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**CITY OF FOREST, MISSISSIPPI**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

RECEIVED  
MAR 7, 2007  
STATE AUDITOR'S OFFICE

**TONY CHANCE & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**514-A AIRPORT ROAD**  
**FOREST, MISSISSIPPI 39074**

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**CITY OF FOREST, MISSISSIPPI  
AUDITED FINANCIAL STATEMENTS  
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**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Board of Aldermen  
Forest, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Forest, Mississippi as of and for the year ended September 30, 2006, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Forest, Mississippi's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the business-type activities and the aggregate discretely presented component units, each major fund, and the remaining fund information of the City of Forest, Mississippi as of September 30, 2006, and the respective changes in financial position and the cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2007, on our consideration of the City of Forest, Mississippi'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 14 and 46 through 47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Forest, Mississippi's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables 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 is presented for purposes of additional analysis as required by U. S. Office of Management, and is also not on Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Forest, Mississippi. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Tony Chance, & Company  
Forest, Mississippi  
March 1, 2007



**CITY OF FOREST, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

The Discussion and Analysis of the City of Forest's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2006. The intent of this discussion and analysis is to look at the city's performance as a whole. Readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the city's financial statements, notes to the financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is in a format consistent with the presentation requirements of the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June, 1999.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2006 were as follows:

- The City's assets exceeded its liabilities by \$21,208,444 (net assets) for the fiscal year reported.
- Total net assets are comprised of the following:
  - (1) Capital assets of \$13,554,966 include property and equipment, net of accumulated depreciation.
  - (2) Net assets of \$513,536 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net assets of \$7,139,942 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City has \$7,778,512 in total revenue. General revenues account for \$3,267,344, or 42% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,468,865 or 58% of total revenues.
- The City had \$7,151,032 in expenses; only \$4,468,865 of these expenses was offset by program specific charges for services, grants and contributions.
- Among major funds, the General Fund had \$3,940,794 in revenue and \$3,233,543 in expenditures. The General Fund's balance increased \$707,251 over the prior year.

- The Proprietary fund had \$2,847,844 in revenue and \$3,183,588 in expenditures. The Proprietary fund's balance decreased \$335,744 over the prior year. Depreciation accounted for \$542,581 of this decrease.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) and water and sewer charges (proprietary activities). The governmental activities of the City include general government, public safety, streets and sanitation, culture and recreation, culture and economic development and interest expense on bonds.

The government-wide financial statements can be found on pages 16 and 17 of this report.

**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 City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the city can be divided into three categories: governmental, proprietary, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements,

governmental fund financial statements focus on available resources at the end of the fiscal year. Such information may be useful in evaluating the City's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statement provides a detailed short-term view of the City's operations.

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, readers may better understand the long-term impact of the City's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 20 and 22, respectively.

The basic governmental fund financial statements can be found on pages 19 to 22 of this report.

**Proprietary funds.** The City of Forest maintains one type of proprietary fund, the enterprise fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its Water and Sewer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 23 and 24 of this report.

**Fiduciary funds.** The City's fiduciary funds include payroll clearing, accounts payable, court fines, Forest Municipal School District Taxes, and the Library Expendable Trust. The fiduciary funds are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund the City programs. Fiduciary fund financial statements are reported similarly to proprietary funds.

**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 on pages 29 to 44 of this report.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process.

The City adopts an annual operating budget for all governmental funds and proprietary funds. Budgetary comparison statements have been provided for the General Fund and the Enterprise Fund. This required supplementary information can be found on pages 46 to 48 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 58 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

One of the most important questions to ask about the City of Forest's finances is, "Have the City's net assets increased or decreased as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all the city's net assets and liabilities resulting from the use of the accrual basis of accounting and economic resources focus of measurement.

**Net assets.** The City's combined net assets, on the accrual basis of accounting and economic resource measurement focus, increased from \$20,580,901 to \$21,208,444 between fiscal years 2005 and 2006.

By far the largest portion of the City's net assets (64%) reflects its investments in capital assets (e.g. land, infrastructure, buildings, mobile equipment, furniture and equipment). The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

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

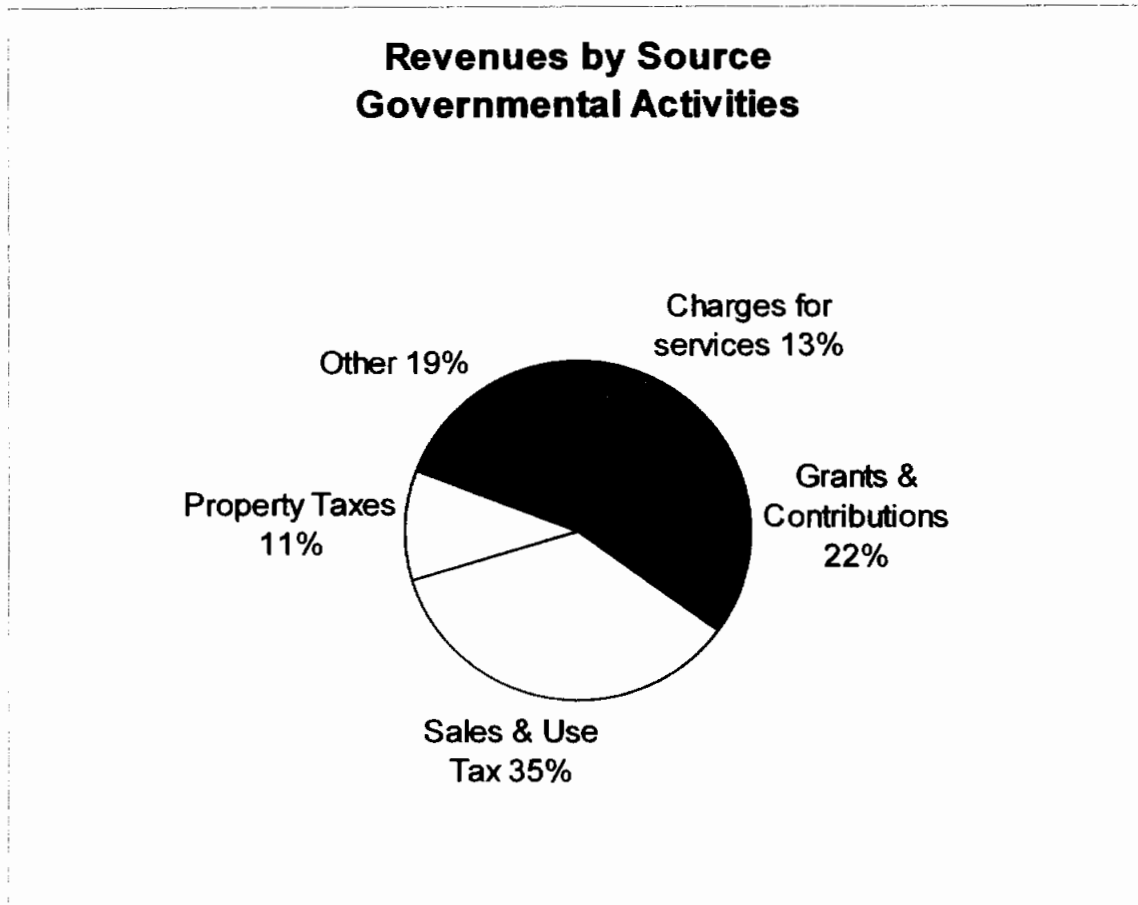
The following table reflects condensed information on the City's net assets:

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Assets:</b>						
Current and other assets	\$ 6,307,066	\$5,404,041	\$4,111,658	\$4,272,625	\$10,418,724	\$9,676,666
Capital assets, net	3,854,822	3,537,542	9,890,865	10,341,293	13,745,687	13,878,835
<b>Total Assets</b>	<b>\$10,161,888</b>	<b>\$8,941,583</b>	<b>\$14,002,523</b>	<b>\$14,613,918</b>	<b>\$24,164,411</b>	<b>\$23,555,501</b>
<b>Liabilities:</b>						
Current and other liabilities	\$199,899	\$133,602	\$426,238	\$385,249	\$626,137	\$518,851
Long-term liabilities	190,721	-	2,139,109	2,455,749	2,329,830	2,455,749
<b>Total Liabilities</b>	<b>\$390,620</b>	<b>\$133,602</b>	<b>\$2,565,347</b>	<b>\$2,840,998</b>	<b>\$2,955,967</b>	<b>\$2,974,600</b>
<b>Net Assets</b>						
Invested in capital assets	\$3,664,101	\$3,537,542	\$ 9,890,865	\$10,341,293	\$13,554,966	\$13,878,835
Restricted	513,536	423,723	-	-	513,536	423,723
Unrestricted	5,593,631	4,846,716	1,546,311	1,431,627	7,139,942	6,278,344
<b>Total Net Assets</b>	<b>\$9,771,268</b>	<b>\$8,807,981</b>	<b>\$11,437,176</b>	<b>\$11,772,920</b>	<b>\$21,208,444</b>	<b>\$20,580,901</b>

**Changes in net assets.** The City's total revenues and expenses for governmental and business-type activities are reflected in the following table:

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Program Revenues:</b>						
Charges for services	\$640,427	\$672,053	\$2,629,731	\$2,565,161	\$3,270,258	\$3,237,214
Operating grants	57,466	6,000	83,595	-	141,061	6,000
Capital grants	1,057,646	726,948	-	-	1,057,646	726,948
<b>General Revenues:</b>						
Sales and use taxes	1,770,944	1,654,740	-	-	1,770,944	1,654,740
Property taxes	527,431	468,288	-	-	527,431	468,288
Other	968,969	839,701	42,303	25,629	1,011,272	865,330
<b>Total Revenues</b>	<b>\$5,022,883</b>	<b>\$4,367,730</b>	<b>\$2,755,629</b>	<b>\$2,590,790</b>	<b>\$7,778,612</b>	<b>\$6,958,520</b>
<b>Program Expenses:</b>						
General Government	\$409,282	\$326,445	\$ -	\$ -	\$409,282	\$326,508
Public Safety	1,208,227	1,177,710	-	-	1,208,227	1,177,710
Streets and Sanitation	1,121,972	1,042,863	-	-	1,121,972	1,042,863
Culture and Recreation	382,430	356,658	-	-	382,430	356,658
Economic Dev. Authority	937,748	654,837	-	-	937,748	654,837
Water and Sewer	-	-	3,091,373	2,793,660	3,091,373	2,793,660
<b>Total Expenses</b>	<b>\$4,059,659</b>	<b>\$3,558,513</b>	<b>\$3,091,373</b>	<b>\$2,793,660</b>	<b>\$7,151,032</b>	<b>\$6,352,236</b>
 Increase (Decrease) in net assets	 \$ 963,224	 \$ 809,217	 (\$335,744)	 (\$202,870)	 \$627,480	 \$606,284

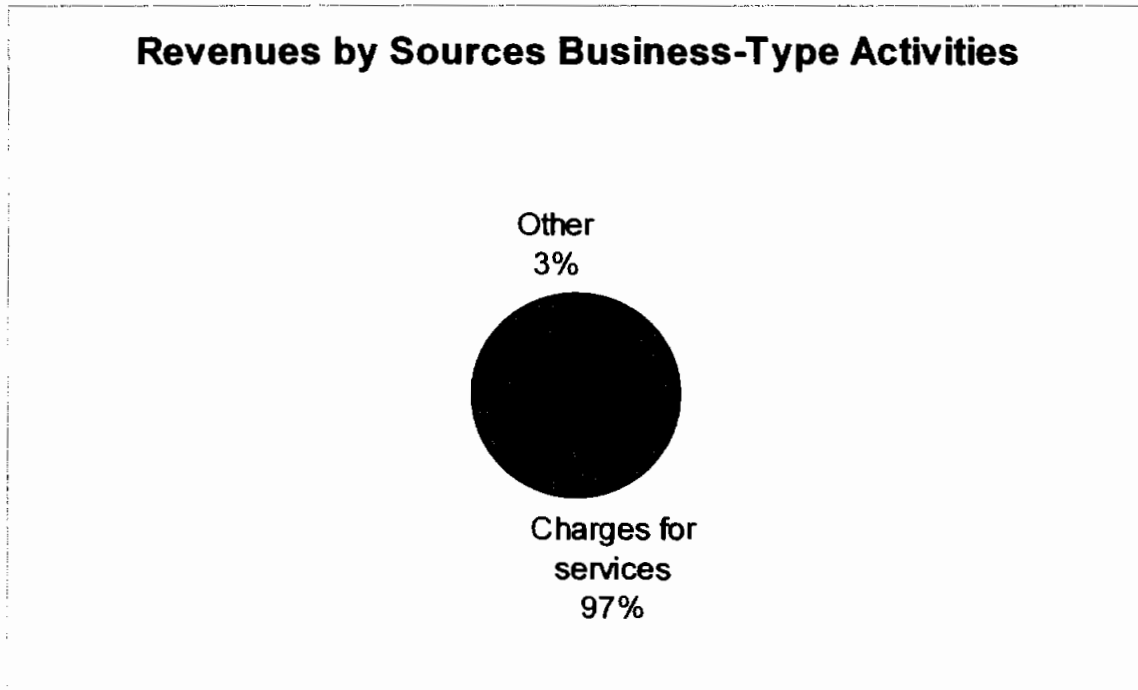
**Governmental activities.** Revenues for the City's governmental activities for the year ended September 30, 2006 were \$5,022,883 compared to \$4,367,730 in 2005. Program revenues increased \$350,538 primarily as a result of an increase in capital grants and contributions. Revenues increased in the current year due to the large amount of grants the city received.



The cost of providing all governmental activities this year was \$4,059,659, an increase of \$501,146 from the prior year. Of this amount, general government expenses increased \$82,837; public safety expenses increased \$30,517; streets and sanitation expenses increased \$79,109; culture and recreation expenses increased \$25,772; economic development expenses increased \$282,911.

The City's largest programs are public safety and streets and sanitation. Expenses exceeding revenues are offset by general revenues generated by taxes, investment income and other general revenues.

**Business-type activities:** Revenues for business-type activities are, for the most part, comprised of charges for services (97%). Charges for services for the City's business-type activities were \$2,629,731 for 2006, an increase of \$364,570 from 2005.



The cost of these business-type activities was \$3,091,373 for 2006, an increase of \$297,713 from 2005 primarily due to increased water and sewer expenses.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$6,107,103, an increase of \$836,664. \$5,593,631 or 92% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion. The remaining fund balance of \$513,536 or 8% is reserved or designated to indicate that it is not available for spending because it has already been committed.

## **BUDGETARY HIGHLIGHTS**

The City's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

Over the course of the year, the City revised the annual operating budget. Schedules showing the final budget amounts compared to the City's actual financial activity for the General Fund and the Enterprise Fund are provided in this report as required supplementary information.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

As of September 30, 2006, the City's total capital assets were \$30,785,968, including land, city buildings, infrastructure, vehicles and furniture and equipment. This amount represents an increase of \$198,829 from the previous year. The total accumulated depreciation as of September 30, 2006, was \$17,040,281 and total depreciation expense for the year was \$794,023, resulting in total net assets of \$13,745,687.

Additional information on the City's capital assets can be found in Note 6 on pages 39 through 40 of this report.

**Debt Administration.** At September 30, 2006, the City had paid off all bonds.

Additional information on the City's long-term debt can be found in Note 7 on page 40 and 41 of this report.

## **CURRENT ISSUES**

The City of Forest is in the process of taking several steps toward improving its sewer system. Grants have currently been secured totaling approximately \$1.7 million with the EPA for sewer rehabilitation. The City will continue to receive grants for sewer rehabilitation based on availability and hopes to accumulate approximately \$7 million in grants to continue the sewer rehabilitation project. An additional \$450,000 in Community Development Block Grant (CDBG) has been applied for to add to the sewer rehabilitation project. The City has also been awarded over \$200,000 in STIP funding through the Mississippi Department of Transportation for traffic signal improvements to be completed over the next fiscal year.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City of Forest's finances and to show the City's accountability for the money it receives. Interested parties may direct questions to or request additional financial information from the Mayor's Office of the City of Forest, 120 South Davis Street, Forest, MS 39074.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF FOREST  
STATEMENT OF NET ASSETS  
September 30, 2006**

Exhibit A

<u>ASSETS</u>	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Cash (Note 2)	\$ 682,045	\$ 264,246	\$ 946,291
Investments	5,455,000	986,570	6,441,570
Receivables			
Taxes	189	-	189
Rent	5,149	-	5,149
Interest	27,456	-	27,456
Trade	-	261,879	261,879
Unbilled trade accounts	-	129,275	129,275
Accrued interest	-	6,233	6,233
Due from other funds (Note 3)	17,196	-	17,196
Due from other governments (Note 4)	120,031	-	120,031
Restricted assets:			
Cash - customer deposits	-	253,381	253,381
- advances from industry (Note 5)	-	30,709	30,709
Receivables - industry note principal (Note 5)	-	2,172,110	2,172,110
- industry interest	-	7,255	7,255
Capital assets, net (Note 6)	3,854,822	9,890,865	13,745,687
<b>Total Assets</b>	<b>\$ 10,161,888</b>	<b>\$ 14,002,523</b>	<b>\$ 24,164,411</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities			
Current liabilities:			
Accounts payable	\$ 162,530	\$ 77,157	\$ 239,687
Accounts payable -customers	-	26,409	26,409
Sales tax payable	-	2,522	2,522
Accrued interest SRF	-	7,255	7,255
Due to other funds	8,156	22,195	30,351
Notes payable, current	29,024	-	29,024
Long term liabilities (Due within one year)(Note 7)	-	290,700	290,700
Deferred revenue - taxes	189	-	189
Total current liabilities	199,899	426,238	626,137
Non-current liabilities:			
Customer deposits	-	253,381	253,381
Notes payable, non-current	190,721	-	190,721
Long term liabilities (Due beyond one year)(Note 7)	-	1,885,728	1,885,728
Total non-current liabilities	190,721	2,139,109	2,329,830
<b>Total Liabilities</b>	<b>\$ 390,620</b>	<b>\$ 2,565,347</b>	<b>\$ 2,955,967</b>
Net Assets			
Invested in capital assets (net of related debt)	\$ 3,664,101	\$ 9,890,865	\$ 13,554,966
Reserved for police fund	226,467	-	226,467
Reserved for municipal fire	155,846	-	155,846
Reserved for grant fund	131,223	-	131,223
Unreserved	5,593,631	1,546,311	7,139,942
<b>Total Net Assets</b>	<b>\$ 9,771,268</b>	<b>\$ 11,437,176</b>	<b>\$ 21,208,444</b>

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

**CITY OF FOREST, MISSISSIPPI  
STATEMENT OF ACTIVITIES  
Year Ended September 30, 2006**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
General government	\$ 409,282	\$ 168,961	\$ -	\$ -	\$ (240,321)	\$ -	\$ (240,321)
Public safety	1,208,227	177,859	-	19,615	(1,010,753)	-	(1,010,753)
Streets and sanitation	1,121,972	293,607	57,466	-	(770,899)	-	(770,899)
Culture and recreation	382,430	-	-	-	(382,430)	-	(382,430)
Economic Dev. Authority	937,748	-	-	1,038,031	100,283	-	100,283
Total Governmental activities	4,059,659	640,427	57,466	1,057,646	(2,304,120)	-	(2,304,120)
<b>Business-type activities:</b>							
Water & Sewer	3,091,373	2,629,731	83,595	-	-	(378,047)	(378,047)
<b>Total Primary Government</b>	<b>\$ 7,151,032</b>	<b>\$ 3,270,158</b>	<b>\$ 141,061</b>	<b>\$ 1,057,646</b>	<b>(2,304,120)</b>	<b>(378,047)</b>	<b>(2,682,167)</b>
<b>General Revenues:</b>							
Taxes:							
Sales tax					1,770,944	-	1,770,944
Property tax					527,431	-	527,431
Utility tax					31,304	-	31,304
Franchise taxes					395,906	-	395,906
Unrestricted grant's and contributions:							
Intergovernmental					199,165	-	199,165
Unrestricted investment earnings					223,287	134,518	357,805
Insurance Proceeds					24,620	-	24,620
Gain on sale of land					55,328	-	55,328
Gain (Loss) on sale of equipment					39,359	(92,215)	(52,856)
Total General Revenues					3,267,344	42,303	3,309,647
Change in Net Assets					963,224	(335,744)	627,480
Net Assets - Beginning					8,808,044	11,772,920	20,580,964
Net Assets - Ending					<u>\$ 9,771,268</u>	<u>\$ 11,437,176</u>	<u>\$ 21,208,444</u>

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

**FUND FINANCIAL STATEMENTS**

**CITY OF FOREST  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2006**

Exhibit C

	<u>General</u>	<u>Grant Management</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash	\$ 550,386	\$ 131,223	\$ 436	\$ 682,045
Investments	5,300,000	-	155,000	5,455,000
Receivables				
Taxes	189	-	-	189
Rental Utilities	5,149	-	-	5,149
Interest	27,046	-	410	27,456
Due from other funds	17,196	-	-	17,196
Due from other governments	120,031	-	-	120,031
<b>Total Assets</b>	<b>\$ 6,019,997</b>	<b>\$ 131,223</b>	<b>\$ 155,846</b>	<b>\$ 6,307,066</b>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>				
Accounts payable	\$ 162,530	\$ -	\$ -	\$ 162,530
Due to other funds	8,156	-	-	8,156
Notes payable, current	29,024	-	-	29,024
Deferred revenue - taxes	189	-	-	189
<b>Total Liabilities</b>	<b>199,899</b>	<b>-</b>	<b>-</b>	<b>199,899</b>
<b>Fund Balances</b>				
Reserved for grant fund	-	131,223	-	131,223
Reserved for police fund	226,467	-	-	226,467
Reserved for municipal fire	-	-	155,846	155,846
Unreserved, reported in:				
General Fund	5,593,631	-	-	5,593,631
<b>Total Fund Balance</b>	<b>5,820,098</b>	<b>131,223</b>	<b>155,846</b>	<b>6,107,167</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,019,997</b>	<b>\$ 131,223</b>	<b>\$ 155,846</b>	<b>\$ 6,307,066</b>

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

**CITY OF FOREST**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**September 30, 2006**

Exhibit C-1

Total Fund Balance - Governmental Funds	\$	6,107,167
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Amounts reported for net assets in the statement of net assets are different because:

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

Governmental capital assets	\$	8,006,159	
Less accumulated depreciation		<u>(4,151,337)</u>	3,854,822

Long-term liabilities are not due and payable in the current period and are not reported in the funds.			<u>(190,721)</u>
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Total Net Assets - Governmental Activities	\$	<u><u>9,771,268</u></u>
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The notes to the financial statements are an integral part of this statement.

**CITY OF FOREST**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year Ended September 30, 2006**

Exhibit D

	General	Grant Management	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
General property taxes	\$ 527,431	\$ -	\$ -	\$ 527,431
Penalties & interest on delinquent tax	27,030	-	-	27,030
Licenses and permits	127,814	-	-	127,814
Franchise taxes on utilities	395,906	-	-	395,906
Intergovernmental revenue				
Federal sources - TVA	7,582	-	-	7,582
Federal sources - other		1,038,031	-	1,038,031
State sources	74,236	-	-	74,236
Homestead exemption reimbursemer	27,069	-	-	27,069
General municipal aid	13,238	-	-	13,238
Sales tax	1,770,944	-	-	1,770,944
Utility tax	31,304	-	-	31,304
Fire Protection	-	-	30,446	30,446
County contributions	130,042	-	8,176	138,218
Other	2,844	-	-	2,844
Charges for services	293,607	-	-	293,607
Donations	13,058	-	-	13,058
Fines and forfeitures	147,414	-	-	147,414
Interest income	217,851	-	5,436	223,287
Miscellaneous	14,117	-	-	14,117
<b>Total Revenues</b>	<b>3,821,487</b>	<b>1,038,031</b>	<b>44,058</b>	<b>4,903,576</b>
<b>Expenditures</b>				
Current:				
General government	405,656	-	-	405,656
Public safety	1,229,170	-	14,928	1,244,098
Streets and sanitation	1,117,267	-	-	1,117,267
Culture and recreation	443,621	-	-	443,621
Economic Development Authority	-	937,748	-	937,748
Debt Service:				
Principal	36,145	-	-	36,145
Interest	1,684	-	-	1,684
<b>Total Expenditures</b>	<b>3,233,543</b>	<b>937,748</b>	<b>14,928</b>	<b>4,186,219</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>587,944</b>	<b>100,283</b>	<b>29,130</b>	<b>717,357</b>
<b>Other Financing Sources</b>				
Insurance Proceeds	24,620	-	-	24,620
Sale of Equipment	39,359	-	-	39,359
Sale of Land	55,328	-	-	55,328
<b>Total Other Financing Sources</b>	<b>119,307</b>	<b>-</b>	<b>-</b>	<b>119,307</b>
<b>Net Change in Fund Balances</b>	<b>707,251</b>	<b>100,283</b>	<b>29,130</b>	<b>836,664</b>
<b>Fund Balance, October 1, 2005</b>	<b>5,112,783</b>	<b>30,940</b>	<b>126,716</b>	<b>5,270,439</b>
<b>Fund Balance, September 30, 2006</b>	<b>\$ 5,820,034</b>	<b>\$ 131,223</b>	<b>\$ 155,846</b>	<b>\$ 6,107,103</b>

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

**CITY OF FOREST**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2006**

Exhibit D-1

Net Change in fund balances - governmental funds	\$	836,664
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their useful lives:

Expenditures for capital assets	\$	341,857	
Less current year depreciation		<u>(251,442)</u>	
			90,415

When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported on the Statement of Net Assets. All assets in current year disposed of in current year were fully depreciated.

Governmental funds report current portion of long-term debt as an expenditure. Only the interest is reported as an expenditure on the statement of activities.

		<u>36,145</u>
Change in net assets of governmental activities	\$	<u><u>963,224</u></u>

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

**CITY OF FOREST, MISSISSIPPI  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
September 30, 2006**

Exhibit E

**ASSETS**

<b>Current Assets:</b>	
Cash	\$ 264,246
Investments	986,570
Receivables	
Trade accounts	261,879
Unbilled trade accounts	129,275
Accrued interest	6,233
Total Current Assets	<u>1,648,203</u>
<b>Restricted Assets:</b>	
Cash and certificates of deposit	
Customer Deposits	253,381
Advances from Industry	30,709
Due from Industry	
Principal	2,172,110
Interest	7,255
Total Restricted Assets	<u>2,463,455</u>
<b>Noncurrent Assets</b>	
Capital assets (net)	<u>9,890,865</u>
<b>Total Assets</b>	<u><u>\$ 14,002,523</u></u>

**LIABILITIES**

<b>Current Liabilities:</b>	
Accounts payable	\$ 77,157
Accounts payable - customers	26,409
Sales tax payable	2,522
Due to Payroll Clearing Fund	4,999
Due to General Fund	17,196
Total Current Liabilities	<u>128,283</u>
<b>Current Liabilities (payable from restricted assets):</b>	
Accrued interest - SRF	7,255
Customer deposits	253,381
Current portion - SRF loan	290,700
Total Current Liabilities (payable from restricted assets)	<u>551,336</u>
<b>Long-term Liabilities:</b>	
Sales tax loan - SRF (net of current portion)	<u>1,885,728</u>
<b>Total Liabilities</b>	<u><u>\$ 2,565,347</u></u>
<b>Net Assets</b>	
Contributed capital - grants	\$ 6,893,907
Contributed capital - industry	5,065,949
Retained Earnings Reserved	26,391
Retained Earnings Unreserved	<u>(549,071)</u>
<b>Total Net Assets</b>	<u><u>\$ 11,437,176</u></u>

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

**CITY OF FOREST**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS -PROPRIETARY FUND**  
**Year ended September 30, 2006**

**Exhibit F**

	<b>Proprietary Fund</b>
<b>Operating Revenue:</b>	
Charges for services	\$ 2,713,326
<b>Operating Expenses:</b>	
Personal Services	963,642
Maintenance, operations, and contractual services	469,365
Materials and supplies	315,109
Utilities	800,018
Bad Debts	658
Depreciation	542,581
Total Operating Expenses	3,091,373
Operating Loss	(378,047)
<b>Nonoperating Revenues (Expenses):</b>	
Interest income	51,318
Interest income - Industry	83,200
Interest expense	(92,215)
Total Nonoperating Revenues	42,303
<b>Change in net assets</b>	(335,744)
<b>Net assets, October 1, 2005</b>	11,772,920
<b>Net assets, September 30, 2006</b>	\$ 11,437,176

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

**CITY OF FOREST  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended September 30, 2006**

Exhibit G

<b>Cash flows from Operating Activities</b>	
Receipts from customers	\$ 2,987,301
Payments to suppliers	(1,604,200)
Payments to employees	<u>(963,283)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>419,818</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	(92,153)
Principal paid on Long-Term Debt	(279,321)
Interest paid on Long-Term Debt	<u>(92,215)</u>
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(463,689)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>136,052</u>
<b>Net Cash Provided by Investing Activities</b>	<u>136,052</u>
<b>Net Increase in Cash and Restricted Cash</b>	92,181
<b>Cash and Restricted Cash, October 1, 2005</b>	<u>1,442,725</u>
<b>Cash and Restricted Cash, September 30, 2006</b>	<u><u>\$ 1,534,906</u></u>

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

**CITY OF FOREST  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended September 30, 2006**

Exhibit G (cont.)

**Reconciliation of Operating Loss to Net Cash  
Provided by Operating Activities**

**Operating Income**

Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	\$ (378,047)
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Depreciation and amortization	542,581
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Changes in Assets and Liabilities:

(Increase) Accounts Receivable	(1,565)
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(Increase) Accrued Interest	(2,456)
-----------------------------	---------

Decrease Due from Industry	257,169
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(Decrease) Accounts Payable	(18,119)
-----------------------------	----------

Increase Due to Other Funds	359
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(Decrease) Accrued Expenses	(931)
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Increase Customer Deposits	20,827
----------------------------	--------

**Net Cash Provided by Operating Activities**

<u>\$ 419,818</u>
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The notes to the financial statements are an integral part of this statement.

**CITY OF FOREST, MISSISSIPPI  
STATEMENT OF FIDUCIARY  
NET ASSETS-FIDUCIARY FUNDS  
September 30, 2006**

Exhibit H

	<u>Agency Funds</u>						<u>Total</u>
	<u>Payroll Clearing</u>	<u>Accounts Payable</u>	<u>Court Fines</u>	<u>Forest Municipal School Distr. Taxes</u>	<u>Library Expendable Trust</u>		
<b><u>ASSETS</u></b>							
Cash	\$ 21,391	\$ -	\$ 45,324	\$ 1	\$ 187	\$ 66,903	
Investments	-	-	-	-	22,000	22,000	
Taxes receivable	-	-	-	747	-	747	
Due from other funds	13,155	-	-	-	-	13,155	
Accrued Interest Receivable	-	-	-	-	58	58	
Due from other governments	-	-	-	40,797	-	40,797	
<b>Total Assets</b>	<b>\$ 34,546</b>	<b>\$ -</b>	<b>\$ 45,324</b>	<b>\$ 41,545</b>	<b>\$ 22,245</b>	<b>\$ 143,660</b>	
<b><u>LIABILITIES</u></b>							
Employee withholdings payable	\$ 10,316	\$ -	\$ -	\$ -	\$ -	\$ 10,316	
Accrued payroll	24,230	-	-	-	-	24,230	
Bail bonds escrow account	-	-	3,077	-	-	3,077	
Due to Forest Municipal School District	-	-	-	41,545	-	41,545	
Due to State of Miss.	-	-	42,247	-	-	42,247	
<b>Total Liabilities</b>	<b>34,546</b>	<b>-</b>	<b>45,324</b>	<b>41,545</b>	<b>-</b>	<b>121,415</b>	
<b>Net assets held in trust</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 22,245</b>	<b>\$ 22,245</b>	

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

**CITY OF FOREST, MISSISSIPPI**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**September 30, 2006**

Exhibit I

	<b>Library Expendable Trust</b>
<b>Additions</b>	
Trust Receipts	\$ 3,142
Interest Income	948
	4,090
<b>Total additions</b>	
<b>Deductions</b>	
Supplies	2,384
<b>Total deductions</b>	2,384
<b>Changes in net assets</b>	1,706
Net assets held in trust:	
<b>Beginning of year</b>	20,539
<b>End of year</b>	\$ 22,245

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

**CITY OF FOREST, MISSISSIPPI**  
**Notes to Financial Statements**  
**Year Ended September 30, 2006**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Forest, Mississippi ("City") operates under the mayor/board of aldermen form of government and provides services as authorized by law.

The financial statements of the City of Forest are prepared in accordance 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.

**A. Financial Reporting Entity**

In June, 1999, GASB issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This statement affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports.

Management’s Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government’s financial activities.

Government-wide financial statements – The reporting model includes financial statements prepared using full accrual accounting for all the government’s activities. This approach includes current assets and liabilities as well as capital assets and long-term liabilities. Accrual accounting also reports all the revenues and cost of providing services each year, not just those received or paid that year.

Statement of Net Assets – The statement of Net Assets is designed to display the financial position of the primary government (governmental and business-type activities) and its component units. Governments will report all capital assets, including infrastructure, in the government-wide statement of net assets and will report depreciation expense in the statement of activities.

Statement of Activities – The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions.

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Fund financial statements – Fund financial statements display the financial transactions and accounts of the City based on funds. The operation of each fund is considered to be an independent accounting entity. The fund financial statements also include a reconciliation to the government-wide statement.

Budgetary comparison schedules – Compliance with the adopted budget is an important component of the government's accountability to the public.

The criteria for including organizations as component units within the City's reporting entity, as set forth in Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*, have been applied. A primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose a financial burden on, the primary government. A primary government may also be financially accountable for organizations that are financially dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

Based on the application of the criteria above, no component units of the City of Forest were identified.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statement (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The statement of activities demonstrates the degree to which expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from services or privileges provided and grants and contributions that are restricted to meeting certain operational or capital needs of a function. Taxes and other items not included in program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, propriety funds and fiduciary funds, even though fiduciary funds are excluded from the governmental-wide financial statements. Major individual governmental and propriety funds are reported in separate columns in the fund financial statements.

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

The governmental-wide financial statements, propriety fund financial statements and fiduciary fund financial statements are reported using the economic resources measurement and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

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. Taxpayer assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and recognized as revenue at that time. Anticipate refunds of such taxes are recorded as liabilities and reductions of revenues of revenue when they are measurable and their validity seems certain. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable, except for principle and interest payments on general long-term debt, which are recognized when due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted for specific expenditure purposes.

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**PROPRIETARY FUND**

**Enterprise Fund** - The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses of providing water and sewer services to the general public on a continuing basis be financed or recovered primarily through user charges.

**FIDUCIARY FUNDS**

**Trust and Agency Funds** - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and/or other funds. These include Expendable Trust and Agency Expendable Trust Funds which are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**D. Account Classifications**

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Municipalities* issued by the Office of the State Auditor.

**E. Encumbrances**

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

**F. Cash and Other Deposits (and Cash Equivalents)**

The City deposits excess funds in the financial institutions selected by the City Council in accordance with state statutes.

Cash consists of amounts on deposit in demand accounts and savings accounts. Other deposits consist of certificates of deposit. Cash and other deposits are valued at cost.

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

For purposes of the statement of cash flows, the City considers all highly liquid investments and certificates of deposit to be cash equivalents if they have a maturity of three months or less when acquired.

**G. Investments**

The City is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved; or in interest-bearing time certificates of deposit or interest-bearing accounts with any financial institution approved for the deposit of state funds; or in any type of investment permitted by Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972).

For accounting purposes, certificates of deposit and interest-bearing accounts are classified as cash and other deposits.

**H. Inventories and Prepaid Items**

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.

**I. Capital Assets**

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Infrastructure – Roads	25,000	20 years
Infrastructure – Concrete bridges	25,000	50 years
Buildings	25,000	40 years
Buildings improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Heavy equipment	5,000	10 years
Mobile equipment	500	5 years
Furniture and equipment	500	3-7 years

**J. Restricted Asset**

The use of certain assets may be restricted by specific provisions of bond resolutions and/or agreements with various parties. Assets so designated are identified as restricted assets on the statement of net assets. The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

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

The governmental fund balance sheet includes a reconciliation between fund-balance - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental activities as reported in the government-wide statement of activities.

**L. Compensated Absences**

Employees of the City accumulate sick leave at a minimum amount as required by state law or at an amount provided by policy of the City. Employees are allowed vacation leave, but vacation time is generally required to be used within one year of accrual. The City does not provide for payment of accumulated sick leave, but up to 10 days of accumulated vacation will be paid if requested by the employee.

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

No accrual has been made for compensated absences. The City's experience is that individuals who leave the City's employ generally have little or no accrued vacation leave. In the opinion of City management, any accrual would be immaterial to the financial statements.

**M. Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1. All unpaid taxes become delinquent February 1. The City bills and collects its own property taxes except for the personal auto, large truck and house trailer taxes that are collected and remitted to the City by the county tax collector. The City also acts as tax assessor and collector for the Forest Municipal School District in the same manner as previously mentioned. Collections for the Forest Municipal School District are remitted monthly as collected to the District. City property tax revenues are recognized when levied to the extent that they result in current receivables. The millage rate for the City and School combined for January through December, 2005 was 64.50 mills.

**N. Economic Dependency**

Three heavy water users of the Water and Sewer Enterprise Fund accounted for 78% of total consumption. Revenues are based upon consumption. These three users produced 71% of gross revenue.

**O. Budgetary and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. During September, the budget must be published in a newspaper published in the city (or the county if none is published by the city).
3. Prior to the adoption of the budget, at least one public hearing is held by the Board of Aldermen to provide the general public with an opportunity to comment on the taxing and spending plan incorporated in the proposed budget. The public hearing must be held at least one week prior to the adoption of the budget with advance notice and held outside normal working hours.

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

4. Prior to September 15, the budget is legally enacted through passage of an ordinance.
5. Routine budget revisions may be made by the Board as often as necessary. However, when a department's total budget has been revised up or down by ten percent (10%) or more, public notice must be given of the change. Also, during the first three months of office, while operating under the prior Board's budget, the new Board is limited to one revision if a deficit is evident.
6. It is the City's policy for the Board to approve all budget transfers between departments and/or funds.
7. Formal budgetary integration is employed as a management control device during the year for the various funds. Budgeting data presented is as originally adopted or amended by the Board of Aldermen.
8. Budgets for the various funds are not adopted on a basis consistent with generally accepted accounting principles (GAAP) but rather on a modified cash basis as required by State statutes.

**P. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Q. Due From Other Funds**

Short-term amounts owed between funds are classified as "due to/from other funds" and are considered "available spendable resources". These amounts are eliminated in the government-wide financial statements.

**R. Comparative Data**

Comparative total data for the prior year have been presented in the supplementary budgetary comparison schedule in order to provide an understanding of changes in the general fund's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make statements unduly complex and difficult to understand.

**Note 2. CASH AND CASH EQUIVALENTS, AND INVESTMENTS**

Cash and Cash Equivalents

The collateral for public entities' 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 Depository Insurance Corporation.

The carrying amount of the City's deposits with financial institutions was \$7,386,327.

Investments

Investments made by the City that are included on the balance sheet are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the categories described below:

Category 1 - Insured or registered for which the securities are held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered for which the securities are held by the broker or dealer's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

<u>Investment Type</u>	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Certificates of Deposit	<u>\$6,746,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,746,110</u>	<u>\$6,746,110</u>

**Note 3. INTERFUND ASSETS/LIABILITIES**

The following is a summary of due from/to other funds:

	<u>Due From</u>	<u>Due To</u>
<u>General Fund</u>		
Water and Sewer Enterprise Fund	\$ 17,196	\$ -
Payroll Clearing Fund	<u>-</u>	<u>8,156</u>
	<u>17,196</u>	<u>8,156</u>
<u>Water and Sewer Enterprise Fund</u>		
General Fund	-	17,196
Payroll Clearing Fund	<u>-</u>	<u>4,999</u>
	<u>-</u>	<u>22,195</u>
<u>Payroll Clearing Fund</u>		
General Fund	8,156	-
Water and Sewer Enterprise Fund	<u>4,999</u>	<u>-</u>
	<u>13,155</u>	<u>-</u>
 Total	 <u>\$ 30,351</u>	 <u>\$ 30,351</u>

**Note 4. DUE FROM OTHER GOVERNMENTS**

Due from other Governments at September 30, 2006 consists of the following:

	<u>General Fund</u>	<u>Agency Funds</u>	<u>Total</u>
State of Mississippi - sales tax	\$107,210	\$ -	\$107,210
Scott County - ad valorem taxes	<u>12,821</u>	<u>40,797</u>	<u>53,618</u>
 Total	 <u>\$120,031</u>	 <u>\$ 40,797</u>	 <u>\$160,828</u>

**Note 5. COMPONENTS OF RESTRICTED ASSETS**

The City borrowed \$5,065,949 from the State of Mississippi under the State Revolving Fund program to expand the Wastewater Treatment Plant. Beginning October 1, 1993, and continuing for the next 20 years, this loan is being repaid by the State's withholding money from the City's monthly sales tax collections. (Note 7)

In turn, the top three users of the Plant are paying the City the exact amount held out by the State. The users began paying the City in September, 1993.

**Note 6. CAPITAL ASSETS**

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

	Balance <u>9/30/05</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>9/30/06</u>
<b>Non-depreciable Capital Assets:</b>				
Land	\$1,085,826	\$ -	\$ -	\$1,085,826
<b>Depreciable Capital Assets:</b>				
Infrastructure – Bridges	50,605	-	-	50,605
Buildings	4,316,143	153,750	36,000	4,433,893
Mobile equipment	1,602,665	53,442	266,532	1,389,575
Furniture and fixtures	85,824	53,682	-	139,506
Equipment	<u>837,087</u>	<u>80,983</u>	<u>11,316</u>	<u>906,754</u>
Total Depreciable Capital Assets	<u>6,892,324</u>	<u>341,857</u>	<u>313,848</u>	<u>6,920,333</u>
<b>Less Accumulated Depreciation:</b>				
Infrastructure – Bridges	9,109	1,012	-	10,121
Buildings	2,260,373	122,482	36,000	2,346,855
Mobile equipment	1,365,394	52,181	266,532	1,151,043
Furniture and fixtures	56,609	8,971	-	65,580
Equipment	<u>522,258</u>	<u>66,796</u>	<u>11,316</u>	<u>577,738</u>
Total Accumulated Depreciation	<u>4,213,743</u>	<u>251,442</u>	<u>313,848</u>	<u>4,151,337</u>
Governmental Activities Capital Assets, Net	<u>\$3,764,407</u>	<u>\$ 90,415</u>	<u>\$ -</u>	<u>\$3,854,822</u>

Depreciation expense was charged to the following governmental functions:

General Government	\$ 10,918
Public Safety	65,829
Public Works	50,248
Coliseum	33,045
Airport	29,384
Library	15,910
Recreation	<u>46,108</u>
 Total depreciation expense	 <u>\$ 251,442</u>

**Note 6. CAPITAL ASSETS - Continued**

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

	Balance 9/30/05	Additions	Retirements	Balance 9/30/06
<u>Non-depreciable Capital Assets:</u>				
Land	\$ 162,395	\$ -	\$ -	\$ 162,395
<u>Depreciable Capital Assets:</u>				
Machinery and equipment	1,011,772	82,603	148,200	946,175
Water plant	4,272,550	-	-	4,272,550
Waste treatment plant	17,389,139	9,550	-	17,398,689
Total Depreciable Capital Assets	<u>22,673,461</u>	<u>92,153</u>	<u>148,200</u>	<u>22,617,414</u>
<u>Less Accumulated Depreciation:</u>				
Machinery and equipment	680,624	51,844	148,200	584,268
Water plant	3,932,643	41,916	-	3,974,559
Waste treatment plant	7,881,296	448,821	-	8,330,117
Total Accumulated Depreciation	<u>12,494,563</u>	<u>542,581</u>	<u>148,200</u>	<u>12,888,944</u>
Total depreciable capital assets, net	<u>10,178,898</u>	<u>(450,428)</u>	<u>-</u>	<u>9,728,470</u>
Proprietary activities capital assets, net	<u>\$10,341,293</u>	<u>\$(450,428)</u>	<u>\$ -</u>	<u>\$ 9,890,865</u>

Depreciation expense charged to the enterprise fund totaled \$542,581.

**Note 7. LONG TERM DEBT**

A. Bonds Payable

Bonds payable at September 30, 2006 are comprised of the following individual issue:

	<u>Principal</u>
<u>No-Commitment Debt</u>	
\$1,270,000, 6/1/92 Industrial Development Revenue Bonds Series 1992 (Jitney Jungle Project) serial bonds due in annual installments of \$35,000 to \$50,000 through 6/1/2001, interest at 7.00% to 7.50%; \$92,000 through 2011, interest at 9%	<u>\$ 595,000</u>

**Note 7. LONG TERM DEBT - Continued**

**B. Installment Note Payable**

Note payable at September 30, 2006, is comprised of the following:

Loan payable, State of Mississippi; monthly payments of \$31,038.86, 81 payments remaining, through 5/1/2013, interest at 4.00%, secured by and payments withheld from sales tax revenue. Reimbursement is made by the Water and Sewer Fund to the General Fund. (Note 5) \$ 2,176,428

**C. Amortization of Long-Term Debt**

The annual requirements to amortize all debt outstanding (exclusive of no-commitment debt) including interest of \$306,678 as of September 30, 2006 are as follows:

Annual Requirements to Amortize Long-Term Debt\*  
September 30, 2006

<u>Sept. 30</u>	<u>Notes Payable</u>
2007	\$ 372,466
2008	372,466
2009	372,466
2010	372,466
2011	372,466
Thereafter	<u>314,098</u>
	<u>\$ 2,176,428</u>

The amount of bond indebtedness that can be incurred by the City is limited by state statute. Total outstanding general bond indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such City, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of September 30, 2006, there was no general obligation bonded indebtedness.

There are limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

\* No-Commitment debt (Industrial Revenue Bonds) is not included in the above schedule of annual requirements to amortize long-term debt. Industrial revenue bonds are obligations of the entity for whom the debt is issued. See Note 8 for disclosure regarding industrial revenue bonds.

**Note 7. LONG TERM DEBT – Continued**

**D. Installment Note Payable**

Note payable at September 30, 2006, is comprised of the following individual note payable:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Loan payable, Scott County; monthly payments of \$2,935, 83 remaining through 8/1/2013, interest at 3%, secured by the coliseum	\$ 29,024	\$ 190,721	\$ 219,745

Maturity of long-term debt is as follows:

<u>Sept. 30</u>	<u>Notes Payable</u>
2007	\$ 29,024
2008	29,910
2009	30,816
2010	31,754
2011	32,720
Thereafter	<u>65,521</u>
	<u>\$ 219,745</u>

Interest expense for the year ended September 30, 2006 as \$1,684.

**Note 8. INDUSTRIAL REVENUE BONDS**

On June 1, 1992, the City issued \$1,270,000 of industrial revenue bonds for the purpose of constructing a retail grocery store for Jitney Jungle.

**Note 9. DEFINED BENEFIT PENSION PLAN**

Plan Description. The City contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 601 359-3589 or 1-800-444-PERS.

**Note 9. DEFINED BENEFIT PENSION PLAN - Continued**

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 11.35% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2006, 2005, and 2004 were \$211,580, \$188,952, and \$169,210, respectively, which equaled the required contributions for each year.

**Note 10. RISK MANAGEMENT**

The City 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 City 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 City participates in the Mississippi Municipal Liability Plan (MMLD), an insurance-purchasing pool. The City, along with other municipalities as a group, purchased insurance to insure against losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Settled claims resulting from these insured risks have not exceeded the City's insurance coverage since it joined the pool.

The City is a member of the Mississippi Municipal Workers Compensation Group (MMWCG). The group is a risk-sharing pool, frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the City's 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.

The City's agreement with the two entities provides that the entities will be self-sustaining through premiums and will provide \$500,000 per occurrence coverage for lost liability under automobile and general liability and \$1,000,000 statutory workers' compensation protection.

**Note 11. COLISEUM**

The City of Forest and Scott County jointly agreed to build a Coliseum. Each contributed \$250,000 for the project to match a USDA grant of \$500,000. In addition, a loan of \$850,000 was obtained by the County. The City has agreed to pay one-half the note or \$425,000. The City has also agreed to spend additional funds on the project. The County has agreed to pay the \$850,000 note down in an amount equal to the City's additional expenditures. Once that is done, the City and County will share the remaining note balance equally. As of September 30, 2006, the City has expended \$666,250 of these additional expenditures. The City's cost in the Coliseum is as follows:

USDA Grant			\$ 250,000
Matching contribution			250,000
City's share of borrowed funds			425,000
Additional agreed upon expenditures through September 30, 2006		\$ 666,250	
Less amounts of principal and interest paid by Scott County	\$ 569,382		
	<u>÷ 2</u>	<u>(284,691)</u>	<u>381,559</u>
			<u>\$ 1,306,559</u>

As of September 30, 2006, the City owed the County \$219,745 on the note.

**Note 12. COMMITMENTS AND CONTINGENCIES**

Grant Audit

The City receives Federal grants for specific purposes that are subject to review and audit by Federal agencies. Such audits could result in a request for reimbursement by the Federal Government for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the City management, such disallowance, if any, will not be significant.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF FOREST**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30,2006**

Schedule 1a

	Budget Amounts		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		Over (under)
<b>Revenues</b>				
General property taxes	\$ 479,000	\$ 479,000	\$ 527,431	\$ 48,431
Penalties & interest on delinquent taxes	32,000	32,000	27,030	(4,970)
School Advalorem collection fee	39,162	39,162	39,162	-
Licenses and permits	90,600	90,600	127,814	37,214
Franchise taxes on utilities	350,000	350,000	395,906	45,906
State shared revenues	1,697,600	1,697,600	1,924,373	226,773
Culture and Recreation	41,800	41,800	47,832	6,032
Road and Bridge Tax	130,000	130,000	130,042	42
Charges for services	209,000	209,000	206,613	(2,387)
Fines and forfeitures	215,500	215,500	147,414	(68,086)
Interest income	80,393	80,393	217,851	137,458
Miscellaneous	14,000	14,000	30,019	16,019
<b>Total Revenues</b>	<b>3,379,055</b>	<b>3,379,055</b>	<b>3,821,487</b>	<b>442,432</b>
<b>Expenditures</b>				
General government	461,380	461,380	443,485	17,895
Public safety	1,327,050	1,327,050	1,229,170	97,880
Streets and sanitation	1,264,175	1,264,175	1,117,267	146,908
Culture and recreation	340,450	340,450	443,621	(103,171)
<b>Total Expenditures</b>	<b>3,393,055</b>	<b>3,393,055</b>	<b>3,233,543</b>	<b>159,512</b>
<b>Excess of Revenues Over Expenditures</b>	<b>(14,000)</b>	<b>(14,000)</b>	<b>587,944</b>	<b>601,944</b>
<b>Other Financing Sources</b>				
Insurance Proceeds	-	-	24,620	24,620
Sale of Equipment	-	-	39,359	39,359
Sale of Land	14,000	14,000	55,328	41,328
<b>Total Other Financing Sources</b>	<b>14,000</b>	<b>14,000</b>	<b>119,307</b>	<b>105,307</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>-</b>	<b>707,251</b>	<b>707,251</b>
<b>Fund Balance, October 1, 2005</b>	<b>5,112,783</b>	<b>5,112,783</b>	<b>5,112,783</b>	<b>-</b>
<b>Fund Balance, September 30, 2006</b>	<b>\$ 5,112,783</b>	<b>\$ 5,112,783</b>	<b>\$ 5,820,034</b>	<b>\$ 707,251</b>

**CITY OF FOREST**  
**BUDGETARY COMPARISON SCHEDULE FOR PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Schedule 1b

	Budget Amounts		Actual (GAAP Basis)	Variance with Final Budget Over (under)
	Original	Final		
<b>Operating Revenue:</b>				
Charges for services	\$ 2,637,250	\$ 2,637,250	\$ 2,713,326	\$ 76,076
<b>Operating Expenses:</b>				
Personal Services	1,040,300	1,040,300	963,642	76,658
Maintenance, operations, and contractual services	920,300	920,300	920,300	-
Materials and supplies	534,000	534,000	534,000	-
Hurricane Katrina Related	-	-	130,850	(130,850)
Depreciation	-	-	542,581	(542,581)
<b>Total Operating Expenses</b>	<b>2,494,600</b>	<b>2,494,600</b>	<b>3,091,373</b>	<b>(596,773)</b>
<b>Operating Loss</b>	<b>142,650</b>	<b>142,650</b>	<b>(378,047)</b>	<b>520,697</b>
<b>Nonoperating Revenues (Expenses):</b>				
Interest income	16,000	16,000	134,518	118,518
Miscellaneous	2,000	2,000	-	(2,000)
Interest expense	(48,000)	(48,000)	(92,215)	44,215
<b>Total Nonoperating Revenues</b>	<b>(30,000)</b>	<b>(30,000)</b>	<b>42,303</b>	<b>(72,303)</b>
<b>Net Income</b>	<b>112,650</b>	<b>112,650</b>	<b>(335,744)</b>	<b>448,394</b>
<b>Net assets, October 1, 2005</b>	<b>11,772,920</b>	<b>11,772,920</b>	<b>11,772,920</b>	<b>-</b>
<b>Net assets, September 30, 2006</b>	<b>\$ 11,885,570</b>	<b>\$ 11,885,570</b>	<b>\$ 11,437,176</b>	<b>\$ 448,394</b>

**CITY OF FOREST, MISSISSIPPI  
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

The budget is adopted by the Board of Aldermen. Amendments can be made with the approval of the Board. A budgetary comparison is presented for the general fund and proprietary fund consistent with accounting principles generally accepted in the United States of America.

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF FOREST, MISSISSIPPI**  
**SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS**  
**September 30, 2006**

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Amount</u>
Nancy Chambers	Mayor	St. Paul	\$ 50,000
Mike Lee	Chief of Police	Western Surety Co.	50,000
Employees	(4) Police Dispatchers	Western Surety Co.	10,000 each
	(5) Office Clerks		10,000 each
	(12) Police Officers		25,000 each
	(1) Recreational Director		10,000
Randall George	Code and Zoning Officer	Western Surety Co.	10,000
Faye Johnston	City Clerk / Tax Collector	Brierfield St. Paul	15,000 50,000
Billy Price	Alderman	St. Paul	100,000
Harry Robinson	Alderman	St. Paul	100,000
James Clark	Alderman	St. Paul	100,000
Cynthia Melton	Alderman	St. Paul	100,000
Allan Atkinson	Alderman	St. Paul	100,000

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

TONY CHANCE & COMPANY  
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CERTIFIED PUBLIC ACCOUNTANTS  
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MEMBER  
AMERICAN INSTITUTE  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER  
MISSISSIPPI SOCIETY OF CERTIFIED  
PUBLIC ACCOUNTANTS

**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**

Honorable Mayor and Board of Aldermen  
City of Forest, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate discreetly presented component units, each major-fund and the aggregate remaining fund information of the City of Forest, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City of Forest, Mississippi's financial statements and have issued our report thereon dated March 1, 2007. 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.

Compliance

As part of obtaining reasonable assurance about whether City of Forest, Mississippi's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Forest, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Mayor and Board of Aldermen  
City of Forest, Mississippi  
Page 2

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Tony Chance & Company  
Forest, Mississippi  
March 1, 2007

A handwritten signature in black ink, appearing to read "Tony Chance". The signature is written in a cursive style with a large initial "T" and a long horizontal stroke at the end.

TONY CHANCE & COMPANY  
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MEMBER  
AMERICAN INSTITUTE  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER  
MISSISSIPPI SOCIETY OF CERTIFIED  
PUBLIC ACCOUNTANTS

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

Honorable Mayor and Board of Aldermen  
City of Forest, Mississippi

We have audited the financial statements of the City of Forest, Mississippi as of and for the year ended September 30, 2006 and have issued our report dated March 1, 2007. We have 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*.

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 state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the financial statements disclosed no material instances of noncompliance with state laws and regulations.

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

This report is intended for the information of the City's management and the Office of the State Auditor 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.

Tony Chance & Company  
Forest, Mississippi  
March 1, 2007



**SINGLE AUDIT SECTION**

TONY CHANCE & COMPANY  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS  
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AMERICAN INSTITUTE  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER  
MISSISSIPPI SOCIETY OF CERTIFIED  
PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Board of Aldermen  
City of Forest, Mississippi

Compliance

We have audited the compliance of City of Forest, Mississippi, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. City of Forest, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Forest, Mississippi's management. Our responsibility is to express an opinion on City of Forest, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Forest, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Forest, Mississippi's compliance with those requirements.

Mayor and Board of Aldermen  
City of Forest, Mississippi  
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In our opinion, City of Forest, Mississippi, complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of City of Forest, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Forest, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Tony Chance and Company  
Forest, Mississippi  
March 1, 2007

**CITY OF FOREST, MISSISSIPPI**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**September 30, 2006**

<u>Federal Agency/Pass-through Entity/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Entity Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation Federal Aviation Administration Grant	20.106	3-28-0026-003-2006	348,262
U.S. Department of Economic & Community Development Passed-through MS Dept. of Economic & Community Development Community Development Block Grant Jones Street Area Sewer Rehabilitation Grant	14.228	1121-04-186-PF-01	277,254
U.S. Environmental Protection Agency Design and Construction of the sewer and water system extension	66.418	XP-96447006-0	207,780
Federal Emergency Management Agency (FEMA) Passed-through Mississippi Emergency Management Agency (MEMA) Hurricane Katrina Reimbursements	97.036	FEMA-1604-DR-MS 039-42440-00	141,061
U.S Army Corp of Engineers Design and Construction of the sewer and water system extension	12.431	Section 592 Program	1,275
U.S. Department of Economic & Community Development Passed-through MS Dept. of Economic & Community Development Community Development Block Grant Unipres	14.228	1121-04-186-ED-01	103,178
U.S. Department of Homeland Security Passed-through MS Emergency Management Agency Domestic Preparedness Equipment Grant	97.004	SP 711 05HS186	<u>19,615</u>
Total expenditures of federal awards			<u>\$ 1,098,425</u>

Notes to the Schedule

This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable to the financial statements.

**CITY OF FOREST, MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended September 30, 2006**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of City of Forest, Mississippi.
2. No instances of material non-compliance material to the financial statements of City of Forest, Mississippi were disclosed during the audit.
3. No reportable conditions related to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-13".
4. The auditor's report on compliance for the major federal award programs for City of Forest, Mississippi expresses an unqualified opinion on all major federal programs.
5. The audit did not disclose any findings which are required to be reported under Section .510(a) of OMB Circular A-133.
6. The programs tested as major programs were:
  - U. S. Department of Transportation – Federal Aviation Administration Grant – CFDA #20.106.
  - Mississippi Development Authority Community Development Block Grant – Jones Street Area Severe Rehabilitation Grant – CFDA#14.228.
7. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
8. City of Forest, Mississippi did not qualify as a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None