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CITY OF FOREST, MISSISSIPPI

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

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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PUBLIC ACCOUNTANTS

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, each major fund and the aggregate remaining fund information of the City of Forest, Mississippi as of and for the year ended September 30, 2009, 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 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 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 opinions.

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, 2009, 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, 2010, 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 opinions 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 and statistical sections 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, 2010

CITY OF FOREST, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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, 2009. The intent of this discussion and analysis is to look at the city's performance as a whole. 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 2009 were as follows:

- The City's assets exceeded its liabilities by $25,268,962 (net assets) for the fiscal year reported. This was an increase in total net assets of $1,436,902.

- Total net assets are comprised of the following:
  (1) Capital assets of $18,561,085 include property and equipment, net of accumulated depreciation.
  (2) Net assets of $196,967 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  (3) Unrestricted net assets of $6,609,154 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

- The City has $8,339,000 in total revenue. General revenues account for $3,432,420, or 41% of all revenues. Program specific revenues in the form of charges for services, and grants and contributions account for $4,906,580 or 59% of total revenues.

- The City had $6,902,098 in expenses; 48% or $3,335,667 of these expenses were covered by program specific charges for services, and the balance of $3,566,431 was covered by general revenues of the City.

- Among major funds, the General Fund had $4,158,810 in revenue and $4,997,470 in expenditures. The General Fund's balance decreased $860,660 over the prior year.

- The Proprietary fund had $3,301,786 in revenue and $3,294,380 in expenditures. The Proprietary fund's balance increased $7,406 over the prior year.

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, 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 through 26 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 $23,832,060 to $25,268,962 between fiscal years 2008 and 2009.

By far the largest portion of the City's net assets (73%) 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:

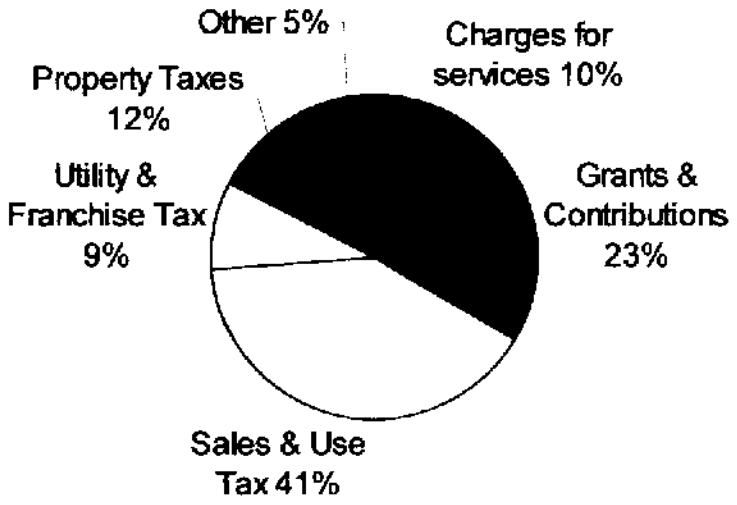
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets:						
Current and other assets	$ 6,325,597	$7,322,985	$2,787,873	$3,701,798	$ 9,113,470	$11,024,783
Capital assets, net	6,937,035	4,449,640	11,624,050	10,706,173	18,561,085	15,155,813
Total Assets	$13,262,632	$11,772,625	$14,411,923	$14,407,971	$27,674,555	$26,180,596
Liabilities:						
Current and other liabilities	$382,137	$218,302	$701,500	$458,631	$1,083,637	$676,933
Long-term liabilities	98,244	129,999	1,223,712	1,541,604	1,321,956	1,671,603
Total Liabilities	$480,381	$348,301	$1,925,212	$2,000,235	$2,405,593	$2,348,536
Net Assets:						
Invested in capital assets	$6,838,791	$4,319,641	$11,624,050	$10,706,173	$18,462,841	$15,025,814
Restricted	170,671	424,025	26,296	19,817	196,967	443,842
Unrestricted	5,772,789	6,680,658	836,365	1,681,746	6,609,154	8,362,404
Total Net Assets	$12,782,251	$11,424,324	$12,486,711	$12,407,736	$25,268,962	$23,832,060

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Program Revenues:						
Charges for services	$530,700	$564,832	$2,804,967	$2,741,403	$3,335,667	$3,306,235
Capital grants	1,159,518	75,391	411,395	595,778	1,570,913	671,169
General Revenues:						
Sales and use taxes	2,044,309	2,074,189	-	-	2,044,309	2,074,189
Property taxes	618,880	625,553	-	-	618,880	625,553
Other	720,344	827,790	60,079	66,049	769,231	893,839
Total Revenues	$5,062,559	$4,167,755	$3,276,441	$3,403,230	$8,339,000	$7,570,985
Program Expenses:						
General Government	$463,659	$384,232	$ -	$ -	$463,659	$384,232
Public Safety	1,496,937	1,349,661	-	-	1,496,937	1,349,661
Streets and Sanitation	1,289,550	1,165,478	-	-	1,289,550	1,165,478
Culture and Recreation	382,917	480,936	-	-	382,917	480,936
Water and Sewer	-	-	3,269,035	3,086,153	3,269,035	3,086,153
Total Expenses	$3,633,063	$3,380,307	$3,269,035	$3,086,153	$6,902,098	$6,466,460
Increase (Decrease) in net assets	$1,429,496	$ 787,448	$ 7,406	$ 17,077	$1,436,902	$1,104,525

Governmental activities. Revenues for the City's governmental activities for the year ended September 30, 2009 were $5,062,559 compared to $4,167,755 in 2008. Revenues increased $894,804 mostly due to increased grant revenue.

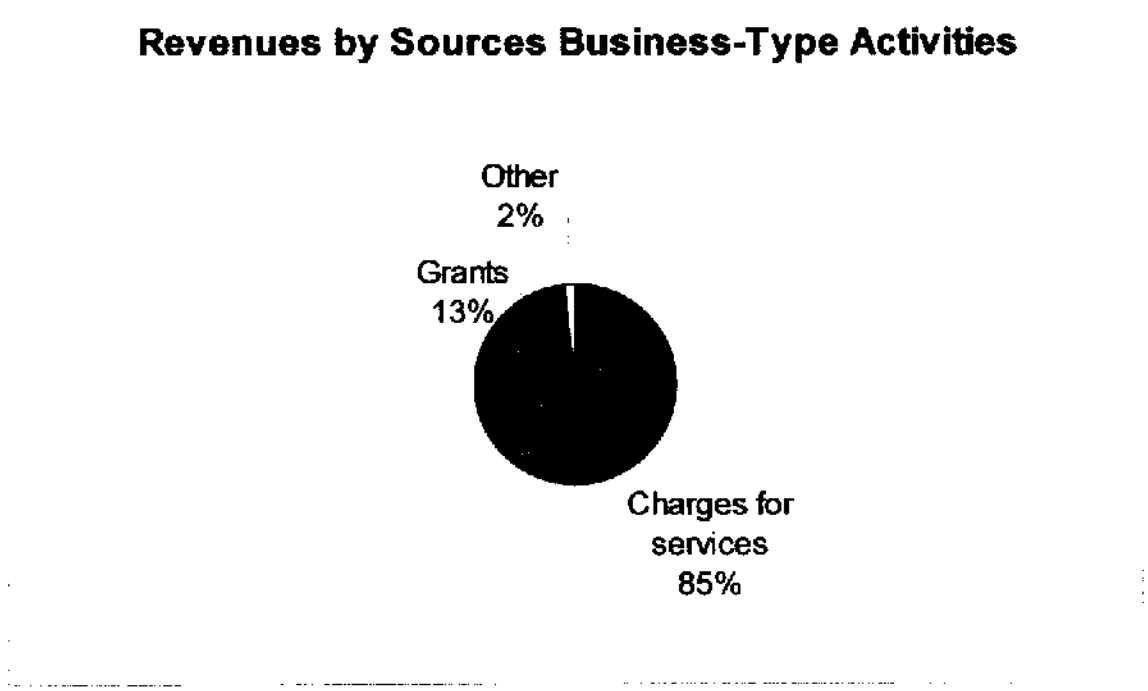
Revenues by Source
Governmental Activities



The cost of providing all governmental activities this year was $3,633,063, an increase of $252,756 from the prior year. Of this amount, general government expenses decreased $241,129; public safety expenses increased $147,276; streets and sanitation expenses increased $124,072; culture and recreation expenses increased $222,537.

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. During the current year the City has an ongoing project for sewer rehabilitation and received several grants totaling $411,395. Charges for services for the City's business-type activities were $2,804,967 for 2009, an increase of $63,564 from 2008.



The cost of these business-type activities was $3,269,035 for 2009, a increase of $182,882 from 2008 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 $6,015,029, a decrease of $1,089,654. $5,844,358 or 97% 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 $170,671 or 3% 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, 2009, the City's total capital assets were $37,977,717, including land, city buildings, infrastructure, vehicles, and furniture and equipment. This amount represents an increase of $4,227,268 from the previous year. The total accumulated depreciation as of September 30, 2009, was $19,416,632, and total depreciation expense for the year was $1,004,497, resulting in total net assets of $18,561,085.

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, 2009, the City had paid off all bonds.

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

CURRENT ISSUES

The City of Forest is in an ongoing process of taking steps toward improving its sewer system. Grants have currently been awarded from the Corp of Engineers and through the Community Development Block Grant program. The city plans to expend approximately $1.6 million during the FYE 2010.

The City has been awarded the following:

- $2,300,000 grant money through federal and state funding for renovations to the airport runway and lighting. A portion of the money was made possible through the American Recovery and Reinvestment Act.
- $100,000 Small Municipalities Grant for downtown sidewalk renovations in order to meet the American Disabilities Act requirements. The city will be required to match 10%.
- $100,000 Emergency Grant has been awarded to help upgrade the Oak Park Water Well.

Other projects of the city:

- Construction of a new library is ongoing with a total cost of approximately $2.2 million. The construction should be completed by summer of 2010.
- Renovations to the former Farmers and Merchants Bank on South Main Street are currently being done with an approximate cost of $200,000. The renovation will provide space to house a city museum and office space with a conference meeting area.
- A grant application has been submitted for the funding of construction of a second fire department. At the present time awards have not been disbursed.

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, 2009

Exhibit A

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	$ 162,917	$ 488,413	$ 651,330
Investments	6,004,000	311,023	6,315,023
Receivables:			
Rent	6,177	-	6,177
Interest	1,882	-	1,882
Tax Lien	8,691	-	8,691
Trade	-	295,674	295,674
Unbilled trade accounts	-	123,489	123,489
Accrued interest	-	168	168
Due from other governments	141,930	-	141,930
Restricted assets:			
Cash-customer deposits	-	270,268	270,268
-advances from industry	-	30,709	30,709
Receivables - industry note principal	-	1,263,810	1,263,810
- industry interest	-	4,319	4,319
Capital assets, net	6,937,035	11,624,050	18,561,085
Total Assets	$ 13,262,632	$ 14,411,923	$ 27,674,555
LIABILITIES AND FUND BALANCES			
Liabilities			
Current liabilities:			
Accounts payable	$ 319,674	$ 328,835	$ 648,509
Accounts payable -customers	-	35,475	35,475
Sales tax payable	-	2,272	2,272
Accrued interest State Revolving Fund	-	4,228	4,228
Due to trust and agency funds	30,709	15,820	46,529
Notes payable, current	31,754	-	31,754
Long term liabilities (Due within one year)	-	314,870	314,870
Total current liabilities	382,137	701,500	1,083,637
Non-current liabilities:			
Customer deposits	-	270,268	270,268
Notes payable, non-current	98,244	-	98,244
Long term liabilities (Due beyond one year)	-	953,444	953,444
Total non-current liabilities	98,244	1,223,712	1,321,956
Total Liabilities	$ 480,381	$ 1,925,212	$ 2,405,593
Net Assets			
Invested in capital assets (net of related debt)	$ 6,838,791	$ 11,624,050	$ 18,462,841
Reserved for police fund	165,960	-	165,960
Reserved for municipal fire	4,711	-	4,711
Reserved for debt service	-	26,296	26,296
Unreserved	5,772,789	836,365	6,609,154
Total Net Assets	$ 12,782,251	$ 12,486,711	$ 25,268,962

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

CITY OF FOREST, MISSISSIPPI
STATEMENT OF ACTIVITIES
Year Ended September 30, 2009

Exhibit B

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	$ 143,103	$ 115,933	$ -	$ 1,159,518	$ 1,132,348	$ -	$ 1,132,348
Public safety	1,496,937	153,820	-	-	(1,343,117)	-	(1,343,117)
Streets and sanitation	1,289,550	260,947	-	-	(1,028,603)	-	(1,028,603)
Culture and recreation	703,473	-	-	-	(703,473)	-	(703,473)
Total Governmental Activities	3,633,063	530,700	-	1,159,518	(1,942,845)	-	(1,942,845)
Business-type activities:							
Water & Sewer	3,269,035	2,804,967	-	411,395	-	(52,673)	(52,673)
Total Primary Government	$ 6,902,098	$ 3,335,667	$ -	$ 1,570,913	(1,942,845)	(52,673)	(1,995,518)
General Revenues:							
Taxes:							
Sales tax					2,044,309	-	2,044,309
Property tax					618,880	-	618,880
Utility tax					22,285	-	22,285
Franchise taxes					422,789	-	422,789
Unrestricted grant's and contributions:							
Intergovernmental					216,295	-	216,295
Unrestricted investment earnings					61,967	85,424	147,391
Loss on sale of land and equipment					(14,184)	(25,345)	(39,529)
Total General Revenues					3,372,341	60,079	3,432,420
Change in Net Assets					1,429,496	7,406	1,436,902
Net Assets - Beginning					11,424,324	12,407,736	23,832,060
Net Assets - Ending					$ 12,853,820	$ 12,415,142	$ 25,268,962

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, 2009

Exhibit C

	General	Grant Management	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 162,207	$ -	$ 710	$ 162,917
Investments	6,000,000	-	4,000	6,004,000
Receivables:				
Tax lien	8,691	-	-	8,691
Interest	1,881	-	1	1,882
Rent Receivable	6,177	-	-	6,177
Due from other funds	71,569	-	-	71,569
Due from other governments	141,930	-	-	141,930
Total Assets	$ 6,392,455	$ -	$ 4,711	$ 6,397,166
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 319,674	$ -	$ -	$ 319,674
Due to other funds	30,709	-	-	30,709
Notes payable, current	31,754	-	-	31,754
Total Liabilities	382,137	-	-	382,137
Fund Balances:				
Reserved for police fund	165,960	-	-	165,960
Reserved for municipal fire	-	-	4,711	4,711
Unreserved, reported in:				
General Fund	5,844,358	-	-	5,844,358
Total Fund Balance	6,010,318	-	4,711	6,015,029
Total Liabilities and Fund Balances	$ 6,392,455	$ -	$ 4,711	$ 6,397,166

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, 2009

Exhibit C-1

Total Fund Balance - Governmental Funds			$ 6,015,029
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	$	11,804,841	
Less accumulated depreciation		(4,867,806)	6,937,035
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(98,244)
Total Net Assets - Governmental Activities			$ 12,853,820

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, 2009

Exhibit D

	General	Grant Management	Other Governmental Funds	Total Governmental Funds
Revenues				
General property taxes	$ 618,880	$ -	$ -	$ 618,880
Penalties & interest on delinquent taxes	25,393	-	-	25,393
Licenses and permits	82,728	-	-	82,728
Franchise taxes on utilities	422,789	-	-	422,789
Intergovernmental revenue:				
Federal sources - TVA	8,710	-	-	8,710
Federal sources - other	251,393	908,125	-	1,159,518
Homestead exemption reimbursement	27,947	-	-	27,947
General municipal aid	13,236	-	-	13,236
Sales tax	2,044,309	-	-	2,044,309
Utility tax	22,285	-	-	22,285
Fire Protection	-	-	31,636	31,636
County contributions	148,460	-	8,000	156,460
Charges for services	260,947	-	-	260,947
Donations	9,942	-	-	9,942
Fines and forfeitures	122,184	-	-	122,184
Interest income	60,597	-	1,370	61,967
Miscellaneous	7,812	-	-	7,812
Total Revenues	4,127,612	908,125	41,006	5,076,743
Expenditures				
General government	417,135	683,283	-	1,100,418
Public safety	2,108,629	-	270,000	2,378,629
Streets and sanitation	1,555,969	-	-	1,555,969
Culture and recreation	879,580	224,842	-	1,104,422
Debt Service:				
Principal	31,754	-	-	31,754
Interest	4,403	-	-	4,403
Total Expenditures	4,997,470	908,125	270,000	6,175,595
Excess of Expenditures Over Revenues	(869,858)	-	(228,994)	(1,098,852)
Other Financing Sources				
Sale of equipment	3,598	-	-	3,598
Sale of land	5,600	-	-	5,600
Total Other Financing Sources	9,198	-	-	9,198
Net Change in Fund Balances	(860,660)	-	(228,994)	(1,089,654)
Fund Balance, October 1, 2008	6,870,978	-	233,705	7,104,683
Fund Balance, September 30, 2009	$ 6,010,318	$ -	$ 4,711	$ 6,015,029

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, 2009

Exhibit D-1

Net Change in fund balances - governmental funds		$	(1,089,654)
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	$ 2,894,572		
Less current year depreciation	(383,794)		
			2,510,778
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.			(23,382)
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.			31,754
Change in net assets of governmental activities		$	1,429,496

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, 2009

Exhibit E

ASSETS

Current Assets:		
Cash	$	488,413
Investments		311,023
Receivables:		
Trade accounts		295,674
Unbilled trade accounts		123,489
Accrued interest		168
Total Current Assets		1,218,767
Restricted Assets:		
Cash and certificates of deposit:		
Customer deposits		270,268
Advances from Industry		30,709
Due from Industry:		
Principal		1,263,810
Interest		4,319
Total Restricted Assets		1,569,106
Noncurrent Assets		
Capital assets (net)		11,624,050
Total Assets	$	14,411,923

LIABILITIES

Current Liabilities:		
Accounts payable	$	328,835
Accounts payable - customers		35,475
Sales tax payable		2,272
Due to Payroll Clearing Fund		15,820
Due to General Fund		71,569
Total Current Liabilities		453,971
Current Liabilities (payable from restricted assets):		
Accrued interest - State Revolving Fund		4,228
Current portion - State Revolving Fund Loan		314,870
Total Current Liabilities (payable from restricted assets)		319,098
Non-current Liabilities:		
Customer deposits		270,268
Sales tax loan - State Revolving Fund (net of current portion)		953,444
Total Non-current Liabilities (payable from restricted assets)		1,223,712
Total Liabilities	$	1,996,781
Net Assets		
Contributed capital - grants	$	6,893,907
Contributed capital - industry		5,065,949
Retained earnings reserved		26,296
Retained earnings unreserved		428,990
Total Net Assets	$	12,415,142

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, 2009

Exhibit F

	Proprietary Fund
Operating Revenue:	
Charges for services	$ 2,804,967
Operating Expenses:	
Personal services	1,052,559
Maintenance, operations, and contractual services	295,204
Materials and supplies	255,484
Utilities	986,876
Bad debts	1,662
Depreciation	620,703
Total Operating Expenses	3,212,488
Operating Loss	(407,521)
Nonoperating Revenues (Expenses):	
Loss on disposal of equipment	(25,345)
Interest income	8,673
Interest income - industry	76,751
Interest expense	(56,547)
Total Nonoperating Revenues	3,532
Loss before contribuions and transfers	(403,989)
Grant revenue	411,395
Change in net assets	7,406
Net assets, October 1, 2008	12,407,736
Net assets, September 30, 2009	$ 12,415,142

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, 2009

Exhibit G

Cash flows from Operating Activities		
Receipts from customers	$ 3,113,281	
Payments to suppliers	(1,275,907)	
Payments to employees	(1,001,440)	
Net Cash Provided by Operating Activities		$ 835,934
Cash Flows from Investing Activities		
Interest on investments	85,424	
Acquisition and construction of capital assets	(1,564,082)	
Proceeds from sale of equipment	157	
Net Cash Provided by Investing Activities		(1,478,501)
Cash Flows from Capital and Related Financing Activities		
Grant revenue	411,395	
Principal paid on long-term debt	(314,870)	
Interest paid on long-term debt	(56,547)	
Net Cash Provided by Capital and Related Financing Activities		39,978
Net Increase in Cash and Restricted Cash		(602,589)
Cash and Restricted Cash, October 1, 2008		1,703,002
Cash and Restricted Cash, September 30, 2009		$ 1,100,413

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, 2008

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 by operating activities:		
Operating Loss	$	(407,521)
Depreciation and amortization		620,703
Changes in Assets and Liabilities:		
Decrease Accounts Receivable		1,097
Decrease Accrued Interest		799
Decrease Due from Industry		309,440
Increase Accounts Payable		264,503
Increase Due to Other Funds		51,119
(Decrease) Accrued Expenses		(1,184)
(Decrease) Customer Deposits		(3,022)
Net Cash Provided by Operating Activities	$	835,934

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, 2009

Exhibit H

	Agency Funds					
ASSETS	**Payroll Clearing**	**Accounts Payable**	**Court Fines**	**Forest Municipal School Distr. Taxes**	**Library Expendable Trust**	**Total**
Cash	$ 22,484	$ 968	$ 45,335	$ 1	$ 320	$ 69,108
Investments	-	-	-	-	24,000	24,000
Due from other funds	46,530	-	-	-	-	46,530
Taxes receivable	-	-	-	34,096	-	34,096
Accrued interest receivable	-	-	-	-	7	7
Due from other governments	-	-	-	28,832	-	28,832
Total Assets	$ 69,014	$ 968	$ 45,335	$ 62,929	$ 24,327	$ 202,573
LIABILITIES						
Employee withholdings payable	$ 20,078	$ -	$ -	$ -	$ -	$ 20,078
Accrued payroll	48,936	-	-	-	-	48,936
Bail bonds escrow account	-	-	6,251	-	-	6,251
Due to Forest Municipal School District	-	-	-	62,929	-	62,929
Due to General Fund	-	968	-	-	-	968
Due to State of Mississippi	-	-	39,073	-	-	39,073
Total Liabilities	69,014	968	45,324	62,929	-	178,235
Net assets held in trust	$ -	$ -	$ 11	$ -	$ 24,327	$ 24,338

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, 2009

Exhibit I

	Library Expendable Trust
Additions	
Trust receipts	$ 3,796
Interest income	164
Total additions	3,960
Deductions	
Supplies	3,795
Total deductions	3,795
Changes in net assets	165
Net assets held in trust:	
Beginning of year	24,162
End of year	$ 24,327

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, 2009

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. Anticipated refunds of such taxes are recorded as liabilities and reductions 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 principal 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:

	Capitalization Policy	Estimated Useful Life
Land	$ -	-
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, 2008 was 64.00 mills.

The taxes were distributed to funds in accordance with prescribed tax levies. A tax sale was held for uncollected taxes. Remaining uncollected taxes were not accrued.

Ad valorem tax collections were within the limitations of Section 27-39-320 to 27-39-323 as follows:

$4,372,693	Base 2007-2008	$4,375,460	Taxes collected 2007-2008
437,269	10% Increase	124,156	Homestead Exemption Reimbursements
4,809,962		4,499,616	Total Collections
303,037	Exempt Collections	613,383	Under Limitations
$5,112,999	Total	$5,112,999	Total

N. Economic Dependency

Three heavy water users of the Water and Sewer Enterprise Fund accounted for 79% of total consumption. Revenues are based upon consumption. These three users produced 64% of gross revenue.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 beheld at least one week prior to the adoption of the budget with advance notice and held outside normal working hours.

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 if 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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 $7,360,438.

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.

Note 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS – Continued

Investment Type	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Certificates of Deposit	$6,640,000	$ -	$ -	$6,640,000	$6,640,000

Note 3. INTERFUND ASSETS/LIABILITIES

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

	Due From	Due To
General Fund		
Water and Sewer Enterprise Fund	$ 71,569	$ -
Payroll Clearing Fund	-	30,709
	71,569	30,709
Water and Sewer Enterprise Fund		
General Fund	-	71,569
Payroll Clearing Fund	-	15,821
	-	87,389
Payroll Clearing Fund		
General Fund	30,709	-
Water and Sewer Enterprise Fund	15,821	-
	46,530	-
Total	$ 118,099	$ 118,099

Note 4. DUE FROM OTHER GOVERNMENTS

Due from other Governments at September 30, 2009 consists of the following:

	General Fund	Agency Funds	Total
State of Mississippi - sales tax	$135,304	$ -	$135,304
Scott County - ad valorem taxes	6,626	28,832	35,458
Total	$141,930	$ 28,832	$170,762

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 9/30/08	Additions	Retirements	Balance 9/30/09
Non-depreciable Capital Assets:				
Land	$1,207,826	$ -	$ -	$1,207,826
Depreciable Capital Assets:				
Infrastructure – Bridges	50,605	-	-	50,605
Buildings	4,947,694	1,751,286	-	6,698,980
Mobile equipment	1,586,720	708,693	140,146	2,155,267
Furniture and fixtures	196,320	9,881	1,328	204,873
Equipment	1,104,682	424,712	42,104	1,487,290
Total Depreciable Capital Assets	7,886,021	2,894,572	183,578	10,597,015
Less Accumulated Depreciation:				
Infrastructure – Bridges	12,145	1,012	-	13,157
Buildings	2,622,393	141,262	-	2,763,655
Mobile equipment	1,207,766	136,084	117,062	1,226,788
Furniture and fixtures	91,478	16,740	1,328	106,890
Equipment	710,425	88,696	41,805	757,316
Total Accumulated Depreciation	4,644,207	383,794	160,195	4,867,806
Governmental Activities Capital Assets, Net	$4,449,640	$2,510,778	$ 23,383	$6,937,035

Note 6. CAPITAL ASSETS – Continued

Depreciation expense was charged to the following governmental functions:

General Government	$ 12,889
Public Safety	121,897
Public Works	100,482
Coliseum	33,045
Airport	38,956
Library	2,588
Recreation	73,937
Total depreciation expense	$ 383,794

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

	Balance 9/30/08	Additions	Retirements	Balance 9/30/09
Non-depreciable Capital Assets:				
Land	$ 162,395	$ -	$ -	$ 162,395
Depreciable Capital Assets:				
Machinery and equipment	1,077,652	98,795	102,023	1,074,424
Water plant	5,207,847	537,599	-	5,745,446
Waste treatment plant	18,208,708	927,688	409	19,135,987
Total Depreciable Capital Assets	24,494,207	1,564,082	102,432	25,955,857
Less Accumulated Depreciation:				
Machinery and equipment	660,498	79,223	76,525	663,196
Water plant	4,092,750	74,533	-	4,167,283
Waste treatment plant	9,197,181	466,947	405	9,663,723
Total Accumulated Depreciation	13,950,429	620,703	76,930	14,494,202
Total depreciable capital assets, net	10,543,778	943,379	25,502	11,461,655
Proprietary activities capital assets, net	$10,706,173	$ 943,379	$ 25,502	$11,624,050

Depreciation expense charged to the enterprise fund totaled $620,703.

Note 7. LONG TERM DEBT

A. Installment Note Payable – General Fund

Note payable at September 30, 2009, is comprised of the following individual note payable:

	Current Portion	Long-Term Portion	Total
Loan payable, Scott County; monthly payments of $2,935 with 47 remaining through 8/1/2013, interest at 3%, secured by the coliseum	$ 31,754	$ 98,244	$ 129,998

Interest expense for the year ended September 30, 2009, was $4,403.

B. Installment Note Payable – Proprietary Fund

Note payable at September 30, 2009, is comprised of the following:

	Current Portion	Long Term Debt	Total
Loan payable, State of Mississippi; monthly payments of $31,038.86, 44 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)	$ 314,870	$ 953,444	$1,268,314

C. Amortization of Long-Term Debt

The annual requirements to amortize all debt outstanding including interest of $105,341 as of September 30, 2009, are as follows:

Annual Requirements to Amortize Long-Term Debt
September 30, 2009

Sept. 30	Notes Payable
2010	$ 407,686
2011	407,686
2012	407,686
2013	280,595
	$ 1,503,653

Note 7. LONG TERM DEBT- Continued

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, 2009, 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.

Note 8. 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.

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 12% 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, 2009, 2008, and 2007 were $269,983, $254,720, and $226,626, respectively, which equaled the required contributions for each year.

Note 9. 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.

Note 9. RISK MANAGEMENT – Continued

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 form 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 serverally 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 10. 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, 2009, 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, 2008	$ 666,250	
Less amounts of principal and interest paid by Scott County on behalf of the City	(275,886)	390,364
		$ 1,315,364

As of September 30, 2009, the City owed the County $129,998 on the note, but the City has spent $114,478 more on this project than the County.

Note 11. 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, 2009

Schedule 1a

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	(GAAP Basis)	Over (under)
Revenues				
General property taxes	$ 600,375	$ 600,375	$ 618,880	$ 18,505
Penalties & interest on delinquent taxes	25,000	25,000	25,393	393
School Advalorem collection fee	39,162	39,162	39,162	-
Licenses and permits	95,600	95,600	82,728	(12,872)
Franchise taxes on utilities	425,000	425,000	422,789	(2,211)
State shared revenues	2,781,000	2,781,000	2,367,880	(413,120)
Culture and Recreation	47,000	47,000	47,832	832
Road and Bridge Tax	140,000	140,000	148,460	8,460
Charges for services	210,000	210,000	173,953	(36,047)
Fines and forfeitures	175,500	175,500	122,184	(53,316)
Interest income	175,000	175,000	60,597	(114,403)
Miscellaneous	30,500	30,500	17,754	(12,746)
Total Revenues	4,744,137	4,744,137	4,127,612	(616,525)
Expenditures				
General government	528,837	528,837	453,292	75,545
Public safety	1,641,450	1,656,450	2,108,629	(452,179)
Streets and sanitation	1,891,950	1,891,950	1,555,969	335,981
Culture and recreation	865,400	865,400	879,580	(14,180)
Total Expenditures	4,927,637	4,942,637	4,997,470	(54,833)
Excess of Revenues Over (Under) Expenditures	(183,500)	(198,500)	(869,858)	(671,358)
Other Financing Sources				
Sale of Equipment	-	-	3,598	3,598
Sale of Land	2,500	2,500	5,600	3,100
Total Other Financing Sources	2,500	2,500	9,198	6,698
Net Change in Fund Balances	(181,000)	(196,000)	(860,660)	(664,660)
Fund Balance, October 1, 2008	6,870,978	6,870,978	6,870,978	-
Fund Balance, September 30, 2009	$ 6,689,978	$ 6,674,978	$ 6,010,318	$ (664,660)

CITY OF FOREST
BUDGETARY COMPARISON SCHEDULE FOR PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Schedule 1b

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	(GAAP Basis)	Over (under)
Operating Revenue:				
Charges for services	$ 2,822,500	$ 2,822,500	$ 2,804,967	$ (17,533)
Operating Expenses:				
Personal Services	1,124,600	1,124,600	1,052,559	72,041
Maintenance, operations, and contractual services	1,073,200	1,073,200	1,086,367	(13,167)
Materials and supplies	3,181,000	3,181,000	452,859	2,728,141
Depreciation	-	-	620,703	(620,703)
Total Operating Expenses	5,378,800	5,378,800	3,212,488	2,166,312
Operating Loss	(2,556,300)	(2,556,300)	(407,521)	2,148,779
Nonoperating Revenues (Expenses):				
Grant Revenue	2,050,000	2,050,000	411,395	(1,638,605)
Miscellaneous	7,500	7,500	(25,345)	(32,845)
Interest income	45,000	45,000	8,673	(36,327)
Interest expense	(40,000)	(40,000)	20,204	60,204
Total Nonoperating Revenues (Expenses)	2,062,500	2,062,500	414,927	(1,647,573)
Net Income (Loss)	(493,800)	(493,800)	7,406	501,206
Net assets, October 1, 2008	12,407,736	12,407,736	12,407,736	-
Net assets, September 30, 2009	$ 11,913,936	$ 11,913,936	$ 12,415,142	$ 501,206

CITY OF FOREST, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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. Expenditures shall not exceed budget estimates, measured at the lowest level adopted in the budget, except for capital outlay, election expenses and payments of emergency warrants. 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, 2009

Name	Position	Surety	Amount
Nancy Chambers	Mayor	St. Paul	$ 50,000
Robert Roncali	Chief of Police	Western Surety Co.	50,000
Employees	(4) Police Dispatchers	Western Surety Co.	50,000 each
	(7) Office Clerks		50,000 each
	(12) Police Officers		25,000 each
	(1) Recreational Director		10,000
David Chamblee	Code and Zoning Officer	Western Surety Co.	10,000
Faye Johnston	City Clerk / Tax Collector	St. Paul	50,000
Matt Alford	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

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON 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, each major fund and the aggregate remaining fund information of the City of Forest, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the City of Forest, Mississippi's basic financial statements and have issued our report thereon dated March 1, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Forest, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Forest, Mississippi's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Forest, Mississippi's ability to initiate, authorize, record, process, or report financial date reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Forest, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Forest, Mississippi's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Forest, Mississippi's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significance deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider it to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Forest, Mississippi's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management, the Mayor and Board of Aldermen and others within the entity, the State of Mississippi, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other that these specified parties.

Tony Chance & Company
Forest, Mississippi
March 1, 2010

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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, 2009, and have issued our report dated March 1, 2010. 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.

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, 2010

SINGLE AUDIT SECTION

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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, 2009. The 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.

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, 2009.

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 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 City of Forest, Mississippi's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

This report is intended for the information of the management, the Mayor and Board of Aldermen and others within the entity, the State of Mississippi, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other that these specified parties.

Tony Chance and Company
Forest, Mississippi
March 1, 2010

CITY OF FOREST, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
September 30, 2009

Federal Agency/Pass-through Entity/Program Title	Catalog of Federal Domestic Assistance Number	Pass-though Entity Number	Federal Expenditures
Federal Aviation Administration			
American Recovery and Reinvestment Act			
Airport Runway Grant	20.106	3-28-0026-006-2009	$ 574,965
Federal Aviation Administration			
Airport Runway Grant	20.106	3-28-0026-004-2009	27,978
		3-28-0026-005-2009	75,875
		3-28-0026-007-2009	946
U.S. Environmental Protection Agency			
Design and Construction of the sewer and water system extension	66.418	XP-96447006-0	175,970
U.S. Department of Homeland Security			
Passed-through MS Dept. of Public Safety			
Homeland Security Grant	97.004	Sp-711-07LE186	5,015
U.S Army Corp of Engineers			
Design and Construction of the sewer and water system extension	12.431	Section 592 Program	136,728
U.S. Department of Economic & Community Development			
Passed-through MS Dept. of Economic & Community Development			
Community Development Block Grant			
Sewer Rehabilitation Grant	14.228	1125-08-186-PF-01	99,737
U.S. Department of Transportation			
Passed-through MS Dept. of Transportation			
Traffic Signal Improvements Grant		STP-0160-00(13)	
	20.205	LPA/105024-701000	176,378
U.S. Department of Economic & Community Development			
Passed-through MS Dept. of Economic & Community Development			
Community Development Block Grant			
Community Service Center Grant	14.228	R-110-186-01-GZ	224,842
			$ 1,498,434

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, 2009

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. One significant deficiency in internal control was disclosed during the audit of the financial statements and is reported in the report on internal control over financial reporting and on compliance and other matters based on the audit of financial statements performed in accordance with *Governmental Auditing Standards*. This condition is also reported as a material weakness.

3. No instances of material non-compliance material to the financial statements of City of Forest, Mississippi were disclosed during the audit.

4. 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".

5. 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.

6. The audit did not disclose any findings which are required to be reported under Section .510(a) of OMB Circular A-133.

7. The programs tested as major programs were:

   - Federal Aviation Administration – American Recovery and Reinvestments Act – Airport Runway Grant CFDA #20.106

8. The threshold used for distinguishing between Type A and Type B programs was $300,000.

9. City of Forest, Mississippi qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS

2009-1 Establish control over the financial reporting process

The City is responsible for establishing and maintaining internal controls which include the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U. S. generally accepted accounting principles.

In the current year, as well as the prior year, we note that as part of the audit, the City requested us to prepare the financial statements, including the related notes to financial statements. The Mayor and City Clerk reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, the City did not perform a detailed review of the financial statements. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur.

The existence of significant deficiencies or material weaknesses was already made known to management and represents a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. The City is responsible for making decisions concerning costs and the related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None