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TOWN OF VARDAMAN, MISSISSIPPI

**FINANCIAL STATEMENT,
SUPPLEMENTAL INFORMATION
AND INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED
SEPTEMBER 30, 2006**

TOWN OF VARDAMAN, MISSISSIPPI
Financial Statement, Supplemental Information,
and Internal Control and Compliance
For the Year Ended September 30, 2006

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FINANCIAL STATEMENT



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

James L. Stafford, CPA	Michael L. Pierce, CPA
Harry W. Stevens, CPA	Marsha L. McDonald, CPA
Paul A. Ray, CPA	Wanda S. Holley, CPA
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R. Steve Sinclair, CPA	Kenny R. Dickerson, CPA

Independent Auditor's Report

Honorable Mayor and Board of Alderpersons
Town of Vardaman, Mississippi

We have audited the accompanying combined statement of cash receipts and disbursements (all funds) for the Town of Vardaman, Mississippi, for the year ended September 30, 2006, as listed in the table of contents. The combined statement of cash receipts and disbursements (all funds) is the responsibility of Town of Vardaman's management. Our responsibility is to express and opinion on the combined statement of cash receipts and disbursements (all funds) 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, the 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 Vardaman, 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.

In our opinion, the combined statement of cash receipts and disbursements (all funds) referred to above present fairly, in all material respects, the respective results of its operations - cash basis of the Town of Vardaman, Mississippi for the year ended September 30, 2006 in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007, on our consideration of the Town of Vardaman'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 required supplemental information that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be a part of, the combined statement of cash receipts and disbursements (all funds).

Our audit was conducted for the purpose of forming an opinion on the combined statement of cash receipts and disbursements (all funds) taken as a whole. 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 not a required part of the combined statement of cash receipts and disbursements (all funds) of the Town of Vardaman, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the combined statement of cash receipts and disbursements (all funds) and, in our opinion, is fairly stated, in all material respects, in relation to the combined statement of cash receipts and disbursements (all funds) taken as a whole.

Eupora, Mississippi
October 8, 2007

Watkins, Ward and Stafford, PLLC

TOWN OF VARDAMAN, MISSISSIPPI
 Combined Statement of Cash Receipts
 And Disbursement (All Funds)
 For The Year Ended September 30, 2006

	General Fund	Proprietary Fund	Total (Memorandum Only)
Revenue Receipts:			
General property taxes	\$ 133,815	\$ -	\$ 133,815
Licenses and permits	1,654	-	1,654
Federal grants	65,232	552,691	617,923
State Shared Revenues:			
Municipal aid	555	-	555
Sales tax	87,540	-	87,540
Gasoline tax	2,929	-	2,929
Homestead exemption reimbursement	17,752	-	17,752
TVA payments in lieu of tax	9,762	-	9,762
Fire insurance premium tax distribution	5,416	-	5,416
County Shared Revenues:			
Road tax	12,917	-	12,917
County fire reimbursement	21,000	-	21,000
Other:			
Franchise tax	18,854	-	18,854
Rent	1,150	-	1,150
Fines and forfeits	36,846	-	36,846
Interest income	433	290	723
Miscellaneous	3,908	206	4,114
Charges for Services:			
Water	-	193,534	193,534
Garbage collection	58,327	-	58,327
Sanitation	-	88,748	88,748
Total Revenue Receipts	478,090	835,469	1,313,559
Other Receipts:			
Bond proceeds	-	193,741	193,741
Sale of property	3,202	-	3,202
Contributions	10,444	-	10,444
Transfers	10,328	12,887	23,215
Total Other Receipts	23,974	206,628	230,602
Total Receipts	502,064	1,042,097	1,544,161
Cash Balance - Beginning of Year	103,923	95,730	199,653
Total Amount to Account For	\$ 605,987	\$ 1,137,827	\$ 1,743,814

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

TOWN OF VARDAMAN, MISSISSIPPI
 Combined Statement of Cash Receipts
 And Disbursement (All Funds) - Continued
 For The Year Ended September 30, 2006

	General Fund	Proprietary Fund	Total (Memorandum Only)
Operating Disbursements:			
General government (executive and financial)	\$ 113,201	\$ -	\$ 113,201
Public Safety:			
Police	109,356	-	109,356
Fire	11,750	-	11,750
Highway and Streets:			
Repairs and maintenance	18,682	-	18,682
Sanitation	58,814	-	58,814
Culture and Recreation:			
Parks	5,433	-	5,433
Library	18,000	-	18,000
Enterprise:			
Water	-	163,693	163,693
Interest on loans and bonds	1,184	11,255	12,439
	336,420	174,948	511,368
Total Operating Disbursements			
Other Disbursements:			
Loans repaid	7,443	-	7,443
Bonds redeemed	-	33,320	33,320
Capital outlay	56,756	769,681	826,437
Transfers	12,887	10,328	23,215
	77,086	813,329	890,415
Total Other Disbursements			
Total Disbursements	413,506	988,277	1,401,783
Cash Balance - End of Year	192,481	149,550	342,031
Total Amount Accounted For	\$ 605,987	\$ 1,137,827	\$ 1,743,814

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

TOWN OF VARDAMAN, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2006

Note 1: Summary of Significant Accounting Policies

General Information

The citizens of the Town of Vardaman, Mississippi have elected to operate under a Code Charter as permitted by Mississippi Statute 21-3-3, which prescribes a Mayor and Board of Alderman form of government.

Reporting Entity

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

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:

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.

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.

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.

TOWN OF VARDAMAN, MISSISSIPPI
Notes to Financial Statement - Continued
For the Year Ended September 30, 2006

Note 1: Summary of Significant Accounting Policies - (Continued)

Property Tax Revenues

The Town's Board, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 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 coincides with the month of original purchase. For the current year, the Town levied taxes in the amount of 42 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 Classifications

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

Note 3: Commitment and Contingencies

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, 2006, the carrying amount (recorded on the Town's books) of the Town's cash deposits was \$342,031 and the bank balance was \$351,225.

TOWN OF VARDAMAN, MISSISSIPPI
Notes to Financial Statement - Continued
For the Year Ended September 30, 2006

Note 4: Deposits with Financial Institutions and Investments - (Continued)

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. The Town's deposits are collateralized as follows:

Amount insured by the FDIC or collateralized with securities held by the Town	\$ 330,627
Amount uninsured and uncollateralized	20,598
	<u>\$ 351,225</u>

Note 5. Defined Benefit Pension Plan and Other Employee Benefits

Plan Description: The Town of Vardaman 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 is required 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 Vardaman is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contributions requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town of Vardaman's contributions to PERS for the year ending September 30, 2006 was \$17,078.

SUPPLEMENTAL INFORMATION

TOWN OF VARDAMAN, MISSISSIPPI
Schedule of Long-Term Debt
For The Year Ended September 30, 2006

DEFINITION AND PURPOSE

	<u>September 30,</u> <u>2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>September 30,</u> <u>2006</u>
General Obligation Bond:				
1977 Bond	\$ 11,000	-	(7,000)	\$ 4,000
Revenue Bonds:				
1977 Bond	211,210	-	(26,320)	184,890
2006 Bond	-	193,741	-	193,741
Other Long-Term Debt:				
Mississippi Development Authority	43,014	-	(7,443)	35,571
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>265,224</u>	<u>193,741</u>	<u>(40,763)</u>	\$ <u>418,202</u>

TOWN OF VARDAMAN
Schedule of Surety Bonds
For the Year Ended September 30, 2006

Name	Position	Name of Insurance Company	Amount
Barbara L. Tedder	Town Clerk & Court Clerk	Western Surety Company	\$ 50,000
Maxine J. Blue	Deputy Clerk	Western Surety Company	\$ 10,000
James M. Casey	Mayor	Western Surety Company Travelers Casualty and Surety Company of America	\$ 50,000 \$ 25,000
Calvin Barnette, Jr.	Chief of Police	Western Surety Company	\$ 50,000
Mark E. Hendrix	Policeman	Western Surety Company	\$ 25,000
DeWayne Winter	Policeman	Western Surety Company	\$ 25,000
Jeffery Clements	Alderman	Travelers Casualty and Surety Company of America	\$ 5,000
Jeff Hamilton	Alderman	Travelers Casualty and Surety Company of America	\$ 5,000
Mary Winter	Alderman	Travelers Casualty and Surety Company of America	\$ 5,000
A.D. Wright	Alderman	Travelers Casualty and Surety Company of America	\$ 5,000
Wilbur Holmes	Alderman	Travelers Casualty and Surety Company of America	\$ 5,000

TOWN OF VARDAMAN, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

Federal Grantor/Pass-through Grant or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Direct Program:			
Water and Waste Disposal Systems for Rural Communities	* 10.760	N/A	\$ 100
Water and Waste Disposal Systems for Rural Communities (Loan)	* 10.760	91-06	<u>193,741</u>
Total Water and Waste Disposal Systems for Rural Communities			<u>193,841</u>
Communities Facilities Loans and Grants	10.766	N/A	11,055
Communities Facilities Loans and Grants	10.766	N/A	<u>9,129</u>
Total Communities Facilities Loans and Grants			<u>20,184</u>
Total Department of Agriculture			<u>214,025</u>
Department of Justice:			
Passed Through State of Mississippi:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	05LB3931	<u>854</u>
Department of Interior:			
Passed Through State of Mississippi:			
Outdoor Recreation Acquisition, Development and Planning	15.916	28-00599	<u>39,868</u>
Appalachian Regional Commission:			
Direct Program:			
Appalachian Area Development	* 23.002	MS-14450-214-03	<u>200,000</u>
Department of Health and Human Services:			
Passed Through State of Mississippi:			
Community Services Block Grant	* 93.569	03-372-PF-01	<u>343,462</u>
Department of Homeland Security:			
Passed Through State of Mississippi:			
Hazard Mitigation Grant	97.039	013-76320-00	<u>3,455</u>
Total Expenditures of Federal Awards			<u>\$ 801,664</u>

* Denotes major program.

See accompanying note to schedule of expenditures of federal awards.

TOWN OF VARDAMAN, MISSISSIPPI
Note to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Vardaman 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 VARDAMAN, MISSISSIPPI
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2006

Federal Award Findings and Questioned Costs

None

INTERNAL CONTROL AND COMPLIANCE



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**Independent Auditor's Report on Compliance
 With State Laws And Regulations**

Honorable Mayor and Board of Alderpersons
 Town of Vardaman, Mississippi

We have audited the combined statement of cash receipts and disbursements (all funds) of the Town of Vardaman, Mississippi, for the year ended September 30, 2006, and have issued our report dated October 8, 2007. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures and our audit of the combined statement of cash receipts and disbursements disclosed the following material instance of noncompliance with State laws and regulations. Our findings and recommendations and your responses are as follows:

(1) Finding

Incorrect cash balance information was submitted to the State Treasurer. The amount on the Collateral Sufficiency Analysis was reported at \$330,627 rather than \$351,225.

Recommendation

The Town should verify the information each quarter to ensure that the proper amount has been reported on the Collateral Sufficiency Analysis.

Response

The Town will verify the information quarterly and promptly report any discrepancies.

(2) Finding

Reports are not being provided to the board on a monthly basis that report monthly expenditures against each budget item for the preceding month and fiscal year to date and the unexpended balances of each budget item in compliance with Mississippi Code Section 21-35-13.

Recommendation

The Town should provide the board with a monthly report of expenditures against budget items for the preceding month and fiscal year to date and the unexpended balances of each budget item.

Response

The Town has recently purchased accounting software which will produce monthly reports comparing budgeted to actual expenditures for the preceding month and fiscal year to date and the unexpended balances of each budget item.

(3) Finding

The Town is not collecting and settling state-imposed court assessments on a monthly basis in compliance with Mississippi Code Section 99-19-73.

Recommendation

The Town should collect and settle state-imposed court assessments on a monthly basis.

Response

The Town will begin collecting and settling state-imposed court assessments each month.

The Office of the State Auditor or 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 of the Town's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

Eupora, Mississippi
October 8, 2007

Watkins, Ward and Stafford, PLLC



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**Report on Compliance and on Internal Control
 Over Financial Reporting Based on an Audit of
 Financial Statements Performed in Accordance with
 Government Auditing Standards**

Honorable Mayor and Board of Alderpersons
 Town of Vardaman, Mississippi

We have audited the combined statement of cash receipts and disbursements (all funds) of the Town of Vardaman, Mississippi, for the year ended September 30, 2006, and have issued our report thereon dated October 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Vardaman's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town of Vardaman's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Town of Vardaman's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

Eupora, Mississippi
October 8, 2007

Watkins, Ward and Stafford, PLLC



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**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 Vardaman, Mississippi

Compliance

We have audited the compliance of the Town of Vardaman, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Town of Vardaman'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 Vardaman's management. Our responsibility is to express an opinion on the Town of Vardaman'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 the Town of Vardaman'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 Vardaman's compliance with those requirements.

In our opinion, the Town of Vardaman complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliances

The management of the Town of Vardaman 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 Vardaman'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 major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the 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.

Eupora, Mississippi
October 8, 2007

Watkins, Ward and Stafford, PLLC

TOWN OF VARDAMAN, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

1. An unqualified opinion was issued on the combined statement of cash receipts and disbursements (all funds) and supplemental information.
2. One reportable condition disclosed during the audit of the financial statements is reported in the "Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The condition is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Town of Vardaman, 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 Vardaman expresses an unqualified opinion on all major federal programs.
6. The audit did not disclose any findings that are required to be reportable in accordance with Section 510(a) of OMB Circular A-133.
7. The major programs were Department of Health and Human Services' Community Services Block Grant (CFDA No. 93.569), Department of Agriculture's Water and Waste Disposal Systems for Rural Communities (CFDA No. 10.760) and Appalachian Regional Commission's Appalachian Area Development (CFDA No. 23.002).
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Town of Vardaman did not qualify as a low-risk auditee.

TOWN OF VARDAMAN, MISSISSIPPI
Schedule of Findings and Questioned Costs - Continued
For the Year Ended September 30, 2006

Section 2: Findings Relating to the Financial Statements Which are Required to be Reported in Compliance with GAGAS

2006-1 Segregation of Duties

Condition:

As a result of the Town's limited number of employees, an inadequate segregation of duties exists. Most office and accounting duties are performed by the Town Clerk and the Town's accountant.

Criteria:

No one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Effect:

The Town is exposed to potential risk of errors and abuse.

Recommendation:

Because it is not practical to hire more employees, all possible controls with a limited number of employees should be established.

Response:

The Town of Vardaman has segregated the duties of employees and implemented such internal control procedures as economically feasible considering the number of office employees of the organization.

Section 3: Findings for Federal Awards

None