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FOREST MUNICIPAL SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2016**

FOREST MUNICIPAL SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT



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Professional Limited Liability Company
Certified Public Accountants

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INDEPENDENT AUDITORS' 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, 2016, and the related notes to financial statements, which collectively comprise the 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.

Auditors' 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 from 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 auditors' 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 auditors consider 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, 2016, 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, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 5-13, 43-44, 45 and 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Forest Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances-General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Funds, Last Four Years has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, We do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017, 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 the Forest Municipal School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
March 29, 2017

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, 2016

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, 2016. 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 2016 increased \$367,516, which represents a 5% increase from fiscal year 2015. Total net position for 2015 decreased \$13,839,681, including a prior period adjustment of \$(14,459,031), which represents a 211.7% decrease from fiscal year 2014.
- General revenues amounted to \$12,014,506 and \$11,132,912, or 79.5% and 80.1% of all revenues for fiscal years 2016 and 2015, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,090,731, or 20.5% of total revenues for 2016, and \$2,771,625, or 19.9% of total revenues for 2015.
- The District had \$14,737,721 and \$13,285,187 in expenses for fiscal years 2016 and 2015; only \$3,090,731 for 2016 and \$2,771,625 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$12,014,506 for 2016 and \$11,132,912 for 2015 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,839,181 in revenues and \$11,172,581 in expenditures for 2016, and \$10,901,481 in revenues and \$10,434,278 in expenditures in 2015. The General Fund's fund balance increased by \$625,478 from 2015 to 2016, and increased by \$518,704, which includes a fund reclassification of \$196,190, from 2014 to 2015.
- Capital assets, net of accumulated depreciation, increased by \$150,543 for 2016 and increased by \$2,220,491 for 2015. The increase for 2016 was due to the additions of \$538,676 netted with the increase in accumulated depreciation of \$388,133.
- Long-term debt increased by \$387,429 for 2016 and decreased by \$430,268 for 2015. This increase for 2016 was due primarily to the issuance of a Three Mill Note. The liability for compensated absences decreased by \$4,381 for 2016 and decreased by \$30,863 for 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The Statement of Net Position presents information on all the District's nonfiduciary assets, deferred outflows, liabilities, and deferred inflows, with the differences between them 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.

FOREST MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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, pension expense, 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, 2016

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, Schedule of the District's Proportionate Share of the New Pension Liability, and Schedule of District Contributions 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$6,934,785 as of June 30, 2016.

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, 2016 and June 30, 2015.

Table 1
Condensed Statement of Net Position

	June 30, 2016	June 30, 2015	Percentage Change
Current assets	\$ 5,138,127	\$ 4,714,209	8.99 %
Restricted assets	262,782	261,450	0.51 %
Capital assets, net	8,040,093	7,889,550	1.91 %
Total assets	13,441,002	12,865,209	4.48 %
 Deferred outflows of resources	 4,430,269	 1,327,327	 233.77 %
 Current liabilities	541,605	1,328,944	-59.25 %
Long-term debt outstanding	5,056,896	4,669,467	8.30 %
Net pension liability	17,622,152	13,351,986	31.98 %
Total liabilities	23,220,653	19,350,397	20.00 %
 Deferred inflows of resources	 1,585,403	 2,144,440	 -26.07 %
 Net position:			
Net investment in capital assets	3,069,060	3,310,327	-7.29 %
Restricted	1,958,860	1,371,749	42.80 %
Unrestricted	(11,962,705)	(11,984,377)	0.18 %
Total net position	\$ (6,934,785)	\$ (7,302,301)	5.03 %

FOREST MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Additional information on unrestricted net position:

In connection with the application of standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position (deficit)	\$(11,962,705)
Less unrestricted deficit in net position resulting from recognition of the net pension liability	<u>14,777,286</u>
Unrestricted net position, exclusive of the net pension liability effect	<u>\$2,184,581</u>

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

- Increase in net capital assets in the amount of \$150,593.
- The principal retirement of \$398,190 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$15,105,237 and \$13,904,537, respectively. The total cost of all programs and services was \$14,737,721 for 2016 and \$13,285,187 for 2015.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

Table 2
Changes in Net Position

	Year Ended June 30, 2016	Year Ended June 30, 2015	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 180,505	\$ 204,054	(11.54) %
Operating grants and contributions	2,736,915	2,567,571	6.60 %
Capital Grants and Contributions	173,311	-	N/A %
General revenues:			
Property taxes	4,332,941	4,333,615	(0.02) %
Grants and contributions not restricted	7,317,742	6,607,378	10.75 %
Investment earnings	20,337	18,309	11.08 %
Sixteenth section sources	154,990	144,138	7.53 %
Other	188,496	29,472	539.58 %
Total revenues	15,105,237	13,904,537	8.64 %
Expenses:			
Instruction	6,739,940	6,512,142	3.50 %
Support services	5,002,571	4,779,430	4.67 %
Non-instructional	1,044,795	987,828	5.77 %
Sixteenth section	80,952	45,657	77.30 %
Pension expense	1,752,695	829,108	111.40 %
Interest on long-term liabilities	116,768	131,022	(10.88) %
Total expenses	14,737,721	13,285,187	10.93 %
Increase (Decrease) in net position	367,516	619,350	(40.66) %
Net Position, July 1, as previously reported	(7,302,301)	6,537,380	(211.70) %
Prior Period Adjustment	-	(14,459,031)	100.00 %
Net Position, July 1, as restated	(7,302,301)	(7,921,651)	7.82 %
Net Position, June 30	\$ (6,934,785)	\$ (7,302,301)	5.03 %

FOREST MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Governmental activities

The following table presents the cost of six major District functional activities: instruction, support services, non-instructional, sixteenth section, pension expense, 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

	Total Expenses		Percentage Change	
	2016	2015		
Instruction	\$ 6,739,940	\$ 6,512,142	3.50	%
Support services	5,002,571	4,779,430	4.67	%
Non-instructional	1,044,795	987,828	5.77	%
Sixteenth section	80,952	45,657	77.30	%
Pension Expense	1,752,695	829,108	111.40	%
Interest on long-term liabilities	116,768	131,022	(10.88)	%
Total expenses	\$ 14,737,721	\$ 13,285,187	10.93	%

	Net (Expense) Revenue		Percentage Change	
	2016	2015		
Instruction	\$ (5,544,688)	\$ (5,517,921)	0.49	%
Support services	(4,257,895)	(4,043,522)	5.30	%
Non-instructional	101,551	45,717	122.13	%
Sixteenth section	(76,495)	(37,706)	102.87	%
Pension Expense	(1,752,695)	(829,108)	111.40	%
Interest on long-term liabilities	(116,768)	(131,022)	(10.88)	%
Total net (expense) revenue	\$ (11,646,990)	\$ (10,513,562)	10.78	%

- Net cost of governmental activities (\$11,646,990 for 2016 and \$10,513,562 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$4,332,941 for 2016 and \$4,333,615 for 2015) and state and federal revenues (\$7,317,742 for 2016 and \$6,607,378 for 2015). In addition, there was \$154,990 and \$144,138 in Sixteenth Section sources for 2016 and 2015, respectively.
- Investment earnings amounted to \$20,337 for 2016 and \$18,309 for 2015.

FOREST MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,904,732, an increase of \$1,210,888, which includes an increase in inventory of \$9,461. \$2,842,625 or 58% 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 \$2,062,107 or 42% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$625,478. The fund balance of Other Governmental Funds showed an increase in the amount of \$395,105, including in the reserve for inventory of \$9,461. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Vocational Maintenance	\$ 13,807
Debt Service 3 Mill Note	\$ 176,498

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, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District's total capital assets were \$14,388,449, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$538,676 from 2015. Total accumulated depreciation as of June 30, 2016, was \$6,348,356, and total depreciation expense for the year was \$388,133, resulting in total net capital assets of \$8,040,093.

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2016	June 30, 2015	Percentage Change
Land	\$ 15,485	\$ 15,485	0.00 %
Construction in Progress	190,694	2,324,333	(91.80) %
Buildings	5,770,133	3,404,796	69.47 %
Building improvements	1,228,386	1,311,252	(6.32) %
Improvements other than buildings	87,669	93,917	(6.65) %
Mobile equipment	600,614	568,727	5.61 %
Furniture and equipment	147,112	171,040	(13.99) %
Total	\$ 8,040,093	\$ 7,889,550	1.91 %

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

Debt Administration. At June 30, 2016, the District had \$5,056,896 in outstanding long-term debt, of which \$511,080 is due within one year. The liability for compensated absences decreased \$4,381 from the prior year.

Table 5
Outstanding Long-Term Debt

	June 30, 2016	June 30, 2015	Percentage Change
Certificates of participation payable	2,645,000	2,800,000	(5.54) %
Three mill notes payable	2,167,000	1,530,000	41.63 %
Obligations under energy efficiency leases	159,033	249,223	(36.19) %
Compensated absences payable	85,863	90,244	(4.85) %
Total	\$ 5,056,896	\$ 4,669,467	8.30 %

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

CURRENT ISSUES

Forest Municipal School District is financially stable. The district is proud of its community support of the public schools. The district has committed itself to financial excellence. The district plans to continue its sound financial 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 Street, Forest, Mississippi.

FINANCIAL STATEMENTS

FOREST MUNICIPAL SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,857,350
Cash with fiscal agents	6
Due from other governments	248,458
Other receivables, net	10,862
Inventories	21,451
Restricted assets	262,782
Capital assets, non-depreciable:	
Land	15,485
Construction in progress	190,694
Capital assets, net of accumulated depreciation:	
Buildings	5,770,133
Building improvements	1,228,386
Improvements other than buildings	87,669
Mobile equipment	600,614
Furniture and equipment	147,112
Total Assets	<u>13,441,002</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	4,430,269
Total Deferred Outflows of Resources	<u>4,430,269</u>
Liabilities	
Accounts payable and accrued liabilities	495,660
Unearned revenue	517
Interest payable on long-term liabilities	45,428
Long-term liabilities, due within one year:	
Capital related liabilities	511,080
Long-term liabilities, due beyond one year:	
Capital related liabilities	4,459,953
Non-capital related liabilities	85,863
Net pension liability	17,622,152
Total Liabilities	<u>23,220,653</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	1,585,403
Total Deferred Inflows of Resources	<u>1,585,403</u>
Net Position	
Net investment in capital assets	3,069,060
Restricted for:	
Expendable:	
School-based activities	605,873
Debt service	349,476
Capital improvements	673,303
Forestry improvements	40,638
Unemployment benefits	26,788
Non-expendable:	
Sixteenth section	262,782
Unrestricted	(11,962,705)
Total Net Position (Deficit)	<u>\$ (6,934,785)</u>

The accompanying notes to financial statements are an integral part of these statements.

FOREST MUNICIPAL SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2016

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 6,739,940	\$ 121,973	\$ 1,049,968	\$ 23,311	\$ (5,544,688)
Support services	5,002,571	-	744,676	-	(4,257,895)
Non-instructional	1,044,795	54,075	942,271	150,000	101,551
Sixteenth section	80,952	4,457	-	-	(76,495)
Pension expense	1,752,695	-	-	-	(1,752,695)
Interest on long-term liabilities	116,768	-	-	-	(116,768)
Total Governmental Activities	<u>\$ 14,737,721</u>	<u>\$ 180,505</u>	<u>\$ 2,736,915</u>	<u>\$ 173,311</u>	<u>\$ (11,646,990)</u>

General Revenues:

Taxes:

General purpose levies 4,175,927

Debt purpose levies 157,014

Unrestricted grants and contributions:

State 7,270,602

Federal 47,140

Unrestricted investment earnings 20,337

Sixteenth section sources 154,990

Other 188,496

Total General Revenues 12,014,506

Change in Net Position 367,516

Net Position - Beginning (7,302,301)

Net Position - Ending \$ (6,934,785)

The accompanying notes to financial statements are an integral part of these statements.

FOREST MUNICIPAL SCHOOL DISTRICT
Governmental Funds
Balance Sheet - Governmental Funds
June 30, 2016

Exhibit C

	Major Fund			Other	Total
	General	Vocational	Debt Service	Governmental	Governmental
	Fund	Maintenance	3 Mill	Funds	Funds
	Fund	Fund	Note Fund		
Assets					
Cash and cash equivalents	\$ 2,812,026	\$ 233,612	\$ 949,573	\$ 1,124,921	\$ 5,120,132
Cash with fiscal agents	-	-	-	6	6
Due from other governments	106,321	2,592	1,876	137,669	248,458
Other receivables, net	8,504	-	-	-	8,504
Due from other funds	135,436	-	-	556,545	691,981
Inventories	-	-	-	21,451	21,451
Total Assets	\$ 3,062,287	\$ 236,204	\$ 951,449	\$ 1,840,592	\$ 6,090,532
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 161,843	\$ 218,894	\$ -	\$ 114,923	\$ 495,660
Due to other funds	-	-	556,545	133,078	689,623
Unearned revenue	-	-	-	517	517
Total Liabilities	\$ 161,843	\$ 218,894	\$ 556,545	\$ 248,518	\$ 1,185,800
Fund Balances:					
Nonspendable:					
Inventory	-	-	-	21,451	21,451
Permanent fund principal	-	-	-	262,782	262,782
Restricted:					
Debt service	-	-	394,904	-	394,904
Capital projects	-	-	-	673,303	673,303
Forestry improvement purposes	-	-	-	40,638	40,638
Grant activities	-	-	-	567,112	567,112
Unemployment benefits	-	-	-	26,788	26,788
Assigned:					
Vocational	-	17,310	-	-	17,310
Student activity	57,819	-	-	-	57,819
Unassigned	2,842,625	-	-	-	2,842,625
Total Fund Balances	2,900,444	17,310	394,904	1,592,074	4,904,732
Total Liabilities and Fund Balances	\$ 3,062,287	\$ 236,204	\$ 951,449	\$ 1,840,592	\$ 6,090,532

The accompanying notes to financial statements are an integral part of these statements.

FOREST MUNICIPAL SCHOOL DISTRICT
Exhibit C-1
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016

Total fund balances for governmental funds **\$ 4,904,732**

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

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

Land	\$ 15,485	
Construction in progress	190,694	
Buildings	9,779,071	
Building improvements	1,831,208	
Improvements other than buildings	156,182	
Mobile equipment	1,848,203	
Furniture and equipment	567,606	
Accumulated depreciation	<u>(6,348,356)</u>	8,040,093

2. Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(17,622,152)	
-----------------------	--------------	--

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	4,430,269	
Deferred inflows of resources related to pensions	<u>(1,585,403)</u>	(14,777,286)

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

Three mill notes payable	(2,167,000)	
Certificates of participation	(2,645,000)	
Obligations under energy efficiency lease	(159,033)	
Compensated absences	(85,863)	
Accrued interest payable	<u>(45,428)</u>	<u>(5,102,324)</u>

Net position of governmental activities **\$ (6,934,785)**

The accompanying notes to financial statements are an integral part of these statements.

FOREST MUNICIPAL SCHOOL DISTRICT
Exhibit D
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2016

	Major Fund			Other	Total
	General	Vocational	Debt Service	Governmental	Governmental
	Fund	Maintenance	3 Mill	Funds	Funds
	Fund	Fund	Note Fund		
Revenues:					
Local sources	\$ 4,234,836	\$ 239,662	\$ 176,498	\$ 206,709	\$ 4,857,705
State sources	7,396,377	-	-	106,607	7,502,984
Federal sources	47,140	-	-	2,527,844	2,574,984
Sixteenth section sources	160,828	-	-	1,909	162,737
Total Revenues	11,839,181	239,662	176,498	2,843,069	15,098,410
Expenditures:					
Instruction	6,159,190	218,894	-	930,035	7,308,119
Support services	4,598,218	9,636	-	819,772	5,427,626
Noninstructional services	3,607	-	-	987,746	991,353
Sixteenth section	80,649	-	-	303	80,952
Facilities acquisition and construction	-	-	-	369,101	369,101
Debt service:					
Principal	245,190	-	153,000	-	398,190
Interest	82,727	-	32,742	-	115,469
Other	3,000	-	-	-	3,000
Total Expenditures	11,172,581	228,530	185,742	3,106,957	14,693,810
Excess (Deficiency) of Revenues over (under) Expenditures	666,600	11,132	(9,244)	(263,888)	404,600
Other Financing Sources (Uses):					
Bonds and notes issued	-	-	-	790,000	790,000
Insurance recovery	6,827	-	-	-	6,827
Operating transfers in	30,001	2,675	185,742	75,275	293,693
Operating transfers out	(77,950)	-	-	(215,743)	(293,693)
Total Other Financing Sources (Uses)	(41,122)	2,675	185,742	649,532	796,827
Net Change in Fund Balances	625,478	13,807	176,498	385,644	1,201,427
Fund Balances:					
July 1, 2015	2,274,966	3,503	218,406	1,196,969	3,693,844
Increase (Decrease) in reserve for inventory	-	-	-	9,461	9,461
June 30, 2016	\$ 2,900,444	\$ 17,310	\$ 394,904	1,592,074	\$ 4,904,732

The accompanying notes to financial statements are an integral part of these statements.

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, 2016

Net change in fund balances - total governmental funds **\$ 1,201,427**

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	\$ 538,676	
Depreciation expense	(388,133)	150,543

- 2 The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. 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:

Bonds and notes issued	(790,000)	
Payments of debt principal	398,190	
Accrued interest payable	1,701	(390,109)

- 3 The implementation of GASB 68 creates a change in the amount of pension expense that is reported on the statement of activities. A breakdown of these changes are listed below:

Recording of contributions made subsequent to the measurement date	1,144,508	
Recording of pension expense for the current period	(1,752,695)	(608,187)

- 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	4,381	
Change in inventory reserve	9,461	13,842

Change in net position of governmental activities **\$ 367,516**

The accompanying notes to financial statements are an integral part of these statements.

FOREST MUNICIPAL SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2016

Exhibit E

	Agency Funds
	<u> </u>
Assets	
Cash and cash equivalents	\$ 789,525
Total Assets	<u><u>\$ 789,525</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 740,238
Due to other funds	2,358
Due to student clubs	46,929
Total Liabilities	<u><u>\$ 789,525</u></u>

The accompanying notes to financial statements are an integral part of these statements.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

Blended component unit

The Forest Municipal School District Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, fund balances, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

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. 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.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

The Statement of Net Position presents the District's non-fiduciary assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds 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.

Vocational Maintenance – This is a special revenue fund that accounts for the revenues and related expenditures supporting the vocational education of students in the district who attend a vocational complex operated jointly with Scott County School District.

Debt Service 3 Mill Note Fund – This debt service fund accounts for the accumulation of resources for, and the payment of principal, interest, and related costs of the District's three mill note.

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:

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

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

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Revenues from the Mississippi Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

D. Encumbrances

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

5. Restricted Assets

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

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.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has incurred a deferred outflow which is presented as a deferred outflow related to pensions. See Note 14 for further details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The school has incurred a deferred inflow which is presented as a deferred inflow related to pensions. See Note 14 for further details.

8. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

11. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is the formal order of the School Board to approve certain committed fund balances. 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 Business Manager pursuant to authorization established by school board policy.

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

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required 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 \$ 5,120,132 and \$789,525, respectively. The carrying amount of deposits reported in the government wide statements was \$4,857,350 and \$262,782, reported as cash and cash equivalents and restricted assets, 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. 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. 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.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$6.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 133,078
	Agency Funds	2,358
Other Governmental Funds	Debt Service 3 Mill Fund	556,545
Total		<u>\$ 691,981</u>

The interfund balances primarily represent loans created by negative individual fund cash in a pooled bank account caused by the time lag between expending federal funds and receiving reimbursement for those expenditures. There is also an interfund balance due for the proceeds of unexpended loan funds received into the Debt Service 3 Mill Note Fund.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Vo-Tech Maintenance	\$ 2,675
	Other Governmental Funds	75,275
Other Governmental Funds	General Fund	30,001
	Debt Service 3 Mill Fund	185,742
Total		<u>\$ 293,693</u>

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

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling \$262,782 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 5 – Capital Assets

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

	Balance 7/1/2015	Increases	Decreases	* Adjustments	Balance 6/30/2016
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 15,485	\$ -	\$ -	\$ -	\$ 15,485
Construction-in-progress	2,324,333	369,101	-	(2,502,740)	190,694
Total non-depreciable capital assets	2,339,818	369,101	-	(2,502,740)	206,179
<u>Depreciable capital assets:</u>					
Buildings	7,276,331	-	-	2,502,740	9,779,071
Building improvements	1,831,208	-	-	-	1,831,208
Improvements other than buildings	156,182	-	-	-	156,182
Mobile equipment	1,715,518	132,685	-	-	1,848,203
Furniture and equipment	530,716	36,890	-	-	567,606
Total depreciable capital assets	11,509,955	169,575	-	2,502,740	14,182,270
<u>Less accumulated depreciation for:</u>					
Buildings	3,871,535	137,403	-	-	4,008,938
Building improvements	519,956	82,866	-	-	602,822
Improvements other than buildings	62,265	6,248	-	-	68,513
Mobile equipment	1,146,791	100,798	-	-	1,247,589
Furniture and equipment	359,676	60,818	-	-	420,494
Total accumulated depreciation	5,960,223	388,133	-	-	6,348,356
Total depreciable capital assets, net	5,549,732	(218,558)	-	2,502,740	7,833,914
Governmental activities capital assets, net	\$ 7,889,550	\$ 150,543	\$ -	\$ -	\$ 8,040,093

*Adjustments represent construction completed during the fiscal year and reclassified to a depreciable reporting category.

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 160,714
Support Services	123,797
Noninstructional	103,622
Total Depreciation expense - Governmental activities	\$ 388,133

Construction in progress is composed of:

	Spent to June 30, 2016	Remaining Commitment
Governmental Activities:		
Softball Field Improvements	\$ 190,694	\$ 35,125

Construction projects included in governmental activities are funded with proceeds from certificates of participation payable (See Note 6 and Note 11 for details of these trust certificates).

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 6 – Long-term Liabilities

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

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts due within one year
A. Certificates of participation payable	\$ 2,800,000	\$ -	\$ (155,000)	\$ 2,645,000	\$ 160,000
B. Three mill notes payable	1,530,000	790,000	(153,000)	2,167,000	257,000
C. Obligations under energy efficiency leases	249,223	-	(90,190)	159,033	94,080
D. Compensated absences payable	90,244	-	(4,381)	85,863	-
Total	\$ 4,669,467	\$ 790,000	\$ (402,571)	\$ 5,056,896	\$ 511,080

A. Certificates of participation payable

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2014	2.64%	5/1/2014	5/1/2028	\$ 2,950,000	\$ 2,645,000

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 160,000	\$ 69,828	\$ 229,828
2018	170,000	65,604	235,604
2019	175,000	61,116	236,116
2020	185,000	56,496	241,496
2021	190,000	51,612	241,612
2022-2026	1,215,000	175,560	1,390,560
2027-2028	550,000	20,988	570,988
Total	\$ 2,645,000	\$ 501,204	\$ 3,146,204

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

The certificates of participation payable are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi in the form of sales tax revenues for buildings and buses from the Education Enhancement Fund ("EEF") created under Section 37-61-33 Mississippi Code Ann. (1972). The amount of the annual pledge is \$57,452 which is 100% of such expected revenues. The pledge will begin July 1, 2013 and remain in effect until June 30, 2024. Such EEF funds are currently pledged to the District's \$2,167,000 Three Mil Notes Payable, Series 2014 and Series 2016 through June 30, 2024

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 6 – Long-term Liabilities (Continued)

B. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Note, Series 2013	2.14%	8/15/2013	8/15/2023	\$ 1,700,000	\$ 1,377,000
Limited Tax Note, Series 2016	1.98%	5/6/2016	5/6/2024	790,000	790,000
Total				<u>\$ 2,490,000</u>	<u>\$ 2,167,000</u>

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

1. Three mill notes payable issue of 8/15/2013

Year Ending June 30	Principal	Interest	Total
2017	\$ 157,000	\$ 29,468	\$ 186,468
2018	161,000	26,108	187,108
2019	165,000	22,663	187,663
2020	170,000	19,132	189,132
2021	174,000	15,494	189,494
2021-2024	550,000	23,732	573,732
Total	<u>\$ 1,377,000</u>	<u>\$ 136,597</u>	<u>\$ 1,513,597</u>

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

2. Three mill notes payable issue of 5/6/2016:

Year Ending June 30	Principal	Interest	Total
2017	\$ 100,000	\$ 15,642	\$ 115,642
2018	100,000	13,662	113,662
2019	105,000	11,682	116,682
2020	105,000	9,603	114,603
2021	105,000	7,524	112,524
2022-2024	275,000	9,801	284,801
Total	<u>\$ 790,000</u>	<u>\$ 67,914</u>	<u>\$ 857,914</u>

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 6 – Long-term Liabilities (Continued)

Total three mill notes payable payments for all issues:

Year Ending June 30	Principal	Interest	Total
2017	\$ 257,000	\$ 45,110	\$ 302,110
2018	261,000	39,770	300,770
2019	270,000	34,345	304,345
2020	275,000	28,735	303,735
2021	279,000	23,018	302,018
2022-2024	825,000	33,533	858,533
Total	\$ 2,167,000	\$ 204,511	\$ 2,371,511

The three mill notes payable are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi in the form of sales tax revenues for buildings and buses from the Education Enhancement Fund ("EEF") created under Section 37-61-33 Mississippi Code Ann. (1972). The amount of the annual pledge is \$57,452, which is 100% of such expected revenues. The pledge will continue through June 30, 2024.

C. Obligations under energy efficiency leases

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
MS Power Lease, Series 2007	4.23%	12/15/2007	12/15/2017	\$ 806,101	\$ 159,033

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
2017	\$ 94,080	\$ 4,717	\$ 98,797
2018	64,953	1,045	65,998
Total	\$ 159,033	\$ 5,762	\$ 164,795

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

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

The agreement authorized the borrowing of \$806,101 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and not exceed fifteen (15) years.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 6 – Long-term Liabilities (Continued)

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(E)(8), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 7 – Defined Benefit Pension Plan

General Information about the 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the 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.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 7 – Defined Benefit Pension Plan (Continued)

Contributions. 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, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015 and 2014 were \$1,144,508, \$1,119,040 and \$1,059,619, respectively, which equaled the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the school district reported a liability of \$17,622,152 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The school district's proportionate share used to calculate the June 30, 2016 net pension liability was .114 percent, which was based on a measurement date of June 30, 2015. This was an increase of .004 percent from its proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$1,752,695. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 404,560	\$ -
Net difference between projected and actual earnings on pension plan investments	1,031,085	1,451,602
Changes of assumptions	1,518,087	-
Changes in proportion and differences between District contributions and proportionate share of contributions	332,029	133,801
District contributions subsequent to the measurement date	1,144,508	-
TOTAL	\$ <u>4,430,269</u>	\$ <u>1,585,403</u>

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 7 – Defined Benefit Pension Plan (Continued)

\$1,144,508 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 553,552
2018	553,609
2019	335,426
2020	257,771
2021	-
Thereafter	-

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75-19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
U.S. Broad	34	%	5.20	%
International Equity	19		5.00	
Emerging Markets Equity	8		5.45	
Fixed Income	20		0.25	
Real Assets	10		4.00	
Private Equity	8		6.15	
Cash	1		(0.50)	
Total	<u>100</u>	<u>%</u>		

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 7 – Defined Benefit Pension Plan (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 23,227,611	\$ 17,622,152	\$ 12,970,669

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

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.

Year Ending June 30	Amount
2017	\$ 132,804
2018	125,870
2019	121,560
2020	121,560
2021	121,560
2022 – 2026	565,872
2027 – 2031	504,909
2032 – 2036	423,196
2037 – 2041	280,283
Total	<u>\$ 2,397,614</u>

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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.

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 71 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 – Trust Certificates

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

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

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 11 – Trust Certificates (Continued)

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

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, fund balances, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

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 following: Newton County School District, Forest Municipal School District, Scott County School District, Newton Municipal 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.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 14 – Effect of Deferred Amounts on Net Position

The unrestricted net position of \$(11,962,705) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$4,430,269 balance of the deferred outflow of resources at June 30, 2016 will be recognized as expenses and decrease unrestricted net position over the next 4 years.

The unrestricted net position amount of \$(11,962,705) includes the effect of deferring the recognition of revenue from a deferred inflow from pensions. The \$1,585,403 balance of the deferred inflow of resources at June 30, 2016 will be recognized as revenue and increase unrestricted net position over the next 4 years.

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 March 29, 2017 (the date the financial statements were available to be issued), and determined that there was one subsequent event occurring which would require disclosure in the notes to financial statements and is listed below.

- On August 8, 2016, the board approved the lowest and best bid for construction of the girls softball fieldhouse in the amount of \$287,000 from Dewitt Faler Contractor,

REQUIRED SUPPLEMENTARY INFORMATION

FOREST MUNICIPAL SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,494,108	\$ 4,235,919	\$ 4,234,836	\$ (258,189)	\$ (1,083)
State sources	7,246,279	7,396,377	7,396,377	150,098	-
Federal sources	65,108	47,140	47,140	(17,968)	-
Sixteenth section sources	157,000	162,229	160,828	5,229	(1,401)
Total Revenues	11,962,495	11,841,665	11,839,181	(120,830)	(2,484)
Expenditures:					
Instruction	6,412,779	6,170,426	6,159,190	242,353	11,236
Support services	4,805,649	4,609,563	4,598,218	196,086	11,345
Noninstructional services	4,800	3,607	3,607	1,193	-
Sixteenth section	43,124	80,649	80,649	(37,525)	-
Debt service:					
Principal	253,998	245,190	245,190	8,808	-
Interest	82,090	83,261	82,727	(1,171)	534
Other	-	3,000	3,000	(3,000)	-
Total Expenditures	11,602,440	11,195,696	11,172,581	406,744	23,115
Excess (Deficiency) of Revenues over (under) Expenditures	360,055	645,969	666,600	285,914	20,631
Other Financing Sources (Uses):					
Insurance loss recoveries	-	6,827	6,827	6,827	-
Sale of transportation equipment	2,000	-	-	(2,000)	-
Operating transfers in	130,413	303,476	30,001	173,063	(273,475)
Operating transfers out	(378,285)	(351,426)	(77,950)	26,859	273,476
Total Other Financing Sources (Uses)	(245,872)	(41,123)	(41,122)	204,749	1
Net Change in Fund Balances	114,183	604,846	625,478	490,663	20,632
Fund Balances:					
July 1, 2015, as previously reported	-	2,274,966	2,274,966	2,274,966	-
Fund reclassification	-	-	-	-	-
July 1, 2015, as restated	-	2,274,966	2,274,966	2,274,966	-
June 30, 2016	\$ 114,183	\$ 2,879,812	\$ 2,900,444	\$ 2,765,629	\$ 20,632

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

FOREST MUNICIPAL SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Vocational Maintenance Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 250,000	\$ 239,662	\$ 239,662	\$ (10,338)	\$ -
Total Revenues	250,000	239,662	239,662	(10,338)	-
Expenditures:					
Instruction	244,000	218,894	218,894	25,106	-
Support services	-	9,636	9,636	(9,636)	-
Total Expenditures	244,000	228,530	228,530	15,470	-
Excess (Deficiency) of Revenues over (under) Expenditures	6,000	11,132	11,132	5,132	-
Other Financing Sources (Uses):					
Operating transfers in	-	2,675	2,675	2,675	-
Total Other Financing Sources (Uses)	-	2,675	2,675	2,675	-
Net Change in Fund Balances	6,000	13,807	13,807	7,807	-
Fund Balances:					
July 1, 2015,	-	3,503	3,503	3,503	-
June 30, 2016	\$ 6,000	\$ 17,310	\$ 17,310	\$ 11,310	\$ -

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

Forest Municipal School District
Required Supplementary Information
Schedule Of The District's Proportionate Share Of The Net Pension Liability
PERS
Last 10 Fiscal Years*

	2016	2015
District's proportion of the net pension liability	\$ 17,622,152	\$ 13,351,986
District's proportionate share of the net pension liability (asset)	0.114%	0.110%
District's covered-employee payroll	\$ 7,105,016	\$ 6,727,740
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	248.02%	198.46%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

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

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

The schedule is presented to illustrate the requirement to show information for 10 years. However GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

**Forest Municipal School District
Required Supplementary Information
Schedule of District Contributions
PERS
Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,144,508	\$ 1,119,040
Contribution in relation to the contractually required contribution	1,144,508	1,119,040
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	7,266,720	7,105,017
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

The schedule is presented to illustrate the requirement to show information for 10 years. However GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes To Required Supplementary Information
For the Year Ended June 30, 2016

Note 1 – Budgetary Comparison Schedule

A. 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.

B. 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.

Note 2 – Pension Schedules

A. Changes of benefit terms

There were no changes of benefit terms for the FYE 6/30/2016.

B. Changes of assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

SUPPLEMENTARY INFORMATION

FOREST MUNICIPAL SCHOOL DISTRICT
Supplementary Information
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 320,040
National school lunch program	10.555	869,546
Total child nutrition cluster		<u>1,189,586</u>
Total passed-through Mississippi Department of Education		<u>1,189,586</u>
Passed-through Scott County:		
National forest-dependent rural communities	10.665	11,606
Total passed-through Scott County		<u>11,606</u>
Total U.S. Department of Agriculture		<u>1,201,192</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	30,004
Total Federal Communications Commission		<u>30,004</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	789,188
Rural education	84.358	30,823
English language acquisition grants	84.365	38,622
Improving teacher quality state grants	84.367	86,932
Subtotal		<u>945,565</u>
Special education cluster:		
Special education - grants to states	84.027	401,736
Special education - preschool grants	84.173	13,016
Total special education cluster		<u>414,752</u>
Total passed-through Mississippi Department of Education		<u>1,360,317</u>
Total U.S. Department of Education		<u>1,360,317</u>
Total for All Federal Awards		<u><u>\$ 2,591,513</u></u>

The notes to supplemental information are an integral part of this schedule.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes To Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, includes the federal award activity of Forest Municipal School District under programs of the federal and state governments for the year ended June 30, 2016. The schedule presents only a selected portion of the operations of Forest Municipal School District and is not intended to, and does not, present the financial position, changes in net position, or cash flows of the District.

Note 2 – Basis of Accounting

The schedule is prepared on the same basis of accounting as Forest Municipal School District's financial statements. The District uses the current financial resource measurement focus and the modified accrual basis of accounting.

Note 3 – Program Costs

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following the cost principals contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to its reimbursements.

Note 4 – Noncash Awards – Commodities

The amount of commodities reported on the schedule of expenditures of federal awards is the value of commodities received by the district and reported under the National School Lunch Program CFDA # 10.555. The value of the commodities received during the fiscal year was \$62,391..

Note 5 – Indirect Cost Rate

The District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

FOREST MUNICIPAL SCHOOL DISTRICT**Supplementary Information****Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds****For the Year Ended June 30, 2016**

<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	\$ 9,866,434	7,023,344	862,571	753,132	1,227,387
Other	<u>4,827,376</u>	<u>1,616,729</u>	<u>184,689</u>	<u>14,502</u>	<u>3,011,456</u>
Total	<u>\$ 14,693,810</u>	<u>8,640,073</u>	<u>1,047,260</u>	<u>767,634</u>	<u>4,238,843</u>
Total number of students *	<u>1,672</u>				
Cost per student	<u>\$ 8,788</u>	<u>5,168</u>	<u>626</u>	<u>459</u>	<u>2,535</u>

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

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

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

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

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

The accompanying notes to supplemental information are an integral part of these schedules.

OTHER INFORMATION

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

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 4,234,836	\$ 4,056,604	\$ 3,630,054	\$ 3,848,621
State sources	7,396,377	6,651,071	5,920,456	5,775,745
Federal sources	47,140	40,371	79,183	75,624
Sixteenth section sources	160,828	153,435	-	-
Total Revenues	11,839,181	10,901,481	9,629,693	9,699,990
Expenditures:				
Instruction	6,159,190	6,070,160	5,892,661	6,115,925
Support services	4,598,218	4,224,564	4,255,401	4,128,813
Noninstructional services	3,607	3,198	6,731	5,838
Sixteenth section	80,649	45,608	-	-
Facilities acquisition and construction	-	-	12,812	-
Debt service:				
Principal	245,190	79,405	82,886	86,234
Interest	82,727	11,343	16,111	21,013
Other	3,000	-	-	-
Total Expenditures	11,172,581	10,434,278	10,266,602	10,357,823
Excess (Deficiency) of Revenues over (under) Expenditures	666,600	467,203	(636,909)	(657,833)
Other Financing Sources (Uses):				
Insurance recovery	6,827	-	-	56,000
Sale of transportation equipment	-	-	5,362	-
Sale of other property	-	-	857	-
Operating transfers in	30,001	107,024	207,837	374,247
Operating transfers out	(77,950)	(251,713)	(2)	(101,672)
Total Other Financing Sources (Uses)	(41,122)	(144,689)	214,054	328,575
Net Change in Fund Balances	625,478	322,514	(422,855)	(329,258)
Fund Balances:				
Beginning of period, as previously reported	2,274,966	1,756,262	2,151,324	2,480,582
Prior period adjustments	-	-	27,793	-
Fund balance reclassifications	-	196,190	-	-
Beginning of period, as restated	2,274,966	1,952,452	2,179,117	2,480,582
End of Period	\$ 2,900,444	\$ 2,274,966	\$ 1,756,262	\$ 2,151,324

*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**

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 4,857,705	\$ 4,574,779	\$ 4,090,806	\$ 4,232,898
Intermediate sources	-	-	-	5,000
State sources	7,502,984	6,756,245	6,020,448	6,142,614
Federal sources	2,574,984	2,418,704	2,410,991	2,143,207
Sixteenth section sources	162,737	154,808	107,086	138,937
Total Revenues	15,098,410	13,904,536	12,629,331	12,662,656
Expenditures:				
Instruction	7,308,119	7,093,089	6,801,497	7,031,468
Support services	5,427,626	5,170,615	4,925,778	4,900,126
Noninstructional services	991,353	1,042,263	913,243	871,534
Sixteenth section	80,952	45,657	16,295	44,825
Facilities acquisition and construction	369,101	2,319,006	245,750	-
Debt service:				
Principal	398,190	399,405	1,762,886	436,234
Interest	115,469	124,103	29,366	102,885
Other	3,000	1,500	27,425	-
Total Expenditures	14,693,810	16,195,638	14,722,240	13,387,072
Excess (Deficiency) of Revenues over (under) Expenditures	404,600	(2,291,102)	(2,092,909)	(724,416)
Other Financing Sources (Uses):				
Bonds and notes issued	790,000	-	1,700,000	-
Insurance recovery	6,827	-	-	56,000
Sale of transportation equipment	-	-	5,362	-
Sale of other property	-	-	857	-
Proceeds of certificates of participation	-	-	2,950,000	-
Operating transfers in	293,693	358,737	371,725	565,959
Operating transfers out	(293,693)	(358,737)	(371,725)	(565,959)
Total Other Financing Sources (Uses)	796,827	-	4,656,219	56,000
Net Change in Fund Balances	1,201,427	(2,291,102)	2,563,310	(668,416)
Fund Balances:				
Beginning of period, as previously reported	3,693,844	5,989,676	3,378,711	4,044,760
Prior period adjustments	-	-	44,254	-
Beginning of period, as restated	3,693,844	5,989,676	3,422,965	4,044,760
Increase (Decrease) in reserve for inventory	9,461	(4,730)	3,401	2,367
End of Period	\$ 4,904,732	\$ 3,693,844	\$ 5,989,676	\$ 3,378,711

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the 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, 2016, and the related notes to financial statements, which collectively comprise the Forest Municipal School District's basic financial statements and have issued our report thereon dated March 29, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Forest Municipal School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. 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. **Finding 2016-1 and Finding 2016-2**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Responses to Findings

Forest Municipal School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Forest Municipal School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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
March 29, 2017

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
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Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Superintendent and School Board
Forest Municipal School District

Report on Compliance for Each Major Federal Program

We have audited the Forest Municipal School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Forest Municipal School District's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the Forest Municipal School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2016.

Report on Internal Control over Compliance

Management of the 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 the Forest Municipal School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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, material weaknesses may exist that have not been identified.

Purpose of this Report

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
March 29, 2017

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



WATKINS, WARD and STAFFORD
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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

To the 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, 2016, which collectively comprise Forest Municipal School District's basic financial statements and have issued our report thereon dated March 29, 2017. 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 no classroom supply funds carried over from previous years.

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

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

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

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

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
March 29, 2017

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, 2016

Section I: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | |
|--|--|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? (Yes/No) | No |
| b. Significant deficiency(ies) identified? (Yes/None reported) | None reported |
| 5. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? (Yes/No) | No |
| 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 |
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. Auditee qualified as low-risk auditee? | Yes |

Section II: Financial Statement Findings

Significant Deficiency

Finding 2016-1 Internal Controls Over Activity Fund Receipts Should Be Strengthened

As noted in the prior year controls over activity fund receipts should be strengthened. During our testing of activity fund receipts we noted the following deficiencies:

Hawkins Middle School

- We noted that two receipts could not be located for funds that were deposited into activity fund bank account.

Forest Elementary School

- We noted that pre-numbered receipts were not being used to account for funds received.

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.

School District Response

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

Significant Deficiency

Finding 2016-2 Internal Controls Surrounding Approval of Personnel Should Be Strengthened

During our testing of payroll expenditures we noted the following deficiency:

- We noted two instances where board approval of employment and rate of pay of an employee could not be located.

Proper internal controls were not in place to ensure that all employees along with their employment position and rate of pay were approved by the board prior to the individual's employment.

Without proper internal controls being in place to approve all employment and rates of pay, the district increases the risk of misappropriation of assets and opportunities for fraud involving payroll.

Recommendation

We recommend the district implement internal controls to ensure that all employees along with their employment position and rate of pay were approved by the board prior to the individual's employment.

School District Response

We will implement internal controls to ensure that all employees along with their employment position and rate of pay are approved by the board prior to the individual's employment.

Section III: Federal Award Findings and Questioned Costs

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