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FOREST MUNICIPAL SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2017**

FOREST MUNICIPAL SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT



WATKINS, WARD and STAFFORD
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, 2017, and the related notes to financial statements, which collectively comprise the Forest Municipal School District's basic financial statements as listed in the 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2017, 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, 44-47, 48 and 49, 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 19, 2018 on our consideration of the Forest Municipal School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Forest Municipal School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
March 19, 2018

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, 2017

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, 2017. 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 2017 decreased \$1,079,612 which represents a 15.6% decrease from fiscal year 2016. Total net position for 2016 increased \$367,516, which represents a 5% increase from fiscal year 2015.
- General revenues amounted to \$11,934,714 and \$12,014,506, or 81.1% and 79.5% of all revenues for fiscal years 2017 and 2016, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,784,218, or 18.9% of total revenues for 2017, and \$3,090,731, or 20.5 % of total revenues for 2016.
- The District had \$15,798,544 and \$14,737,721 in expenses for fiscal years 2017 and 2016; only \$2,784,218 for 2017 and \$3,090,731 for 2016 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$11,934,714 for 2017 were not adequate to provide for these programs. General revenues of \$12,014,506 for 2016 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,675,308 in revenues and \$11,478,788 in expenditures for 2017, and \$11,839,181 in revenues and \$11,172,581 in expenditures for 2016. The General Fund's fund balance increased by \$77,453 from 2016 to 2017, and increased by \$625,478 from 2015 to 2016.
- Capital assets, net of accumulated depreciation, increased by \$428,686 for 2017 and increased by \$150,543 for 2016. The increase for 2017 was due primarily to additional construction.
- Long-term debt decreased by \$511,080 for 2017 and increased by \$387,429 for 2016. This decrease for 2017 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences increased by \$7,220 for 2017 and decreased by \$4,381 for 2016.

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 non-fiduciary 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, 2017

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, 2017

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.

A net pension liability results in a liability on the government-wide financial statements but is not reported on 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 Net 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, 2017

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 \$8,014,397 as of June 30, 2017.

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, 2017 and June 30, 2016.

Table 1
Condensed Statement of Net Position

	June 30, 2017	June 30, 2016	Percentage Change
Current assets	\$ 4,600,370	\$ 5,138,127	-10.47 %
Restricted assets	264,102	262,782	0.50 %
Capital assets, net	8,468,779	8,040,093	5.33 %
Total assets	13,333,251	13,441,002	-0.80 %
 Deferred outflows of resources	 4,340,383	 4,430,269	 -2.03 %
 Current liabilities	631,491	541,605	16.60 %
Long-term debt outstanding	4,553,036	5,056,896	-9.96 %
Net pension liability	20,363,247	17,622,152	15.55 %
Total liabilities	25,547,774	23,220,653	10.02 %
 Deferred inflows of resources	 140,257	 1,585,403	 -91.15 %
 Net position:			
Net investment in capital assets	4,008,826	3,069,060	30.62 %
Restricted	1,238,501	1,958,860	-36.77 %
Unrestricted	(13,261,724)	(11,962,705)	-10.86 %
Total net position	\$ (8,014,397)	\$ (6,934,785)	-15.57 %

FOREST MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

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)	\$(13,261,724)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	16,163,121
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 2,901,397</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 \$428,686
- The principal retirement of \$511,080 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2017 and June 30, 2016 were \$14,718,932 and \$15,105,237, respectively. The total cost of all programs and services was \$15,798,544 for 2017 and \$14,737,721 for 2016.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2017</u>	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 166,793	\$ 180,505	(7.60) %
Operating grants and contributions	2,617,425	2,736,915	(4.37) %
Capital Grants and Contributions	-	173,311	(100.00) %
General revenues:			
Property taxes	4,493,121	4,332,941	3.70 %
Grants and contributions not restricted	7,244,858	7,317,742	(1.00) %
Investment earnings	23,442	20,337	15.27 %
Sixteenth section sources	143,369	154,990	(7.50) %
Other	29,924	188,496	(84.12) %
Total revenues	<u>14,718,932</u>	<u>15,105,237</u>	(2.56) %
Expenses:			
Instruction	6,974,701	6,739,940	3.48 %
Support services	4,979,701	5,002,571	(0.46) %
Non-instructional	1,098,979	1,044,795	5.19 %
Sixteenth section	57,817	80,952	(28.58) %
Pension expense	2,575,731	1,752,695	46.96 %
Interest on long-term liabilities	111,615	116,768	(4.41) %
Total expenses	<u>15,798,544</u>	<u>14,737,721</u>	7.20 %
Increase (Decrease) in net position	<u>(1,079,612)</u>	<u>367,516</u>	(393.76) %
Net Position, July 1	<u>(6,934,785)</u>	<u>(7,302,301)</u>	5.03 %
Net Position, June 30	<u>\$ (8,014,397)</u>	<u>\$ (6,934,785)</u>	(15.57) %

FOREST MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

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
	2017	2016	
Instruction	\$ 6,974,701	\$ 6,739,940	3.48 %
Support services	4,979,701	5,002,571	(0.46) %
Non-instructional	1,098,979	1,044,795	5.19 %
Sixteenth section	57,817	80,952	(28.58) %
Pension Expense	2,575,731	1,752,695	46.96 %
Interest on long-term liabilities	111,615	116,768	(4.41) %
Total expenses	\$ 15,798,544	\$ 14,737,721	7.20 %

	Net (Expense) Revenue		Percentage Change
	2017	2016	
Instruction	\$ (6,031,463)	\$ (5,544,688)	8.78 %
Support services	(4,243,272)	(4,257,895)	(0.34) %
Non-instructional	415	101,551	(99.59) %
Sixteenth section	(52,660)	(76,495)	(31.16) %
Pension Expense	(2,575,731)	(1,752,695)	46.96 %
Interest on long-term liabilities	(111,615)	(116,768)	(4.41) %
Total net (expense) revenue	\$ (13,014,326)	\$ (11,646,990)	11.74 %

- Net cost of governmental activities (\$13,014,326 for 2017 and \$11,646,990 for 2016) was financed by general revenue, which is primarily made up of property taxes (\$4,493,121 for 2017 and \$4,332,941 for 2016) and state and federal revenues (\$7,244,858 for 2017 and \$7,317,742 for 2016). In addition, there was \$143,369 and \$154,990 in Sixteenth Section sources for 2017 and 2016, respectively.
- Investment earnings amounted to \$23,442 for 2017 and \$20,337 for 2016.

FOREST MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

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 \$4,268,669, a decrease of \$636,063, which includes a decrease in inventory of \$11,924. \$2,900,430 or 68% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$1,368,239 or 32% is either non-spendable, restricted, or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted 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 \$77,453. The fund balance of Other Governmental Funds showed a decrease in the amount of \$748,763. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>		<u>Increase (Decrease)</u>
Child Nutrition Fund	\$	35,974
Title I Basic Fund		no increase or decrease
Vo-Tech Maintenance Fund	\$	(727)

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, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2017, the District's total capital assets were \$15,183,645, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$795,196 from 2016. Total accumulated depreciation as of June 30, 2017, was \$6,714,866, and total depreciation expense for the year was \$404,220, resulting in total net capital assets of \$8,468,779.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Land	\$ 15,485	\$ 15,485	0.00 %
Construction in Progress	96,445	190,694	(49.42) %
Buildings	6,006,996	5,770,133	4.10 %
Building improvements	1,155,138	1,228,386	(5.96) %
Improvements other than buildings	373,574	87,669	326.12 %
Mobile equipment	643,487	600,614	7.14 %
Furniture and equipment	177,654	147,112	20.76 %
Total	<u>\$ 8,468,779</u>	<u>\$ 8,040,093</u>	5.33 %

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

Debt Administration. At June 30, 2017, the District had \$4,533,036 in outstanding long-term debt, of which \$495,953 is due within one year. The liability for compensated absences increased \$7,220 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Certificates of participation payable	2,485,000	2,645,000	(6.05)
Three mill notes payable	1,910,000	2,167,000	(11.86)
Obligations under energy efficiency leases	64,953	159,033	(59.16)
Compensated absences payable	93,083	85,863	8.41
Total	<u>\$ 4,553,036</u>	<u>\$ 5,056,896</u>	(9.96)

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.

BASIC FINANCIAL STATEMENTS

FOREST MUNICIPAL SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,187,352
Cash with fiscal agents	29
Due from other governments	305,890
Other receivables, net	97,572
Inventories	9,527
Restricted assets	264,102
Capital assets, non-depreciable:	
Land	15,485
Construction in progress	96,445
Capital assets, net of accumulated depreciation:	
Buildings	6,006,996
Building improvements	1,155,138
Improvements other than buildings	373,574
Mobile equipment	643,487
Furniture and equipment	177,654
Total Assets	<u>13,333,251</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	4,340,383
Total Deferred Outflows of Resources	<u>4,340,383</u>
Liabilities	
Accounts payable and accrued liabilities	595,286
Unearned revenue	517
Interest payable on long-term liabilities	35,688
Long-term liabilities, due within one year:	
Capital related liabilities	495,953
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,964,000
Non-capital related liabilities	93,083
Net pension liability	20,363,247
Total Liabilities	<u>25,547,774</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	140,257
Total Deferred Inflows of Resources	<u>140,257</u>
Net Position	
Net investment in capital assets	4,008,826
Restricted for:	
Expendable:	
School-based activities	682,184
Debt service	122,280
Capital improvements	101,666
Forestry improvements	41,347
Unemployment benefits	26,922
Non-expendable:	
Sixteenth section	264,102
Unrestricted	(13,261,724)
Total Net Position (Deficit)	<u>\$ (8,014,397)</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, 2017

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
		Services	Grants and	Changes in Net
			Contributions	Position
				Governmental
				Activities
Governmental Activities:				
Instruction	\$ 6,974,701	\$ 97,422	\$ 845,816	\$ (6,031,463)
Support services	4,979,701	-	736,429	(4,243,272)
Non-instructional	1,098,979	64,214	1,035,180	415
Sixteenth section	57,817	5,157	-	(52,660)
Pension expense	2,575,731	-	-	(2,575,731)
Interest on long-term liabilities	111,615	-	-	(111,615)
Total Governmental Activities	<u>\$ 15,798,544</u>	<u>\$ 166,793</u>	<u>\$ 2,617,425</u>	<u>\$ (13,014,326)</u>
General Revenues:				
Taxes:				
General purpose levies				4,288,024
Debt purpose levies				205,097
Unrestricted grants and contributions:				
State				7,197,213
Federal				47,645
Unrestricted investment earnings				23,442
Sixteenth section sources				143,369
Other				29,924
Total General Revenues				<u>11,934,714</u>
Change in Net Position				<u>(1,079,612)</u>
Net Position - Beginning				<u>(6,934,785)</u>
Net Position - Ending				<u>\$ (8,014,397)</u>

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

FOREST MUNICIPAL SCHOOL DISTRICT
Governmental Funds
Balance Sheet
June 30, 2017

Exhibit C

	Major Fund						
	General Fund	Child Nutrition Fund	Title I Basic Fund	Vo-Tech Maintenance Fund	Other Governmental Funds	Total Governmental Funds	
Assets							
Cash and cash equivalents	\$ 2,869,626	\$ 515,313	16,916	\$ 217,418	\$ 832,181	\$ 4,451,454	
Cash with fiscal agents	-	-	-	-	29	29	
Due from other governments	132,528	317	95,118	4,275	73,652	305,890	
Other receivables, net	1,160	-	-	-	-	1,160	
Due from other funds	205,759	48,795	-	-	-	254,554	
Inventories	-	9,527	-	-	-	9,527	
Total Assets	<u>\$ 3,209,073</u>	<u>\$ 573,952</u>	<u>112,034</u>	<u>\$ 221,693</u>	<u>\$ 905,862</u>	<u>\$ 5,022,614</u>	
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 231,176	\$ 134,374	17,089	\$ 205,110	\$ 7,537	\$ 595,286	
Due to other funds	-	-	94,945	-	63,197	158,142	
Unearned revenue	-	-	-	-	517	517	
Total Liabilities	<u>\$ 231,176</u>	<u>\$ 134,374</u>	<u>112,034</u>	<u>\$ 205,110</u>	<u>\$ 71,251</u>	<u>\$ 753,945</u>	
Fund Balances:							
Nonspendable:							
Inventory	-	9,527	-	-	-	9,527	
Permanent fund principal	-	-	-	-	264,102	264,102	
Restricted:							
Debt service	-	-	-	-	157,968	157,968	
Capital projects	-	-	-	-	101,666	101,666	
Forestry improvement purposes	-	-	-	-	41,347	41,347	
Grant activities	-	430,051	-	-	242,606	672,657	
Unemployment benefits	-	-	-	-	26,922	26,922	
Assigned:							
Vocational	-	-	-	16,583	-	16,583	
Student activity	77,467	-	-	-	-	77,467	
Unassigned	<u>2,900,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,900,430</u>	
Total Fund Balances	<u>2,977,897</u>	<u>439,578</u>	<u>-</u>	<u>16,583</u>	<u>834,611</u>	<u>4,268,669</u>	
Total Liabilities and Fund Balances	<u>\$ 3,209,073</u>	<u>\$ 573,952</u>	<u>\$ 112,034</u>	<u>\$ 221,693</u>	<u>\$ 905,862</u>	<u>\$ 5,022,614</u>	

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

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2017

Total fund balances for governmental funds \$ 4,268,669

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	96,445	
Buildings	10,160,975	
Building improvements	1,831,208	
Improvements other than buildings	460,508	
Mobile equipment	1,960,581	
Furniture and equipment	658,443	
Accumulated depreciation	<u>(6,714,866)</u>	8,468,779

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	(20,363,247)	
-----------------------	--------------	--

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	4,340,383	
Deferred inflows of resources related to pensions	<u>(140,257)</u>	(16,163,121)

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	(1,910,000)	
Certificates of participation	(2,485,000)	
Obligations under energy efficiency lease	(64,953)	
Compensated absences	(93,083)	
Accrued interest payable	<u>(35,688)</u>	<u>(4,588,724)</u>

Net position of governmental activities \$ (8,014,397)

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
For The Year Ended June 30, 2017

	Major Fund					
	General	Child	Title I	Vo-Tech	Other	Total
	Fund	Nutrition	Basic	Maintenance	Governmental	Governmental
	Fund	Fund	Fund	Fund	Funds	Funds
Revenues:						
Local sources	\$ 4,200,419	\$ 67,191	-	\$ 204,383	\$ 228,524	\$ 4,700,517
State sources	7,278,943	12,159	-	-	89,677	7,380,779
Federal sources	47,645	1,223,097	528,963	-	681,801	2,481,506
Sixteenth section sources	148,301	-	-	-	3,908	152,209
Total Revenues	11,675,308	1,302,447	528,963	204,383	1,003,910	14,715,011
Expenditures:						
Instruction	6,559,258	-	430,593	205,110	345,394	7,540,355
Support services	4,529,054	178,582	141,449	-	583,909	5,432,994
Noninstructional services	4,213	1,075,967	7,187	-	122	1,087,489
Sixteenth section	55,938	-	-	-	1,879	57,817
Facilities acquisition and construction	-	-	-	-	591,981	591,981
Debt service:						
Principal	254,080	-	-	-	257,000	511,080
Interest	74,745	-	-	-	45,110	119,855
Other	1,500	-	-	-	-	1,500
Total Expenditures	11,478,788	1,254,549	579,229	205,110	1,825,395	15,343,071
Excess (Deficiency) of Revenues over (under) Expenditures	196,520	47,898	(50,266)	(727)	(821,485)	(628,060)
Other Financing Sources (Uses):						
Sale of transportation equipment	2,702	-	-	-	-	2,702
Sale of other property	1,219	-	-	-	-	1,219
Operating transfers in	32,000	-	70,266	-	154,988	257,254
Operating transfers out	(154,988)	-	(20,000)	-	(82,266)	(257,254)
Total Other Financing Sources (Uses)	(119,067)	-	50,266	-	72,722	3,921
Net Change in Fund Balances	77,453	47,898	-	(727)	(748,763)	(624,139)
Fund Balances:						
July 1, 2016	2,900,444	403,604	-	17,310	1,583,374	4,904,732
Increase (Decrease) in reserve for inventory	-	(11,924)	-	-	-	(11,924)
June 30, 2017	\$ 2,977,897	\$ 439,578	-	\$ 16,583	834,611	\$ 4,268,669

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, 2017**

Net change in fund balances - total governmental funds **\$ (624,139)**

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	\$ 837,096	
Depreciation expense	<u>(404,220)</u>	432,876

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold. (4,190)

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

Payments of debt principal	511,080	
Accrued interest payable	<u>9,740</u>	520,820

4. 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	1,189,896	
Recording of pension expense for the current period	<u>(2,575,731)</u>	(1,385,835)

5. 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	(7,220)	
Change in inventory reserve	<u>(11,924)</u>	<u>(19,144)</u>

Change in net position of governmental activities **\$ (1,079,612)**

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

FOREST MUNICIPAL SCHOOL DISTRICT
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2017

Exhibit E

	Agency Funds
	<hr/>
Assets	
Cash and cash equivalents	\$ 644,459
Total Assets	<u>\$ 644,459</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 502,884
Due to other funds	96,412
Due to student clubs	45,163
Total Liabilities	<u>\$ 644,459</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

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.

Child Nutrition Fund - This is a special revenue fund that accounts for revenues received for operating the child nutrition program.

Title I Basic Fund - This is a special revenue fund that accounts for revenues received to operate the Title I grant the district receives to improve instructional efforts of the district.

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

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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements

The District's fiduciary funds include the following:

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

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.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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, 2014*, 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

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

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 School Construction 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 acquisition 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

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.

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

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 \$4,451,454 and \$644,459, 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 \$29.

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	Title I Basic Fund	\$ 94,945
	Other Governmental Funds	63,197
	Fiduciary Funds	47,617
Child Nutrition Fund	Fiduciary Funds	48,795
Total		<u>\$ 254,554</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

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other Governmental Funds	\$ 154,988
Title I Basic Fund	General Fund	20,000
Other Governmental Funds	Title I Basic Fund	70,266
	General Fund	12,000
Total		<u>\$ 257,254</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 \$264,102 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 7/1/2016	Increases	Decreases	*Adjustments	Balance 6/30/2017
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 15,485	\$ -	\$ -	\$ -	15,485
Construction-in-progress	190,694	591,981	-	(686,230)	96,445
Total non-depreciable capital assets	206,179	591,981	-	(686,230)	111,930
<u>Depreciable capital assets:</u>					
Buildings	9,779,071	-	-	381,904	10,160,975
Building improvements	1,831,208	-	-	-	1,831,208
Improvements other than buildings	156,182	-	-	304,326	460,508
Mobile equipment	1,848,203	154,278	41,900	-	1,960,581
Furniture and equipment	567,606	90,837	-	-	658,443
Total depreciable capital assets	14,182,270	245,115	41,900	686,230	15,071,715
<u>Less accumulated depreciation for:</u>					
Buildings	4,008,938	145,041	-	-	4,153,979
Building improvements	602,822	73,248	-	-	676,070
Improvements other than buildings	68,513	18,421	-	-	86,934
Mobile equipment	1,247,589	107,215	37,710	-	1,317,094
Furniture and equipment	420,494	60,295	-	-	480,789
Total accumulated depreciation	6,348,356	404,220	37,710	-	6,714,866
Total depreciable capital assets, net	7,833,914	(159,105)	4,190	686,230	8,356,849
Governmental activities capital assets, net	\$ 8,040,093	\$ 432,876	\$ 4,190	\$ -	8,468,779

*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	\$ 170,908
Support services	110,859
Non-instructional	122,453
Total depreciation expense - Governmental activities	<u>\$ 404,220</u>

The details of construction-in-progress are as follows:

	Spent to June 30, 2017	Remaining Commitment
Governmental Activities:		
F.M.S.D. Walking Track	\$ <u>96,445</u>	\$ <u>9,850</u>

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 7/1/2016	Additions	Reductions	Balance 6/30/2017	Amounts due within one year
A. Certificates of participation payable	\$ 2,645,000	\$ -	\$ 160,000	\$ 2,485,000	\$ 170,000
B. Three mill notes payable	2,167,000	-	257,000	1,910,000	261,000
C. Obligations under Energy Efficiency Lease	159,033	-	94,080	64,953	64,953
D. Compensated absences payable	85,863	10,812	3,592	93,083	-
Total	<u>\$ 5,056,896</u>	<u>\$ 10,812</u>	<u>\$ 514,672</u>	<u>\$ 4,553,036</u>	<u>\$ 495,953</u>

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	\$ <u>2,950,000</u>	\$ <u>2,485,000</u>

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

Year Ending June 30	Principal	Interest	Total
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	200,000	46,596	246,596
2023 – 2027	1,320,000	143,484	1,463,484
2028	245,000	6,468	251,468
Total	<u>\$ 2,485,000</u>	<u>\$ 431,376</u>	<u>\$ 2,916,376</u>

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 2013 and Series 2016 through June 30, 2024.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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	\$ 1,220,000
Limited Tax Note, Series 2016	1.98%	5/6/2016	5/6/2024	790,000	690,000
Total				<u>\$ 2,490,000</u>	<u>\$ 1,910,000</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
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
2022	179,000	11,770	190,770
2023 – 2024	<u>371,000</u>	<u>11,962</u>	<u>382,962</u>
Total	<u>\$ 1,220,000</u>	<u>\$ 107,129</u>	<u>\$ 1,327,129</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
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	110,000	5,445	115,445
2023 – 2024	<u>165,000</u>	<u>4,356</u>	<u>169,356</u>
Total	<u>\$ 690,000</u>	<u>\$ 52,272</u>	<u>\$ 742,272</u>

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Total three mill notes payable payments for all issues:

Year Ending June 30	Principal	Interest	Total
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	289,000	17,215	306,215
2023 – 2024	536,000	16,318	552,318
Total	\$ 1,910,000	\$ 159,401	\$ 2,069,401

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	\$ 64,953

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

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 64,953	\$ 1,045	\$ 65,998

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.

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.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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.

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, 2017 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, 2017, 2016 and 2015 were \$1,189,896, \$1,144,508 and \$1,119,040, respectively, which equaled the required contributions for each year.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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

At June 30, 2017, the school district reported a liability of \$20,363,247 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2017 net pension liability was .114 percent, which was based on a measurement date of June 30, 2016. There was no increase or decrease from its proportionate share used to calculate the June 30, 2016 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$2,575,731. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 565,861	\$ -
Net difference between projected and actual earnings on pension plan investments	1,414,700	-
Changes of assumptions	959,967	54,112
Changes in proportion and differences between District contributions and proportionate share of contributions	209,959	86,145
District contributions subsequent to the measurement date	1,189,896	-
Total	\$ <u>4,340,383</u>	\$ <u>140,257</u>

\$1,189,896 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, 2018. 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 Ending June 30:	
2018	\$ 1,058,431
2019	840,248
2020	709,273
2021	402,278

Actuarial assumptions. The total pension liability in the June 30, 2016 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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements

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, 2016 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>	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. 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 the current employer contribution 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 members. 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 26,110,248	\$ 20,363,247	\$ 15,595,099

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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
2018	\$ 127,949
2019	123,640
2020	123,640
2021	123,640
2022	123,640
2023 – 2027	561,078
2028 – 2032	507,651
2033 – 2037	408,416
2038 - 2042	274,677
2043 – 2047	174,134
2048 – 2052	95,765
2053 – 2057	52,984
2058 – 2062	<u>2,735</u>
Total	<u>\$ 2,699,949</u>

Note 9 – Contingencies

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

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.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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.

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.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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.

Note 14 – Effect of Deferred Amounts on Net Position

The unrestricted net position of \$(13,261,724) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$4,340,383 balance of the deferred outflow of resources at June 30, 2017 will be recognized as expenses and decrease unrestricted net position over the next 4 years.

The unrestricted net position amount of \$(13,261,724) includes the effect of deferring the recognition of revenue from a deferred inflow from pensions. The \$140,257 balance of the deferred inflow of resources at June 30, 2017 will be recognized as revenue and increase unrestricted net position over the next 3 years.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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 19, 2018, (the date the financial statements were available to be issued), and determined that no subsequent event has occurred that would require disclosure in the notes to financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

FOREST MUNICIPAL SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,472,023	\$ 4,524,398	\$ 4,200,419	\$ 52,375	\$ (323,979)
State sources	7,276,293	7,229,589	7,278,943	(46,704)	49,354
Federal sources	37,000	60,000	47,645	23,000	(12,355)
Sixteenth section sources	134,000	134,000	148,301	-	14,301
Total Revenues	11,919,316	11,947,987	11,675,308	28,671	(272,679)
Expenditures:					
Instruction	6,543,758	5,380,032	6,559,258	1,163,726	(1,179,226)
Support services	4,973,764	4,781,022	4,529,054	192,742	251,968
Noninstructional services	4,800	6,300	4,213	(1,500)	2,087
Sixteenth section	46,953	46,953	55,938	-	(8,985)
Debt service:					
Principal	254,080	234,963	254,080	19,117	(19,117)
Interest	74,745	66,639	74,745	8,106	(8,106)
Other	-	-	1,500	-	(1,500)
Total Expenditures	11,898,100	10,515,909	11,478,788	1,382,191	(962,879)
Excess (Deficiency) of Revenues over (under) Expenditures	21,216	1,432,078	196,520	1,410,862	(1,235,558)
Other Financing Sources (Uses):					
Sale of transportation equipment	2,000	2,500	2,702	500	202
Sale of other property	-	-	1,219	-	1,219
Operating transfers in	169,056	328,928	32,000	159,872	(296,928)
Operating transfers out	(117,484)	(364,342)	(154,988)	(246,858)	209,354
Total Other Financing Sources (Uses)	53,572	(32,914)	(119,067)	(86,486)	(86,153)
Net Change in Fund Balances	74,788	1,399,164	77,453	1,324,376	(1,321,711)
Fund Balances:					
June 30, 2016	-	2,887,059	2,900,444	2,887,059	13,385
June 30, 2017	\$ 74,788	\$ 4,286,223	\$ 2,977,897	\$ 4,211,435	\$ (1,308,326)

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

FOREST MUNICIPAL SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Child Nutrition Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 102,600	\$ 102,600	\$ 67,191	\$ -	\$ (35,409)
State sources	-	-	12,159	-	12,159
Federal sources	1,095,000	1,095,000	1,223,097	-	128,097
Total Revenues	1,197,600	1,197,600	1,302,447	-	104,847
Expenditures:					
Support services	238,524	271,783	178,582	(33,259)	93,201
Noninstructional services	976,163	1,003,947	1,075,967	(27,784)	(72,020)
Total Expenditures	1,214,687	1,275,730	1,254,549	(61,043)	21,181
Excess (Deficiency) of Revenues over (under) Expenditures	(17,087)	(78,130)	47,898	(61,043)	126,028
Net Change in Fund Balances	(17,087)	(78,130)	47,898	(61,043)	126,028
Fund Balances:					
June 30, 2016	-	439,578	403,604	439,578	(35,974)
Increase (Decrease) in reserve for inventory	-	-	(11,924)	-	(11,924)
June 30, 2017	\$ (17,087)	\$ 361,448	\$ 439,578	\$ 378,535	\$ 78,130

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

FOREST MUNICIPAL SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Title I Basic Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 666,063	\$ 666,063	\$ 528,963	\$ -	\$ (137,100)
Total Revenues	666,063	666,063	528,963	-	(137,100)
Expenditures:					
Instruction	519,467	90,445	430,593	429,022	(340,148)
Support services	199,573	86,269	141,449	113,304	(55,180)
Noninstructional services	12,357	5,888	7,187	6,469	(1,299)
Total Expenditures	731,397	182,602	579,229	548,795	(396,627)
Excess (Deficiency) of Revenues over (under) Expenditures	(65,334)	483,461	(50,266)	548,795	(533,727)
Other Financing Sources (Uses):					
Operating transfers in	-		70,266	-	70,266
Operating transfers out	(45,000)	(27,000)	(20,000)	18,000	7,000
Total Other Financing Sources (Uses)	(45,000)	(27,000)	50,266	18,000	77,266
Net Change in Fund Balances	(110,334)	456,461	-	566,795	(456,461)
Fund Balances:					
June 30, 2016	-	(173)	-	(173)	173
June 30, 2017	\$ (110,334)	\$ 456,288	\$ -	\$ 566,622	\$ (456,288)

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

FOREST MUNICIPAL SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Vo-Tech Maintenance Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 214,999	\$ 215,000	\$ 204,383	\$ 1	\$ (10,617)
Total Revenues	214,999	215,000	204,383	1	(10,617)
Expenditures:					
Instruction	215,000	215,000	205,110	-	9,890
Total Expenditures	215,000	215,000	205,110	-	9,890
Excess (Deficiency) of Revenues over (under) Expenditures	(1)	-	(727)	1	(727)
Net Change in Fund Balances	(1)	-	(727)	1	(727)
Fund Balances:					
June 30, 2016	17,310	12,308	17,310	(5,002)	5,002
June 30, 2017	\$ 17,309	\$ 12,308	\$ 16,583	\$ (5,001)	\$ 4,275

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*

	2017	2016	2015
District's proportion of the net pension liability (asset)	\$ 20,363,247	\$ 17,622,152	\$ 13,351,986
District's proportionate share of the net pension liability (asset)	0.114%	0.114%	0.110%
District's covered payroll	\$ 7,266,720	\$ 7,105,017	\$ 6,727,740
District's proportionate share of the net pension liability (asset)			
as a percentage of its covered payroll	280.23%	248.02%	198.46%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%

The notes to 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>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,189,896	\$ 1,144,508	\$ 1,119,040
Contribution in relation to the contractually required contribution	1,189,896	1,144,508	1,119,040
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	7,554,894	7,266,720	7,105,017
Contributions as a percentage of covered payroll	15.75%	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, 2017

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

2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

B. Changes of assumptions

2015:

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.

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.

The assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

2016:

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%

SUPPLEMENTARY INFORMATION

FOREST MUNICIPAL SCHOOL DISTRICT
Supplementary Information
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

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	\$ 328,771
National school lunch program	10.555	849,548
Team Nutrition Grants	10.574	48
Total child nutrition cluster		<u>1,178,367</u>
Total passed-through Mississippi Department of Education		<u>1,178,367</u>
Passed-through Scott County:		
National forest-dependent rural communities	10.665	8,028
Total passed-through Scott County		<u>8,028</u>
Total U.S. Department of Agriculture		<u>1,186,395</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	29,369
Total Federal Communications Commission		<u>29,369</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	704,923
Rural education	84.358	4,574
English language acquisition grants	84.365	46,111
Improving teacher quality state grants	84.367	99,804
Subtotal		<u>855,412</u>
Special education cluster:		
Special education - grants to states	84.027	330,629
Special education - preschool grants	84.173	24,723
Total special education cluster		<u>355,352</u>
Total passed-through Mississippi Department of Education		<u>1,210,764</u>
Total U.S. Department of Education		<u>1,210,764</u>
Total for All Federal Awards		<u><u>\$ 2,426,528</u></u>

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

FOREST MUNICIPAL SCHOOL DISTRICT**Supplementary Information****Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds****For the Year Ended June 30, 2017**

<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	\$ 10,235,281	7,240,808	705,439	760,219	1,528,815
Other	5,107,790	1,470,197	107,373	15,604	3,514,616
Total	<u>\$ 15,343,071</u>	<u>8,711,005</u>	<u>812,812</u>	<u>775,823</u>	<u>5,043,431</u>
Total number of students *	<u>1,659</u>				
Cost per student	<u>\$ 9,248</u>	<u>5,251</u>	<u>490</u>	<u>467</u>	<u>3,040</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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to Supplementary Information
For The Year Ended June 30, 2017

Schedule of Expenditures of Federal Awards

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, 2017. 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 principles contained in 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 \$84,517.

Note 5 – Indirect Cost Rate

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

OTHER INFORMATION

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

	2017	2016*	2015*	2014*
Revenues:				
Local sources	\$ 4,200,419	\$ 4,234,836	\$ 4,056,604	\$ 3,630,054
State sources	7,278,943	7,396,377	6,651,071	5,920,456
Federal sources	47,645	47,140	40,371	79,183
Sixteenth section sources	148,301	160,828	153,435	-
Total Revenues	11,675,308	11,839,181	10,901,481	9,629,693
Expenditures:				
Instruction	6,559,258	6,159,190	6,070,160	5,892,661
Support services	4,529,054	4,598,218	4,224,564	4,255,401
Noninstructional services	4,213	3,607	3,198	6,731
Sixteenth section	55,938	80,649	45,608	-
Facilities acquisition and construction	-	-	-	12,812
Debt service:				
Principal	254,080	245,190	79,405	82,886
Interest	74,745	82,727	11,343	16,111
Other	1,500	3,000	-	-
Total Expenditures	11,478,788	11,172,581	10,434,278	10,266,602
Excess (Deficiency) of Revenues over (under) Expenditures	196,520	666,600	467,203	(636,909)
Other Financing Sources (Uses):				
Insurance recovery	-	6,827	-	-
Sale of transportation equipment	2,702	-	-	5,362
Sale of other property	1,219	-	-	857
Operating transfers in	32,000	30,001	107,024	207,837
Operating transfers out	(154,988)	(77,950)	(251,713)	(2)
Total Other Financing Sources (Uses)	(119,067)	(41,122)	(144,689)	214,054
Net Change in Fund Balances	77,453	625,478	322,514	(422,855)
Fund Balances:				
Beginning of period, as previously reported	2,900,444	2,274,966	1,756,262	2,151,324
Prior period adjustments	-	-	-	27,793
Fund balance reclassifications	-	-	196,190	-
Beginning of period, as restated	2,900,444	2,274,966	1,952,452	2,179,117
End of Period	\$ 2,977,897	\$ 2,900,444	\$ 2,274,966	\$ 1,756,262

*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**

	2017	2016*	2015*	2014*
Revenues:				
Local sources	\$ 4,700,517	\$ 4,857,705	\$ 4,574,779	\$ 4,090,806
State sources	7,380,779	7,502,984	6,756,245	6,020,448
Federal sources	2,481,506	2,574,984	2,418,704	2,410,991
Sixteenth section sources	152,209	162,737	154,808	107,086
Total Revenues	14,715,011	15,098,410	13,904,536	12,629,331
Expenditures:				
Instruction	7,540,355	7,308,119	7,093,089	6,801,497
Support services	5,432,994	5,427,626	5,170,615	4,925,778
Noninstructional services	1,087,489	991,353	1,042,263	913,243
Sixteenth section	57,817	80,952	45,657	16,295
Facilities acquisition and construction	591,981	369,101	2,319,006	245,750
Debt service:				
Principal	511,080	398,190	399,405	1,762,886
Interest	119,855	115,469	124,103	29,366
Other	1,500	3,000	1,500	27,425
Total Expenditures	15,343,071	14,693,810	16,195,638	14,722,240
Excess (Deficiency) of Revenues over (under) Expenditures	(628,060)	404,600	(2,291,102)	(2,092,909)
Other Financing Sources (Uses):				
Bonds and notes issued	-	790,000	-	1,700,000
Insurance recovery	-	6,827	-	-
Sale of transportation equipment	2,702	-	-	5,362
Sale of other property	1,219	-	-	857
Proceeds of certificates of participation	-	-	-	2,950,000
Operating transfers in	257,254	293,693	358,737	371,725
Operating transfers out	(257,254)	(293,693)	(358,737)	(371,725)
Total Other Financing Sources (Uses)	3,921	796,827	-	4,656,219
Net Change in Fund Balances	(624,139)	1,201,427	(2,291,102)	2,563,310
Fund Balances:				
Beginning of period, as previously reported	4,904,732	3,693,844	5,989,676	3,378,711
Prior period adjustments	-	-	-	44,254
Beginning of period, as restated	4,904,732	3,693,844	5,989,676	3,422,965
Increase (Decrease) in reserve for inventory	(11,924)	9,461	(4,730)	3,401
End of Period	\$ 4,268,669	\$ 4,904,732	\$ 3,693,844	\$ 5,989,676

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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

Superintendent and School Board
Forest Municipal School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Municipal School District as of and for the year ended June 30, 2017, 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 19, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 19, 2018

Watkins Ward and Stafford, PLLC



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

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

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 Forest Municipal School District's major federal program for the year ended June 30, 2017. Forest Municipal School District's major federal program is identified in the summary of auditors' 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 the Forest Municipal School District's major federal program 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 the 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 its major federal program for the year ended June 30, 2017.

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 a material weakness. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item **Finding 2017-001**, that we consider to be a significant deficiency.

Forest Municipal School District's Response to Finding

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

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 19, 2018

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



WATKINS, WARD and STAFFORD

**Professional Limited Liability Company
Certified Public Accountants**

James L. Stafford, CPA
Harry W. Stevens, CPA
S. Keith Winfield, CPA
William B. Staggars, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
R. Steve Sinclair, CPA
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Wanda S. Holley, CPA
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Jerry L. Gammel, CPA
Michael C. Knox, CPA
Clifford P. Stewart, CPA

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, 2017, which collectively comprise Forest Municipal School District's basic financial statements and have issued our report thereon dated March 3, 2018. 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 19, 2018

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, 2017

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) | None reported |
| 3. Noncompliance material to financial statements noted? (Yes/No) | No |

Federal Awards:

- | | |
|----------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? (Yes/No) | No |
| b. Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 5. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? (Yes/No) | Yes |
| 7. Identification of major programs: | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
| 10.553/10.555/10.574 | Child Nutrition Cluster |
| 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

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under *Government Auditing Standards*.

Section III: Federal Award Findings and Questioned Costs

Significant Deficiency Not Considered To Be A Material Weakness

Internal Controls Surrounding Daily Food Sales Should Be Strengthened

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

Compliance requirement: Program Income

2017-001 Finding

Criteria: Management is responsible for complying with the requirements of the Mississippi Department of Education Child Nutrition Programs Policy and Procedures Manual, which recommends that two separate individuals be involved in cashiering, cash collection, daily reconciliations and deposits. Management is responsible for ensuring that all receipts are correctly recorded and deposited in order to safeguard the assets of the district.

Condition: During our test work performed on daily food sales for the month of January 2017 at Hawkins Middle School, we noted five (5) occasions where the cafeteria manager did not sign off the applicable daily sales sheet to verify cash collected for that day. Only the cashier signed off verifying cash for that day. We also noted two (2) occasions where there were no signatures on the daily cash sheet verifying cash collected for that day.

Effect: Inadequate internal controls surrounding the deposit of program income in child nutrition program could result in misappropriation of assets and improper revenue recognition.

Cause: The cafeteria manager for the applicable school missed work on the days this happened and no one followed up to determine that someone else would verify cash on these days.

Recommendation

We recommend that the district follow the Mississippi Department of Education Child Nutrition Programs Policy and Procedures Manual by requiring that two separate individuals be involved in cashiering, cash collection, daily reconciliations and deposits.

Views of Responsible Officials of the Auditee

We will implement internal controls to ensure the district follows the Mississippi Department of Education Child Nutrition Programs Policy and Procedures Manual by requiring that two separate individuals be involved in cashiering, cash collection, daily reconciliations and deposits.

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

FOREST MUNICIPAL SCHOOL DISTRICT

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

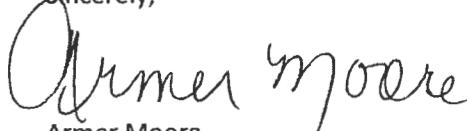
Auditee's Corrective Action Plan

Finance & Compliance Audit Division

As required by Section 2 CFR 200.516(a) of the Uniform Circular, Montgomery County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2017.

<u>Finding</u>		<u>Corrective Action Plan Details</u>
2017-001	a.	Name of Contact Person Responsible for Corrective Action
		Armer Moore, Child Nutrition Director 601-469-2436
	b.	Corrective Action Planned:
		To ensure adequate internal controls surrounding the "Daily Recap and Reconciliation Report", the Child Nutrition Director will retrain the cashier and manager on the importance of this procedure being implemented and documented. Also, the manager will designate an employee in case one is absent to make sure the federal mandate is being met. Also, the Child Nutrition Director will make sure that when the reports are submitted at the end of the month to the Child Nutrition office, that those daily recap sheets will be checked to make sure all documentation is being completed before being filed.
	c.	Anticipated Completion Date:
		Immediately

Sincerely,



Armer Moore
Child Nutrition Director
Forest Municipal School District

FOREST MUNICIPAL SCHOOL DISTRICT

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

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Financial and Compliance Audit Division

As required by Section _____ 2 CFR 200.516(a) of the Uniform Guidance, Forest Municipal School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2017:

<u>Finding</u>		<u>Status</u>
2016-001		Corrected
2016-002		Corrected

Sincerely,

Dr. Joseph White, Superintendent