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TOWN OF DERMA, MISSISSIPPI

Financial Statement,
Supplemental Information,
Internal Control and Compliance,

For the Year Ended September 30, 2005
with
Independent Auditor's Reports

**TOWN OF DERMA, MISSISSIPPI
FINANCIAL STATEMENT, SUPPLEMENTAL INFORMATION,
INTERNAL CONTROL, AND COMPLIANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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FINANCIAL STATEMENT

**RONNIE S. WINDHAM, CPA
P.O. BOX 159
OXFORD, MS 38655
662-281-1091**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

We have audited the accompanying combined statement of cash receipts and disbursements (all funds) for the Town of Derma, Mississippi, for the year ended September 30, 2005, as listed in the table of contents, which comprise a portion of the Town's basic financial statements required by accounting principles generally accepted in the United States of America, as applied to the Town's cash receipts and disbursements basis of accounting. The financial statement and schedules are the responsibility of Town of Derma's management. Our responsibility is to express an opinion on the financial statement and schedules 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the 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.

As described in Note 1, the Town of Derma, Mississippi, prepares its financial statement on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Management has not presented government-wide financial statements to display the cash receipts and disbursements of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America, as applied to the Town's cash receipts and disbursements basis of accounting, require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements resulting from cash receipts and disbursements transactions for the Town's governmental activities, business-type activities, and discretely presented component units are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the cash receipts and disbursement financial position of the Town of Derma, Mississippi, for the year then ended.

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

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In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2006, on our consideration of the Town of Derma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management also has not presented the management's discussion and analysis and other require supplemental information that the Government Accounting Standards Board has determined is required to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statement that comprises the Town of Derma, Mississippi, basic financial statement. The other supplemental information listed in the table of contents is presented for the purpose of additional analysis and is 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 Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statement of the Town of Derma, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole, on the basis of accounting described in Note 1.

Ronnie S. Windham, CPA
Oxford, Mississippi
June 19, 2006

**TOWN OF DERMA, MISSISSIPPI
 COMBINED STATEMENT OF CASH RECEIPTS
 AND DISBURSEMENTS (ALL FUNDS)
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Governmental Funds</u>			Total (Memorandum Only) 2005
	<u>General</u>	<u>Special Revenue</u>	<u>Proprietary Funds</u>	
Revenue receipts:				
General property taxes	\$ 75,934	\$ -	\$ -	\$ 75,934
Licenses	958	-	-	958
Federal Grants	1,768	229,371	-	231,139
State shared revenues:				
Municipal aid	3,346	-	-	3,346
Sales tax	64,344	-	-	64,344
Fire insurance premium tax distribution	4,998	-	-	4,998
Other:				
Franchise tax	10,962	-	-	10,962
Fine and bonds	50,014	-	-	50,014
Interest income	126	-	464	590
Penalties	879	-	-	879
Charges for services:				
Water & Sewer	-	-	208,080	208,080
Fire Fees	-	-	10,671	10,671
Sanitation	-	-	39,072	39,072
Total revenue receipts	<u>213,329</u>	<u>229,371</u>	<u>258,287</u>	<u>700,987</u>
Other receipts:				
Miscellaneous	3,780	-	-	3,780
Loan proceeds	-	644,567	-	644,567
Loans and transfers	<u>60,926</u>	<u>-</u>	<u>66,937</u>	<u>127,863</u>
Total other receipts	<u>64,706</u>	<u>644,567</u>	<u>66,937</u>	<u>776,210</u>
Total receipts	278,035	873,938	325,224	1,477,197
Cash balance – beginning of the year	<u>68,701</u>	<u>2,050</u>	<u>71,130</u>	<u>141,881</u>
TOTAL AMOUNT TO ACCOUNT FOR	<u>\$346,736</u>	<u>\$ 875,988</u>	<u>\$ 396,354</u>	<u>\$ 1,619,078</u>

Continued

The accompanying notes are an integral part of this financial statement.

**TOWN OF DERMA, MISSISSIPPI
 COMBINED STATEMENT OF CASH RECEIPTS
 AND DISBURSEMENTS (ALL FUNDS) – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Governmental Funds</u>			Total (Memorandum Only) 2005
	<u>General</u>	<u>Special Revenue</u>	<u>Proprietary Funds</u>	
Operating disbursements:				
General government (executive and financial)	\$ 49,647	\$ -	\$ -	\$ 49,647
Public safety:				
Police	110,281	-	-	110,281
Fire	13,839	-	-	13,839
Highways and streets:				
Repairs and maintenance	32,285	-	-	32,285
Sanitation	35,689	-	-	35,689
Recreation	1,283	-	-	1,283
Enterprise:				
Water	-	-	135,719	135,719
Interest on loans and bonds	132	-	7,576	7,708
Total operating disbursements	<u>243,156</u>	<u>-</u>	<u>143,295</u>	<u>386,451</u>
Other disbursements:				
Loans repaid	16,415	-	28,468	44,883
Capital outlay	-	763,097	-	763,097
Loans and transfers	13,004	-	114,859	127,863
Total other disbursements	<u>29,419</u>	<u>763,097</u>	<u>143,327</u>	<u>935,843</u>
Total disbursements	272,575	763,097	286,622	1,322,294
Cash balance – end of year	<u>74,161</u>	<u>112,891</u>	<u>109,732</u>	<u>296,784</u>
TOTAL AMOUNT ACCOUNTED FOR	<u>\$346,736</u>	<u>\$ 875,988</u>	<u>\$ 396,354</u>	<u>\$ 1,619,078</u>

The accompanying notes are an integral part of this financial statement.

**TOWN OF DERMA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information

The Town operates under the Mayor-Alderman form of government and provides services as authorized by law.

Reporting Entity

The financial statement of the Town consists of all the funds of the Town.

New Accounting Standards Adopted

In fiscal year 2004, the Town adopted three new statements of financial accounting standards and one new interpretation issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34–Basic Financial Statements–and Management’s Discussion and Analysis–for State and Local Governments
- Statement No. 37–Basic Financial Statements–and Management’s Discussion and Analysis–for State and Local Governments: Omnibus
- Statement No. 38–Certain Financial Statement Disclosures

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments. Statement No. 34 requires government-wide financial statements that do not provide information by fund or account group, but distinguish between the Town’s governmental activities and business-type activities. The Town has not prepared government-wide financial statements. If the Town were to prepare government-wide financial statements on the accrual basis of accounting, the effect on the financial statements would be materially different.

Fund Accounting

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. Funds are classified into categories as follows:

Continued

**TOWN OF DERMA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

Governmental Funds

General Fund

The General Fund is the main operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue resources that are legally restricted to expenditures for specific purposes.

Proprietary Funds

Proprietary Funds are used to account for operations which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Continued

**TOWN OF DERMA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

Basis of Accounting

The financial statement is prepared on a cash receipts and disbursements basis, as prescribed by the Office of the State Auditor. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

Property Tax Revenues

The Town's Board, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincided with the month of original purchase. For the current year, the Town's levied taxes in the amount of 26 mills.

Memorandum Total

The total column is captioned "memorandum only" to indicate that it is presented only to facilitate analysis. Data in this column does not present the financial position of the Town in conformity with the cash basis of accounting. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. REPORT CLASSIFICATION

Receipts and disbursements were classified according to requirements for small cities in the State of Mississippi as prescribed by the Office of the State Auditor.

Continued

**TOWN OF DERMA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE 3. COMMITMENT AND CONTINGENCIES

The Town has \$799,721 of debt to Rural Development outstanding at September 30, 2005.

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

Grant monies received and disbursed by the Town are for specific purposes and are subject to audit and review by grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based on prior experience, the Town does not believe that such disallowances, if any, would have a material effect on the financial position of the Town.

NOTE 4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

At September 30, 2005, the carrying amount (recorded on the Town's books) of the Town's cash deposits, including certificates of deposit, was \$296,784 and the bank balance was \$305,012.

The collateral for public entities' deposits in financial institutions is now 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 Town'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 these 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.

Continued

**TOWN OF DERMA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE 5. DEFINED BENEFIT PENSION PLAN AND OTHER EMPLOYEE BENEFITS

Plan Description: The Town of Derma 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 requires supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 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 Town of Derma is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The rate was revised from 9.75% effective 7-1-2005. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town of Derma's contributions to PERS for the year ending September 30, 2005 and 2004 was \$14,768 and \$14,359, respectively, equal to the required contributions for each year.

SUPPLEMENTAL INFORMATION

**TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF INVESTMENTS
YEAR ENDED SEPTEMBER 30, 2005**

GOVERNMENT FUND TYPES:

General Fund	
Certificate of Deposit	<u>4,695</u>

TOTAL GOVERNMENTAL FUND TYPES	4,695
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PROPRIETY FUND TYPES:

Enterprise Fund	
Certificate of Deposit	<u>27,170</u>

TOTAL PROPRIETARY FUND TYPE	<u>27,170</u>
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TOTAL INVESTMENTS	<u>31,865</u>
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**TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF LONG-TERM DEBT
YEAR ENDED SEPTEMBER 30, 2005**

DEFINITION & PURPOSE	BALANCE 10/1/2004	TRANSACTIONS ISSUED	DURING YEAR REDEEMED	BALANCE 9/30/2005
<u>G.O. BONDS</u>	0	0	0	0
<u>REVENUE BONDS</u>				
02-07-72, Farmers Home Adm. Water & Sewer	57,876	0	10,973	46,903
10-22-81, Farmers Home Adm. Water & Sewer	117,257	0	9,005	108,252
02-03-04, Rural Development Water & Sewer	0	644,567	0	644,567
<u>OTHER LONG-TERM DEBT</u>				
06-10-94, Union Planters Bank Water & Sewer	5,178	0	5,178	0
05-22-06, State of MS Water & Sewer	11,965	0	11,965	0
<u>LEASE PURCHASE AGREEMENT</u>				
10-02, BBI Computer Software Gen & Water & Sewer	6,621	0	6,621	0
04-03, Grenada Equipment Water & Sewer & Public Works	1,139	0	1,139	0
TOTALS	200,036	644,567	44,881	799,722

**TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR TOWN OFFICIALS
SEPTEMBER 30, 2005**

<u>NAME</u>	<u>POSITION</u>	<u>SURETY</u>	<u>BOND AMOUNT</u>
Joanna D. Russell	City Clerk	Western Surety	50,000
Joanna D. Russell	Clerk & Water Bill Collector	Western Surety	35,000
Shirley Herrod	Deputy Clerk	Western Surety	25,000
Shane Childs	Deputy Clerk	Western Surety	25,000
Stan Evans	Police Chief	Western Surety	50,000
John Harrison	Police Officer	Western Surety	25,000
Gregory L. Pollan	Police Officer	Western Surety	25,000
Dean Poyner	Police Officer	Western Surety	25,000
Charles Jackson	Police Officer	Western Surety	25,000
Wayne Plank	Police Officer	Western Surety	25,000
Dock H. Gabbert	Mayor	Western Surety	State Requirement
Board of Aldermen	Aldermen	MS Municipal Plan	State Requirement

TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Federal Grantor/Pass-through Grantor or Cluster Title	Federal CFDA number	Pass-through Entity Identifying Number	Federal Expenditures
U.S Department of Housing and Urban Development: Pass through programs form the MS Development Authority CDBG Public Facility Fund-Sewer Plant Improvements	14.228	1118-01-165-PR01	<u>229,371</u>
Total U.S. Department of Housing and Urban Development			229,371
U.S. Department of Homeland Security Pass through programs from the MS Emergency Management Agency Domestic Preparedness Equipment Grant	97-004	355G-3102	<u>1,768</u>
Total U.S. Department of Homeland Security			1,768
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities Loan	10.760	38-7-646013051	<u>407,441</u>
Total U.S. Department of Agriculture			407,441
U.S. Department of Justice Passed through MS Department of Public Safety Local Law Enforcement Block Grant	16.592	3LB9091ADV1	<u>1,350</u>
Total U.S. Department of Justice			<u>1,350</u>
Total Expenditures of Federal Awards			<u><u>\$ 639,930</u></u>

See accompanying note to schedule of expenditures of federal awards.

**TOWN OF DERMA, MISSISSIPPI
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Derma and is presented on the cash receipts and disbursements basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**TOWN OF DERMA, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

INTERNAL CONTROL AND COMPLIANCE

**RONNIE S. WINDHAM, CPA
P.O. BOX 159
OXFORD, MS 38655
662-281-1091**

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

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

We have audited the accompanying combined statement of cash receipts and disbursements (all funds) for the Town of Derma, Mississippi, for the year ended September 30, 2005, and have issued our report dated June 19, 2006. 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 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 regulation was not an objective of our audit, and accordingly, we do not express such an opinion.

In connection with our audit, nothing came to our attention that caused us to believe that the Town of Derma, Mississippi had not complied with the requirements of the Office of the State Auditor as set forth in the Municipal Compliance Questionnaire and other state laws and regulations.

A public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended solely for the information and use of the board of aldermen and Town's management, 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.

Ronnie S. Windham, CPA
Oxford, Mississippi
June 19, 2006

**RONNIE S. WINDHAM, CPA
P.O. BOX 159
OXFORD, MISSISSIPPI 38655
662-281-1091**

**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 Alderpersons
Town of Derma, Mississippi

We have audited the statement of cash receipts and disbursements (all funds) for the Town of Derma, Mississippi, as of and for the year ended September 30, 2005, and have issued our report thereon dated June 19, 2006. 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 Town of Derma's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the 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 and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Derma'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 amount. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

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This report is intended solely for the information and use of the audit committee, management, Mississippi State Auditors, 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.

Ronnie S. Windham, CPA
Oxford, Mississippi
June 19, 2006

RONNIE S. WINDHAM, CPA
P.O. BOX 159
OXFORD, MISSISSIPPI 38655
662-281-1091

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

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

Compliance

We have audited the compliance of the Town of Derma, 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, 2005. The Town of Derma'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 the Town of Derma's management. Our responsibility is to express an opinion on the Town of Derma's compliance based on our audit.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller 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 the Town of Derma'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 of the Town of Derma's compliance with those requirements.

In our opinion, the Town of Derma 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, 2005.

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

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Internal Control Over Compliance

The management of the Town of Derma is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Derma'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 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 operations that we considered to be material weaknesses.

This report is intended solely for the information and use of the management, Office of the State Auditor, 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.

Ronnie S. Windham, CPA
Oxford, Mississippi
June 19, 2006

**TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an adverse opinion on the combined statement of cash receipts and disbursements of the Town of Derma due to the exclusion of government-wide financial statements in accordance with GASB 34.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Town of Derma, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable condition in internal control over major federal award programs was disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the Town of Derma expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included: USDA Water and Waste Disposal Systems CFDA 10.760 and HUD Public Facility Improvements CFDA 14.228.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Town of Derma did not qualify as a low-risk auditee.

FINDINGS-FINANCIAL STATEMENT AUDIT

COMPLIANCE

None

Continued

**TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

SUMMARY OF AUDITOR'S RESULTS

REPORTABLE CONDITIONS

None

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

None