 9. Fund Balances

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

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

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

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

*Committed fund balance* includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a resolution approved by the school board. Currently there is no committed fund balance for this school district.

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

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

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2013

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, Cash with Fiscal Agents, and Investments**

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

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

**Investments.** Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to 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 \$3,387,460 and \$485,748, 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, 2013, none of the district's bank balance of \$4,496,541 was exposed to custodial credit risk.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

**Cash with Fiscal Agents**

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$144,082.

**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**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title I Fund	\$ 75,399
	16th Section Interest Fund	146,881
	Vo Tech Maintenance	43,688
	Capital Projects Fund	158,235
	Other Governmental Funds	65,300
	Fiduciary Funds	2,393
Capital Projects Fund	16th Section Interest Fund	15,896
Other Governmental Funds	General Fund	1,024
Total		<u>\$ 508,816</u>

All interfund loans from the General Fund were made to offset deficit cash balances. All other loans were for expenditures made by receiving funds that were due from the General Fund except for one loan from the Capital Projects Fund to the 16<sup>th</sup> Section Interest Fund to cover the cost of upcoming projects.

**B. Advances To/From Other Funds**

<u>General Fund</u>	<u>Agency Fund</u>	<u>\$ 5,000</u>
Total		<u>5,000</u>

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

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

**C. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Title I Fund	\$ 22,937
	16th Section Interest Fund	146,881
	Capital Projects Fund	158,235
	Other Governmental Funds	46,194
Title I Fund	16th Section Interest Fund	21,698
Vo-Tech Maintenance Fund	General Fund	41,055
Capital Projects Fund	16th Section Interest Fund	15,896
Other Governmental Funds	General Fund	60,617
	16th Section Interest Fund	52,446
Total		<u>\$ 565,959</u>

Operating transfers were primarily for the transfer of indirect costs to the General Fund or transfers from the 16<sup>th</sup> Section Interest Fund to cover the costs of special projects incurred during the fiscal year.

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance totaling \$ 267,503 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. In addition, the restricted assets represent the cash with fiscal agents balance totaling \$ 144,082 of the MAEP Limited Obligation Bond Fund.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

**Note 5 – Capital Assets**

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

	Balance 7/1/2012	Increases	Decreases	Balance 6/30/2013
<b>Governmental Activities:</b>				
<u>Non-depreciable capital assets:</u>				
Land	\$ 15,485	\$ -	\$ -	\$ 15,485
Total non-depreciable capital assets	15,485	-	-	15,485
<u>Depreciable capital assets:</u>				
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	1,520,648	197,226	98,618	1,619,256
Furniture and equipment	428,499	14,317	-	442,816
Total depreciable capital assets	10,972,445	211,543	98,618	11,085,370
<u>Less accumulated depreciation for:</u>				
Buildings	3,609,489	87,349	-	3,696,838
Building improvements	329,063	63,631	-	392,694
Improvements other than buildings	43,524	6,247	-	49,771
Mobile equipment	981,176	99,160	37,411	1,042,925
Furniture and equipment	251,979	37,599	-	289,578
Total accumulated depreciation	5,215,231	293,986	37,411	5,471,806
Total depreciable capital assets, net	5,757,214	(82,443)	61,207	5,613,564
Governmental activities capital assets, net	\$ 5,772,699	\$ (82,443)	\$ 61,207	\$ 5,629,049

Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 135,844
Support services	119,713
Non-instructional	38,429
Total depreciation expense - Governmental activities	\$ 293,986

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

**Note 6 – Long-term Liabilities**

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

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts due within one year
A. Limited obligation bonds payable	\$ 515,000	\$	\$ 250,000	\$ 265,000	\$ 265,000
B. Three mill notes payable	1,515,000		100,000	1,415,000	105,000
Obligations under energy efficiency					
C. leases	498,040		86,234	411,806	76,112
D. Compensated absences payable	107,330	8,371	10,675	105,026	
<b>Total</b>	<b>\$ 2,635,370</b>	<b>\$ 8,371</b>	<b>\$ 446,909</b>	<b>\$ 2,196,832</b>	<b>\$ 446,112</b>

**A. Limited obligation bonds payable**

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
<b>MAEP Bonds Funds</b>					
1. Series 1998	Various	8/1/1998	8/1/2013	\$ 2,715,503	\$ 265,000
<b>Total</b>				<b>\$ 2,715,503</b>	<b>265,000</b>

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

1. Limited obligation bond issue of 8/1/1998

Year Ending June 30	Principal	Interest	Total
2014	\$ 265,000	\$ 5,631	\$ 270,631
<b>Total</b>	<b>\$ 265,000</b>	<b>\$ 5,631</b>	<b>\$ 270,631</b>

This debt will be retired from the MAEP Debt Service Fund

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

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

**B. Three mill notes payable**

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1. Trustmark National	4.31%	6/1/2009	6/1/2024	\$ 1,650,000	1,415,000
<b>Total</b>				<b>\$ 1,650,000</b>	<b>1,415,000</b>

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

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 105,000	60,987	\$ 165,987
2015	105,000	56,461	161,461
2016	110,000	51,936	161,936
2017	115,000	47,194	162,194
2018	125,000	42,238	167,238
2019 – 2023	700,000	126,067	826,067
2024 – 2028	155,000	6,681	161,681
<b>Total</b>	<b>\$ 1,415,000</b>	<b>\$ 391,564</b>	<b>\$ 1,806,564</b>

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

**C. Obligations under energy efficiency leases**

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
MS Power Lease, 1. Series 2007	4.23%	12/15/2007	2/15/2018	\$ 806,101	411,806
<b>Total</b>				<b>\$ 806,101</b>	<b>\$ 411,806</b>

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

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

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 76,112	\$ 14,635	\$ 90,747
2015	86,461	12,537	98,998
2016	90,190	8,807	98,997
2017	94,080	4,917	98,997
2018	64,963	1,035	65,998
<b>Total</b>	<b>\$ 411,806</b>	<b>\$ 41,931</b>	<b>\$ 453,737</b>

This debt will be retired from the District Maintenance Fund.

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

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

As more fully explained in Note 1(F)(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 – 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.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

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, 2013 was 14.26% 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, 2013, 2012 and 2011 were \$974,334, \$840,953 and \$774,536, respectively, which equaled the required contributions for each year.

**Note 8 – Sixteenth Section Lands**

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

<u>Year Ending June 30</u>	<u>Amount</u>
2014	\$ 113,009
2015	113,009
2016	113,009
2017	112,639
2018	105,706
2019-2023	521,789
2024-2028	490,422
2029-2033	445,379
2034-2038	316,110
2039-2043	192,541
2044-2048	75,376
2049-2053	13,598
Total	<u>\$ 2,612,587</u>

**Note 9 – 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.

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2013

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

#### **Note 10 – Risk Management**

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

##### Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

#### **Note 11 – Uncertainties**

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). During the current fiscal year Scott County School District and Forest Municipal School District did file lists of educable children with each other as required by Section 29-3-121, Miss. Code Ann. (1972). Forest Municipal School District accrued a liability of \$23,051 for the portion of sixteenth section revenue owed to Scott County School District as of June 30, 2013.

The district has not received any notification from the Scott County School District as of the date of this report of the amount of sixteenth section revenue owed to the district as of June 30, 2013, therefore no receivable has been reported on the district financial statements.

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.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

**Note 12 – Alternative School Consortium**

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

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

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

**Note 13 – Vocational School Consortium**

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

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

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

**Note 14 - Insurance loss recoveries**

The Forest Municipal School District received \$ 56,000 in insurance loss recoveries related to bus damage during the 2012-2013 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for service and allocated among the expense functions based on the following percentages:

Insurance Loss			
Recoveries	Percentage	Expense Function	
\$ 56,000	100%	Support services	
\$ 56,000	100%		

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2013**

**Note 15 - 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 February 14 2014, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

- On July 29, 2013 the board approved refinancing the three mill note the district has with Trustmark Bank to a new note with Bancorpsouth at a 2.14% annual rate of interest.
- On February 10, 2014 the board approved the lowest bid from Synergetics in the amount of \$260,245 for an E-Rate project.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Forest Municipal School District**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 3,623,624	\$ 3,847,637	\$ 3,848,621	\$ 224,013	\$ 984
State sources	5,770,104	5,775,745	5,775,745	5,641	-
Federal sources	65,000	75,624	75,624	10,624	-
<b>Total Revenues</b>	<b>9,458,728</b>	<b>9,699,006</b>	<b>9,699,990</b>	<b>240,278</b>	<b>984</b>
<b>Expenditures:</b>					
Instruction	6,229,517	6,116,425	6,115,925	113,092	500
Support services	3,495,713	4,121,499	4,128,813	(625,786)	(7,314)
Noninstructional services	5,000	5,838	5,838	(838)	-
Facilities acquisition and construction	-	7,314	-	(7,314)	7,314
Debt service:					
Principal	79,460	86,233	86,234	(6,773)	(1)
Interest	19,538	21,014	21,013	(1,476)	1
<b>Total Expenditures</b>	<b>9,829,228</b>	<b>10,358,323</b>	<b>10,357,823</b>	<b>(529,095)</b>	<b>500</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(370,500)</b>	<b>(659,317)</b>	<b>(657,833)</b>	<b>(288,817)</b>	<b>1,484</b>
<b>Other Financing Sources (Uses):</b>					
Insurance recovery	-	56,000	56,000	56,000	-
Operating transfers in	622,843	334,725	374,247	(288,118)	39,522
Operating transfers out	(252,343)	(101,672)	(101,672)	150,671	-
<b>Total Other Financing Sources (Uses)</b>	<b>370,500</b>	<b>289,053</b>	<b>328,575</b>	<b>(81,447)</b>	<b>39,522</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>(370,264)</b>	<b>(329,258)</b>	<b>(370,264)</b>	<b>41,006</b>
<b>Fund Balances:</b>					
July 1, 2012	2,339,000	2,482,067	2,480,582	143,067	(1,485)
June 30, 2013	\$ 2,339,000	\$ 2,111,803	\$ 2,151,324	\$ (227,197)	\$ 39,521

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

**Forest Municipal School District**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Title 1 Fund**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 447,991	\$ 551,355	\$ 542,727	\$ 103,364	\$ (8,628)
Total Revenues	447,991	551,355	542,727	103,364	(8,628)
<b>Expenditures:</b>					
Instruction	328,937	413,152	388,989	(84,215)	24,163
Support services	98,054	171,573	147,950	(73,519)	23,623
Noninstructional services	1,000	5,218	4,549	(4,218)	669
Total Expenditures	427,991	589,943	541,488	(161,952)	48,455
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	20,000	(38,588)	1,239	(58,588)	39,827
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	-	21,698	21,698	21,698	-
Operating transfers out	(20,000)	(22,937)	(22,937)	(2,937)	-
Total Other Financing Sources (Uses)	(20,000)	(1,239)	(1,239)	18,761	-
<b>Net Change in Fund Balances</b>	-	(39,827)	-	(39,827)	39,827
<b>Fund Balances:</b>					
July 1, 2012,	-	(8,628)	-	(8,628)	8,628
June 30, 2013	\$ -	\$ (48,455)	\$ -	\$ (48,455)	\$ 48,455

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

**Forest Municipal School District**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**16th Section Interest Fund**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Sixteenth section sources	\$ 80,000	\$ 134,594	\$ 134,594	\$ 54,594	\$ 0
Total Revenues	80,000	134,594	134,594	54,594	0
<b>Expenditures:</b>					
Support services	500	46	46	454	0
Sixteenth section	9,500	42,240	42,240	(32,740)	0
Total Expenditures	10,000	42,286	42,286	(32,286)	0
Excess (Deficiency) of Revenues over (under) Expenditures	70,000	92,308	92,308	22,308	0
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(100,000)	(236,921)	(236,921)	(136,921)	0
Total Other Financing Sources (Uses)	(100,000)	(236,921)	(236,921)	(136,921)	0
Net Change in Fund Balances	(30,000)	(144,613)	(144,613)	(114,613)	0
<b>Fund Balances:</b>					
July 1, 2012	221,493	228,867	228,867	7,374	0
June 30, 2013	\$ 191,493	\$ 84,254	\$ 84,254	\$ (107,239)	\$ 0

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

**Forest Municipal School District  
Required Supplementary Information  
Budgetary Comparison Schedule  
Vo Tech Maintenance  
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 153,494	\$ 154,361	\$ 154,361	\$ 867	\$ -
Total Revenues	153,494	154,361	154,361	867	-
<b>Expenditures:</b>					
Instruction	153,494	195,416	195,416	(41,922)	-
Total Expenditures	153,494	195,416	195,416	(41,922)	-
Excess (Deficiency) of Revenues over (under) Expenditures	-	(41,055)	(41,055)	(41,055)	-
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	-	41,055	41,055	41,055	-
Total Other Financing Sources (Uses)	-	41,055	41,055	41,055	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2012	-	-	-	-	-
June 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -

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

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to the Required Supplementary Information  
For the Year Ended June 30, 2013**

Budgetary Comparison Schedule

(1) **Basis of Presentation**

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

(2) **Budget Amendments and Revisions**

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

**SUPPLEMENTARY INFORMATION**

**Forest Municipal School District  
Supplementary Information  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2013**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 255,932
National school lunch program	10.555	701,101
Total passed-through Mississippi Department of Education		<u>957,033</u>
<b>Total U.S. Department of Agriculture</b>		<u>957,033</u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	53,959
<b>Total Federal Communications Commission</b>		<u>53,959</u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	636,695
Rural education	84.358	33,219
English language acquisition grants	84.365	34,542
Improving teacher quality state grants	84.367	43,478
Education jobs fund	84.410	8,857
Subtotal		<u>756,791</u>
Special education cluster:		
Special education - grants to states	84.027	335,702
Special education - preschool grants	84.173	18,058
Total special education cluster		<u>353,760</u>
Total passed-through Mississippi Department of Education		<u>1,110,551</u>
<b>Total U.S. Department of Education</b>		<u>1,110,551</u>
<b>Total for All Federal Awards</b>		<u>\$ 2,121,543</u>

**NOTES TO SCHEDULE**

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

**Forest Municipal School District  
 Supplementary Information  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2013**

<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	\$ 9,377,531	6,779,711	736,633	711,357	1,149,830
Other	4,009,541	1,446,479	117,402	18,060	2,427,600
Total	<u>\$ 13,387,072</u>	<u>8,226,190</u>	<u>854,035</u>	<u>729,417</u>	<u>3,577,430</u>
Total number of students *	<u>1,491</u>				
Cost per student	<u>\$ 8,979</u>	<u>5,517</u>	<u>573</u>	<u>489</u>	<u>2,399</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

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support

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

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

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

**OTHER INFORMATION**

**Forest Municipal School District**  
**Other Information**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**General Fund**  
**Last Four Years**  
**UNAUDITED**

	2013	2012	2011	2010
<b>Revenues:</b>				
Local sources	\$ 3,848,621	\$ 3,775,797	\$ 3,685,589	\$ 3,638,469
State sources	5,775,745	5,872,280	5,509,327	5,672,546
Federal sources	75,624	72,330	70,962	66,208
<b>Total Revenues</b>	<b>9,699,990</b>	<b>9,720,407</b>	<b>9,265,878</b>	<b>9,377,223</b>
<b>Expenditures:</b>				
Instruction	6,115,925	5,986,499	5,088,763	5,558,526
Support services	4,128,813	3,719,217	4,167,534	4,302,375
Noninstructional services	5,838	7,264	6,847	21,875
Debt service:				
Principal	86,234	84,658	77,663	79,282
Interest	21,013	22,824	25,973	28,992
<b>Total Expenditures</b>	<b>10,357,823</b>	<b>9,820,462</b>	<b>9,366,780</b>	<b>9,991,050</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(657,833)</b>	<b>(100,055)</b>	<b>(100,902)</b>	<b>(613,827)</b>
<b>Other Financing Sources (Uses):</b>				
Insurance recovery	56,000	72,748	221,663	
Sale of transportation equipment			3,300	
Sale of other property				1,700
Operating transfers in	374,247	133,197	233,052	1,373,647
Operating transfers out	(101,672)	(41,116)	(28,484)	(369,681)
<b>Total Other Financing Sources (Uses)</b>	<b>328,575</b>	<b>164,829</b>	<b>429,531</b>	<b>1,005,666</b>
<b>Net Change in Fund Balances</b>	<b>(329,258)</b>	<b>64,774</b>	<b>328,629</b>	<b>391,839</b>
<b>Fund Balances:</b>				
Beginning of period	2,480,582	2,415,808	2,087,179	1,695,340
End of Period	\$ 2,151,324	\$ 2,480,582	\$ 2,415,808	\$ 2,087,179

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**Forest Municipal School District**  
**Other Information**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Funds**  
**Last Four Years**  
**UNAUDITED**

	2013	2012	2011	2010
<b>Revenues:</b>				
Local sources	\$ 4,232,898	\$ 4,184,412	\$ 4,110,111	\$ 4,070,329
Intermediate sources	5,000	26,967		
State sources	6,142,614	6,256,747	5,890,297	6,049,396
Federal sources	2,143,207	2,263,576	3,444,547	2,626,489
Sixteenth section sources	138,937	114,976	158,552	214,503
<b>Total Revenues</b>	<b>12,662,656</b>	<b>12,846,678</b>	<b>13,603,507</b>	<b>12,960,717</b>
<b>Expenditures:</b>				
Instruction	7,031,468	7,053,542	6,830,329	6,899,342
Support services	4,900,126	4,322,065	5,240,006	4,969,286
Noninstructional services	871,534	968,478	850,726	864,694
Sixteenth section	44,825	16,418	15,257	9,749
Debt service:				
Principal	436,234	444,787	433,300	357,081
Interest	102,885	120,233	209,446	84,004
<b>Total Expenditures</b>	<b>13,387,072</b>	<b>12,925,523</b>	<b>13,579,064</b>	<b>13,184,156</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(724,416)</b>	<b>(78,845)</b>	<b>24,443</b>	<b>(223,439)</b>
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued				
Insurance recovery	56,000	72,748	245,526	
Sale of transportation equipment			3,300	
Sale of other property		210		1,700
Operating transfers in	565,959	174,313	261,536	1,743,328
Operating transfers out	(565,959)	(174,313)	(261,536)	(1,743,328)
<b>Total Other Financing Sources (Uses)</b>	<b>56,000</b>	<b>72,958</b>	<b>248,826</b>	<b>1,700</b>
<b>Net Change in Fund Balances</b>	<b>(668,416)</b>	<b>(5,887)</b>	<b>273,269</b>	<b>(221,739)</b>
<b>Fund Balances:</b>				
Beginning of period	4,044,760	4,052,543	3,778,121	3,999,162
Increase (Decrease) in reserve for inventory	2,367	(1,896)	1,153	698
<b>End of Period</b>	<b>\$ 3,378,711</b>	<b>\$ 4,044,760</b>	<b>\$ 4,052,543</b>	<b>\$ 3,778,121</b>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**REPORTS ON INTERNAL CONTROL AND COMPLIANCE**



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

Superintendent and School Board  
Forest Municipal School District

We have audited, in accordance with the 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, 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, 2013, 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 February 14, 2014.

**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 2013-1 and 2013-2].

**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*.

**Forest Municipal School District's Response to Findings**

Forest Municipal School District's response to the findings 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 the financial statements and, accordingly, we express no opinion on it.

**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.

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi

February 14, 2014

*Watkins, Ward and Stafford, PLLC*



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Superintendent and 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 direct and material effect on each of Forest Municipal School District's major federal programs for the year ended June 30, 2013. 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 program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for 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, 2013.

**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 of its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of its major federal programs 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 certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-3 and 2013-4 that we consider to be significant deficiencies.

Forest Municipal School District's responses to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the responses.

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.

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi

February 14, 2014

*Watkins, Ward and Stafford, PLLC*

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



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

Superintendent and School Board  
 Forest Municipal School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Municipal School District as of and for the year ended June 30, 2013, which collectively comprise Forest Municipal School District's basic financial statements and have issued our report thereon dated February 14, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$1,461 of classroom supply funds carried over from previous years.

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

1. PERS Employees Form 4B Should Be Filed Within 5 Days of Reemployment and Their Earnings Should Be Limited To The Amount on The Form 4B

Finding

Section 25-11-127, Miss Code Ann. (1972) requires the District to ensure that all PERS retirees complete and file a PERS Form 4B "Certification/Acknowledgement of Reemployment of Retiree" within 5 days of employment and that the applicable retiree not be paid more than is legally allowed.

During our testing of PERS retirees we noted that one (1) PERS retiree was paid \$1,584 above the maximum amount payable on the applicable PERS Form 4B.

Recommendation

We recommend the district comply with Section 25-11-127, Miss Code Ann. (1972) which requires the District to ensure that all PERS retirees complete and file a PERS Form 4B "Certification/Acknowledgement of Reemployment of Retiree" within 5 days of employment and that the applicable retiree not be paid more than is legally allowed.

School District's Response

We will comply with Section 25-11-127, Miss Code Ann. (1972) which requires the District to ensure that all PERS retirees complete and file a PERS Form 4B "Certificate /Acknowledgement of Reemployment of Retiree" within 5 days of employment and that the applicable retiree not be paid more than is legally allowed.

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

The Forest Municipal School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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.

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi

February 14, 2014

*Watkins, Ward and Stafford, PLLC*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

**Section I: Summary of Auditor's Results**

Financial Statements:

- |    |  |             |
|----|--|-------------|
| 1. | Type of auditor's report issued:                               | Unqualified |
| 2. | Internal control over financial reporting:                     |             |
|    | a. Material weakness(es) identified? (Yes/No)                  | 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:   | Unqualified                                  |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? (Yes/No) | Yes  |
| 7. | Identification of major programs:   |  |
|    | <u>CFDA Numbers</u>   | <u>Name of Federal Program or Cluster</u>    |
|    | 84.010  | Title I grants to local educational agencies |
|    | 84.027/84.173   | Special Education Cluster                    |
|    | 10.553/10/555   | Child Nutrition 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   |

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

**Section II: Financial Statement Findings**

**Significant Deficiencies Not Considered To Be A Material Weakness**

**Internal Controls Over The Recording of Capital Assets Should Be Strengthened**

2013-1 Finding

Management is responsible for safeguarding and properly recording all assets of the school district. An important aspect of effective internal controls over capital assets owned by the District is reconciliation of the capital asset subsidiary ledger to the general ledger.

During our tests performed on internal controls over capital assets, we noted that a capital asset addition totaling \$5,867 was not added to the capital assets for financial reporting. An adjustment was proposed and made by the client to the financial statements.

Inadequate internal controls surrounding the recording of assets could result in the improper capital asset valuations.

**Recommendation**

We recommend that the district implement controls and procedures with regard to the purchase of assets by reconciling these items monthly to current monthly additions in both the general ledger and the capital assets subsidiary ledger.

**Significant Deficiencies Not Considered To Be A Material Weakness**

**Internal Controls Over Activity Fund Receipts Should Be Strengthened**

2013-2 Finding

During our testing of activity fund receipts we noted the following deficiencies:

**Forest Elementary School**

- We noted that receipts were not being deposited on a daily basis.
- We noted that receipts were not always being issued in sequential order.

Proper internal controls were not in place to ensure deposits were made timely, revenue was coded to proper accounts and that documentation was retained to provide assurances that the proper amount of revenue was recorded.

Without proper internal controls being in place to account for all monetary transactions, the district increases the risk of misappropriation of assets and inaccurate recording of revenue.

**Recommendation**

We recommend the district implement internal controls to ensure that all deposits are made daily, revenue is properly reported and documentation is maintained to substantiate all receipts.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

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

**Significant Deficiencies Not Considered To Be A Material Weakness**

**Internal Controls Over Determining Student Eligibility Should Be Strengthened**

Program: Child Nutrition Cluster, Passed-through the Mississippi Department of Education-  
CFDA 10.553 and 10.555

Compliance requirement: Reporting

**2013-3 Finding**

Management is responsible for establishing internal controls to provide reasonable assurance that student eligibility for participation in the child nutrition program is accurately calculated.

During our test of internal controls over student applications for participation in the Child Nutrition program, we noted one instance where a student was calculated as qualifying for reduced status but according to Child Nutrition guidelines should have been calculated as paid status.

Lack of adequate internal controls surrounding review of student applications resulted in a student being improperly classified as reduced status rather than as paid status.

Without adequate controls, incorrect eligibility data could result in students being improperly classified and could affect program reimbursement.

**Recommendation**

We recommend the district implement internal controls to ensure that student applications are properly reviewed by supervisory staff to ensure that students are granted proper eligibility to participate in the Child Nutrition Program.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

**Significant Deficiencies Not Considered To Be A Material Weakness**

**Internal Controls Related To Capital Assets Purchased With Federal Funds Should Be Strengthened**

Program: Title I grants to local educational agencies, Passed-through the Mississippi Department of Education- CFDA 84.010

Compliance requirement: Equipment and Real Property Maintenance

**2013-4 Finding**

Per the OMB A-133 Circular, local governments shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Basically, the A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of \$5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

During our audit of capital assets we noted one asset purchased for the program that was not capitalized. We proposed an audit adjustment that the client posted and reported on the financial statements.

**Recommendation**

We recommend the district perform a physical inventory of capital assets at least on an annual basis. Any assets purchased with federal funds should be tagged as such so that assurances can be made that these assets are safeguarded against any loss and are being used in the program which acquired it.

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

# FOREST MUNICIPAL SCHOOL DISTRICT

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

AS REQUIRED BY OBM CIRCULAR A-133 THE FOREST MUNICIPAL SCHOOL DISTRICT HAS PREPARED AND SUBMITS THE FOLLOWING CORRECTIVE ACTION PLAN FOR THE FINDINGS INCLUDED IN THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013.

## CORRECTIVE ACTION PLAN DETAILS

- FINDING 2013-1
- A. Superintendent - Dr. Joseph White  
Business Manager – Jeff Jones
  - B. District will review internal controls and policies surrounding asset inventory and capitalization of assets. District will also provide additional training to personnel in regards to proper asset inventory maintenance and how to properly conduct an asset inventory.
- FINDING 2013-2
- A. Superintendent – Dr. Joseph White  
Business Manager – Jeff Jones
  - B. Problems occurred during a transition period between school secretaries. District will review internal controls along with policies and procedures to ensure personnel receive proper cross-training of job duties. All school secretaries and principals will receive additional training surrounding timely deposits and proper issuance of receipts.
- FINDING 2013-3
- A. Superintendent – Dr. Joseph White  
Business Manager – Jeff Jones
  - B. Child Nutrition will review and strengthen internal controls to ensure that student applications are properly reviewed by supervisory staff to ensure that students are granted proper eligibility to participate in the Child Nutrition Program.
- FINDING 2013-4
- A. Superintendent – Dr. Joseph White  
Business Manager – Jeff Jones
  - B. District will review internal controls and policies surrounding asset inventory and capitalization of assets. District will also provide additional training to personnel in regards to proper asset inventory maintenance and how to properly conduct an asset inventory.

# FOREST MUNICIPAL SCHOOL DISTRICT

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

## SUMMARY OF PRIOR AUDIT FINDINGS

### Financial and Compliance Audit Division

As required by Section \_\_\_\_\_, 315(b) of OMB Circular A-133, the Forest Municipal School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2013:

Finding	Status
2012-1	Partially Corrected
2012-2	Partially Corrected
2012-3	Corrected
2012-4	Partially Corrected

Sincerely,

Dr. Joseph White  
Superintendent