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WATER VALLEY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2013

WATER VALLEY SCHOOL DISTRICT

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	13
Government-wide Financial Statements	
Exhibit A – Statement of Net Position	14
Exhibit B – Statement of Activities	15
Governmental Funds Financial Statements	
Exhibit C – Balance Sheet	16
Exhibit C-1 – Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances	18
Exhibit D-1 – Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	19
Fiduciary Funds Financial Statements	
Exhibit E – Statement of Fiduciary Assets and Liabilities	20
Notes to the Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION	36
Budgetary Comparison Schedule – General Fund	37
Budgetary Comparison Schedule – Title I-A Basic Fund	38
Notes to the Required Supplementary Information	39
SUPPLEMENTAL INFORMATION	40
Schedule of Expenditures of Federal Awards	41
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds	42
OTHER INFORMATION	43
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund, Last Four Years	44
Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds, Last Four Years	45
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	46
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133	49
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	51
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	53

INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Water Valley School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Water Valley School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Water Valley School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Water Valley School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's

discussion and analysis and budgetary comparison information on pages 4-12 and 36-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Valley School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014, on our consideration of the Water Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Water Valley School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC
Jackson, Mississippi
January 30, 2014

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

The following discussion and analysis of Water Valley School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2013 increased \$269,040, which represents a 6% increase from fiscal year 2012. Total net position for 2012 increased \$782,520, which represents a 23% increase from fiscal year 2011.
- General revenues amounted to \$7,600,647 and \$7,877,375, or 78% and 78% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,138,254, or 22% of total revenues for 2013, and \$2,280,429, or 22% of total revenues for 2012.
- The District had \$9,469,861 and \$9,375,284 in expenses for fiscal years 2013 and 2012; only \$2,138,254 for 2013 and \$2,280,429 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$7,600,647 for 2013 and \$7,877,375 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,156,544 in revenues and \$7,097,705 in expenditures for 2013, and \$7,569,151 in revenues and \$6,806,392 in expenditures in 2012. The General Fund's fund balance decreased by \$427,948 from 2012 to 2013, and increased by \$875,050 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, decreased by \$113,243 for 2013 and increased by \$199,317 for 2012. The decrease for 2013 was due primarily to the increase in accumulated depreciation.
- Long-term debt decreased by \$326,681 for 2013 and decreased by \$282,777 for 2012. The decrease for 2013 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$3,319 for 2013 and increased by \$3,223 for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplementary information, supplementary information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, and interest on long-term liabilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial

WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$4,414,361 as of June 30, 2013.

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

WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 1 presents a summary of the District's net position at June 30, 2013 and June 30, 2012.

Table 1
Condensed Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Current assets	\$ 2,716,910	\$ 2,779,581	(2.25) %
Restricted assets	128,499	103,738	23.87 %
Capital assets, net	4,098,184	4,211,427	(2.69) %
Total assets	<u>6,943,593</u>	<u>7,094,746</u>	(2.13) %
 Deferred outflows of resources	 <u>11,841</u>	 <u>-</u>	 N/A
Current liabilities	29,901	111,572	(73.20) %
Long-term debt outstanding	2,511,172	2,837,853	(11.51) %
Total liabilities	<u>2,541,073</u>	<u>2,949,425</u>	(13.85) %
 Net position:			
Net investment in capital assets	1,840,021	1,696,697	8.45 %
Restricted	550,949	519,398	6.07 %
Unrestricted	2,023,391	1,929,226	4.88 %
Total net position	<u>\$ 4,414,361</u>	<u>\$ 4,145,321</u>	6.49 %

The following are significant current year transactions that have had an impact on the Statement of Net Position.

- Decrease in net capital assets in the amount of \$113,243.
- The principal retirement of \$330,000 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$9,738,901 and \$10,157,804, respectively. The total cost of all programs and services was \$9,469,861 for 2013 and \$9,375,284 for 2012.

WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 255,683	\$ 256,001	(0.12) %
Operating grants and contributions	1,882,571	2,024,428	(7.01) %
General revenues:			
Property taxes	1,455,915	1,530,590	(4.88) %
Grants and contributions not restricted	6,098,198	6,275,744	(2.83) %
Investment earnings	15,160	19,813	(23.48) %
Other	31,374	51,228	(38.76) %
Total revenues	9,738,901	10,157,804	(4.12) %
Expenses:			
Instruction	6,332,063	6,083,509	4.09 %
Support services	2,581,635	2,738,261	(5.72) %
Non-instructional	483,209	466,901	3.49 %
Interest on long-term liabilities	72,954	86,613	(15.77) %
Total expenses	9,469,861	9,375,284	1.01 %
Increase (Decrease) in net position	269,040	782,520	(65.62) %
Net Position, July 1	4,145,321	3,362,801	23.27 %
Net Position, June 30	\$ 4,414,361	\$ 4,145,321	6.49 %

Governmental activities

The following table presents the cost of four major District functional activities: instruction, support services, non-instructional, and interest on long-term liabilities. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ 6,332,063	\$ 6,083,509	4.09 %
Support services	2,581,635	2,738,261	(5.72) %
Non-instructional	483,209	466,901	3.49 %
Interest on long-term liabilities	72,954	86,613	(15.77) %
Total expenses	<u>\$ 9,469,861</u>	<u>\$ 9,375,284</u>	1.01 %
	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ (5,116,743)	\$ (4,726,850)	8.25 %
Support services	(2,148,751)	(2,281,077)	(5.80) %
Non-instructional	6,841	(315)	(2,271.75) %
Interest on long-term liabilities	(72,954)	(86,613)	(15.77) %
Total net (expense) revenue	<u>\$ (7,331,607)</u>	<u>\$ (7,094,855)</u>	3.34 %

- Net cost of governmental activities (\$7,331,607 for 2013 and \$7,094,855 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$1,455,915 for 2013 and \$1,530,590 for 2012) and state and federal revenues (\$6,098,198 for 2013 and \$6,275,744 for 2012).
- Investment earnings amounted to \$15,160 for 2013 and \$19,813 for 2012.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$2,824,568, an increase of \$57,292, which includes an increase in inventory of \$5,629. \$1,734,597, or 61%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, or assigned to specific purposes within the general fund. The remaining fund balance of \$1,089,971, or 39%, is either non-spendable, restricted, or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$427,948. The fund balance of Other Governmental Funds showed a decrease in the amount of \$14,760, which includes an increase in inventory of \$5,629. The increase (decrease) in the fund balances for the other major funds were as follows:

WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I-A Basic Fund	no increase or decrease
Building Improvement Fund	\$ 500,000

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Budget revisions made during the fiscal year were routine in nature and were insignificant when compared to total revenues and expenditures of the District.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and major special revenue funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were \$7,349,099, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross increase of \$54,449 from 2012. Total accumulated depreciation as of June 30, 2013, was \$3,250,915, and total depreciation expense for the year was \$167,692, resulting in total net capital assets of \$4,098,184.

**Table 4
Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Land	\$ 34,000	\$ 34,000	0.00 %
Buildings	3,230,747	3,331,501	(3.02) %
Building improvements	504,816	480,836	4.99 %
Mobile equipment	289,931	317,011	(8.54) %
Furniture and equipment	38,690	48,079	(19.53) %
Total	<u>\$ 4,098,184</u>	<u>\$ 4,211,427</u>	(2.69) %

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

Debt Administration. At June 30, 2013, the District had \$2,511,172 in outstanding long-term debt, of which \$349,809 is due within one year. During the fiscal year, the District made principal payments totaling \$330,000 on long-term debt. The liability for compensated absences increased \$3,319 from the prior year.

WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 610,000	\$ 725,000	(15.86) %
Limited obligation bonds payable	1,020,000	1,180,000	(13.56) %
Three mill notes payable	285,000	340,000	(16.18) %
Qualified school construction bonds payable	500,000	500,000	0.00 %
Compensated absences payable	96,172	92,853	3.57 %
Total	<u>\$ 2,511,172</u>	<u>\$ 2,837,853</u>	(11.51) %

Additional information on the District's long-term debt can be found in Note 6 included in this report.

CURRENT ISSUES

The Water Valley School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting, and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state, and federal revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Water Valley School District, P. O. Box 788, Water Valley, MS 38965.

FINANCIAL STATEMENTS

WATER VALLEY SCHOOL DISTRICT

**Statement of Net Position
June 30, 2013**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,470,940
Due from other governments	220,834
Accrued interest receivable	95
Inventories	14,701
Deferred debt issuance costs	10,340
Restricted assets	128,499
Capital assets, non-depreciable:	
Land	34,000
Capital assets, net of accumulated depreciation:	
Buildings	3,230,747
Building improvements	504,816
Mobile equipment	289,931
Furniture and equipment	38,690
Total Assets	6,943,593
Deferred Outflow of Resources	
Deferred charges on refunding debt	11,841
Total Deferred Outflow of Resources	11,841
Liabilities	
Accounts payable and accrued liabilities	10,501
Interest payable on long-term liabilities	19,400
Long-term liabilities, due within one year:	
Capital related liabilities	315,000
Non-capital related liabilities	34,809
Long-term liabilities, due beyond one year:	
Capital related liabilities	1,957,500
Non-capital related liabilities	203,863
Total Liabilities	2,541,073
Net Position	
Net investment in capital assets	1,840,021
Restricted for:	
Expendable:	
School-based activities	75,703
Debt service	439,724
Unemployment benefits	35,522
Unrestricted	2,023,391
Total Net Position	\$ 4,414,361

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

WATER VALLEY SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2013**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 6,332,063	\$ 200,779	\$ 1,014,541	\$ -	\$ (5,116,743)
Support services	2,581,635	-	432,884	-	(2,148,751)
Non-instructional	483,209	54,904	435,146	-	6,841
Interest on long-term liabilities	72,954	-	-	-	(72,954)
Total Governmental Activities	\$ 9,469,861	\$ 255,683	\$ 1,882,571	\$ -	\$ (7,331,607)

General Revenues:

Taxes:

General purpose levies 1,263,573

Debt purpose levies 192,342

Unrestricted grants and contributions:

State 6,044,615

Federal 53,583

Unrestricted investment earnings 15,160

Other 31,374

Total General Revenues 7,600,647

Change in Net Position 269,040

Net Position - Beginning 4,145,321

Net Position - Ending \$ 4,414,361

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

**WATER VALLEY SCHOOL DISTRICT
Governmental Funds**

**Balance Sheet
June 30, 2013**

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title I-A Basic Fund	Building Improvement Fund	Other Governmental Funds		
Assets						
Cash and cash equivalents	\$ 1,696,720	\$ -	\$ 500,000	\$ 274,220		\$ 2,470,940
Cash with fiscal agents	-	-	-	89,499		89,499
Investments	-	-	-	39,000		39,000
Due from other governments	70,916	37,645	-	112,273		220,834
Accrued interest receivable	-	-	-	95		95
Due from other funds	45,197	-	-	50,882		96,079
Inventories	-	-	-	14,701		14,701
Total assets	<u>\$ 1,812,833</u>	<u>\$ 37,645</u>	<u>\$ 500,000</u>	<u>\$ 580,670</u>		<u>\$ 2,931,148</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 10,228	\$ 40	\$ -	\$ 233		\$ 10,501
Due to other funds	50,882	37,605	-	7,592		96,079
Total Liabilities	<u>61,110</u>	<u>37,645</u>	<u>-</u>	<u>7,825</u>		<u>106,580</u>
Fund Balances:						
Nonspendable:						
Inventory	-	-	-	14,701		14,701
Restricted:						
Debt service	-	-	-	459,124		459,124
Capital projects	-	-	-	2,496		2,496
Unemployment benefits	-	-	-	35,522		35,522
Other purposes	-	-	-	61,002		61,002
Assigned:						
Capital improvements	-	-	500,000	-		500,000
Activity funds	17,126	-	-	-		17,126
Unassigned	<u>1,734,597</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>1,734,597</u>
Total Fund Balances	<u>1,751,723</u>	<u>-</u>	<u>500,000</u>	<u>572,845</u>		<u>2,824,568</u>
Total Liabilities and Fund Balances	<u>\$ 1,812,833</u>	<u>\$ 37,645</u>	<u>\$ 500,000</u>	<u>\$ 580,670</u>		<u>\$ 2,931,148</u>

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

**WATER VALLEY SCHOOL DISTRICT
Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013**

Exhibit C-1

Total fund balances for governmental funds \$ 2,824,568

Amounts reported for governmental activities in the statement of Net Position are different because:

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

Land	\$	34,000	
Buildings		5,715,588	
Building improvements		546,720	
Mobile equipment		844,827	
Furniture and equipment		207,964	
Accumulated depreciation		<u>(3,250,915)</u>	4,098,184

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds		(610,000)	
Limited obligation bonds		(1,020,000)	
Other bonds payable		(500,000)	
Notes payable		(285,000)	
Compensated absences		(96,172)	
Unamortized charges		22,181	
Accrued interest payable		<u>(19,400)</u>	(2,508,391)

Net Position of governmental activities \$ 4,414,361

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

**WATER VALLEY SCHOOL DISTRICT
Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013**

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Title I-A Basic Fund	Building Improvement Fund	Other Governmental Funds	
Revenues:					
Local sources	\$ 1,517,395	\$ -	\$ -	\$ 240,737	\$ 1,758,132
State sources	5,585,565	-	-	801,678	6,387,243
Federal sources	53,584	490,266	-	1,049,676	1,593,526
Total Revenues	7,156,544	490,266	-	2,092,091	9,738,901
Expenditures:					
Instruction	4,966,891	304,644	-	969,474	6,241,009
Support services	2,113,245	185,622	-	256,109	2,554,976
Noninstructional services	14,782	-	-	473,139	487,921
Debt service:					
Principal	-	-	-	330,000	330,000
Interest	-	-	-	69,545	69,545
Other	2,787	-	-	1,000	3,787
Total Expenditures	7,097,705	490,266	-	2,099,267	9,687,238
Excess (Deficiency) of Revenues over (under) Expenditures	58,839	-	-	(7,176)	51,663
Other Financing Sources (Uses):					
Payments held by escrow agent	-	-	-	24,000	24,000
Payment to QSCB debt escrow agent	-	-	-	(24,000)	(24,000)
Operating transfers in	13,213	-	500,000	-	513,213
Operating transfers out	(500,000)	-	-	(13,213)	(513,213)
Total Other Financing Sources (Uses)	(486,787)	-	500,000	(13,213)	-
Net Change in Fund Balances	(427,948)	-	500,000	(20,389)	51,663
Fund Balances:					
July 1, 2012	2,179,671	-	-	587,605	2,767,276
Increase (Decrease) in inventory	-	-	-	5,629	5,629
June 30, 2013	\$ 1,751,723	\$ -	\$ 500,000	\$ 572,845	\$ 2,824,568

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

**WATER VALLEY SCHOOL DISTRICT
Governmental Funds**

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 51,663

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 54,449	
Depreciation expense	<u>(167,692)</u>	(113,243)

- The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	330,000	
Accrued interest payable	<u>2,747</u>	332,747

- Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	(3,319)	
Change in inventory	5,629	
Amortization of deferred charges, premiums and discounts	<u>(4,437)</u>	(2,127)

Change in Net Position of governmental activities \$ 269,040

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

**WATER VALLEY SCHOOL DISTRICT
Fiduciary Funds**

**Statement of Fiduciary Assets and Liabilities
June 30, 2013**

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 504,782
Total Assets	<u>\$ 504,782</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 458,087
Due to student clubs	46,695
Total Liabilities	<u>\$ 504,782</u>

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

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member is elected by the citizens of each defined county district.

For financial reporting purposes, Water Valley School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Title I-A Basic Fund - This is a special revenue fund that accounts for federal sources received and expenditures incurred under the Title I grants to local educational agencies program.

Building Improvement Fund - This is a capital projects fund that accounts for funds transferred from the General Fund to be used for future building improvement projects.

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

The school district also reports fiduciary funds (agency funds) which focus on assets and liabilities only. The District's fiduciary funds include the following:

Payroll Clearing Fund - This fund is used as a clearing fund for payroll type transactions.

Student Club Funds - These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

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

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used,

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

D. Encumbrances

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

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

E. Assets, liabilities, and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years

See Note 5 for details.

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The district has incurred a deferred outflow which is showed as a deferred outflow from deferred charges from refunding of debt. See Note 11 for further details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. There are no deferred inflows presented by the school district.

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

8. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

9. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

10. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as non-spendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Non-spendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a resolution approved by the School Board. Currently there is no committed fund balance for this school district.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and the Business Manager pursuant to authorization established by the District's approved

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

fund balance policy.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

It is the goal of the District to achieve and maintain an unassigned fund balance in the General Fund at fiscal year-end of not less than 7% of general revenues. If the unassigned fund balance at fiscal year-end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer ; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,470,940 and \$504,782, respectively. The bank balance was \$3,091,039.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2013, none of the district's bank balance of \$3,091,039 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$89,499.

Investments

As of June 30, 2013, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
U.S. Treasury SLGS	AAAm-G	13 years	\$ 39,000
Total			<u>\$ 39,000</u>

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2013, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title I-A Basic Fund	\$ 37,605
	Other governmental funds	7,592
Other governmental funds	General Fund	<u>50,882</u>
Total		<u>\$ 96,079</u>

Inter-fund loans are primarily for amounts loaned between the General Fund and various special revenue funds to cover expenses while awaiting reimbursement of federal funds and to report amounts due to various debt service funds from the General Fund.

B. Inter-fund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Building Improvement Fund	\$ 500,000
Other governmental funds	General Fund	<u>13,213</u>
Total		<u>\$ 513,213</u>

Operating transfers were for the transfer of funds from the General Fund to the Building Improvement Fund for future building improvement projects and the transfer of excess funds per escrow agreement from the MAEP Retirement Fund to the General Fund.

Note 4 – Restricted Assets

The restricted assets represent the cash with fiscal agent balance totaling \$89,207 of the MAEP Retirement Fund. In addition, the restricted assets represent the cash with fiscal agent and investment balance, totaling \$292 and \$39,000, respectively, of the QSCB Bond Retirement Fund.

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Note 5 – Capital Assets

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

	Balance 7/1/2012	Increases	Decreases	Balance 6/30/2013
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 34,000	\$	\$	\$ 34,000
Total non-depreciable capital assets	34,000	-	-	34,000
<u>Depreciable capital assets:</u>				
Buildings	5,715,588			5,715,588
Building improvements	500,871	45,849		546,720
Mobile equipment	836,227	8,600		844,827
Furniture and equipment	207,964			207,964
Total depreciable capital assets	7,260,650	54,449	-	7,315,099
<u>Less accumulated depreciation for:</u>				
Buildings	2,384,087	100,754		2,484,841
Building improvements	20,035	21,869		41,904
Mobile equipment	519,216	35,680		554,896
Furniture and equipment	159,885	9,389		169,274
Total accumulated depreciation	3,083,223	167,692	-	3,250,915
Total depreciable capital assets, net	4,177,427	(113,243)	-	4,064,184
Governmental activities capital assets, net	\$ 4,211,427	\$ (113,243)	\$ -	\$ 4,098,184

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 97,331
Support services	69,610
Non-instructional	751
Total depreciation expense - Governmental activities	\$ 167,692

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Note 6 – Long-term Liabilities

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts due within one year
A. General obligation bonds payable	\$ 725,000	\$	\$ 115,000	\$ 610,000	\$ 120,000
B. Limited obligation bonds payable	1,180,000		160,000	1,020,000	165,000
C. Three mill notes payable	340,000		55,000	285,000	60,000
D. Qualified school construction bonds payable	500,000			500,000	-
E. Compensated absences payable	92,853	3,319		96,172	4,809
Total	\$ 2,837,853	\$ 3,319	\$ 330,000	\$ 2,511,172	\$ 349,809

	Balance 7/1/2012	Additions	Amortization	Balance 6/30/2013
Deferred amount on refunding	\$ 14,210	\$	\$ (2,369)	\$ 11,841

	Balance 7/1/2012	Additions	Amortization	Balance 6/30/2013
Bond Issuance Costs	\$ 12,408	\$	\$ (2,068)	\$ 10,340

A. General obligation bonds payable

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 1998	4.4-6.0%	5/15/1998	5/15/2018	\$ 1,900,000	\$ 610,000
Total				\$ 1,900,000	\$ 610,000

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 120,000	\$ 29,767	\$ 149,767
2015	125,000	23,887	148,887
2016	130,000	17,794	147,794
2017	140,000	11,456	151,456
2018	95,000	4,631	99,631
Total	\$ 610,000	\$ 87,535	\$ 697,535

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

This debt will be retired from the Water Valley G.O. Bond Retirement and Educational Enhancement Building Funds.

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2013, the amount of outstanding bonded indebtedness was equal to 2% of property assessments as of October 1, 2012.

B. Limited obligation bonds payable

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 2010	2.0-2.75%	12/1/2010	2/1/2018	\$ 1,296,000	\$ 1,020,000
Total				<u>\$ 1,296,000</u>	<u>\$ 1,020,000</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 165,000	\$ 22,100	\$ 187,100
2015	170,000	18,750	188,750
2016	175,000	15,081	190,081
2017	180,000	10,863	190,863
2018	330,000	6,300	336,300
Total	<u>\$ 1,020,000</u>	<u>\$ 73,094</u>	<u>\$ 1,093,094</u>

This debt will be retired from the MAEP Retirement Fund.

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax note, Series 2010	1.5-4.0%	11/1/2010	10/1/2019	\$ 400,000	\$ 285,000
Total				<u>\$ 400,000</u>	<u>\$ 285,000</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 60,000	\$ 7,738	\$ 67,738
2015	60,000	6,537	66,537
2016	40,000	5,187	45,187
2017	35,000	4,188	39,188
2018	30,000	3,225	33,225
2019 – 2020	60,000	3,450	63,450
Total	<u>\$ 285,000</u>	<u>\$ 30,325</u>	<u>\$ 315,325</u>

This debt will be retired from the Three Mill Notes Retirement Fund.

D. Qualified school construction bonds payable

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bond	0%	1/19/2010	12/1/2025	\$ 500,000	\$ 500,000
Total				<u>\$ 500,000</u>	<u>\$ 500,000</u>

E. Compensated absences payable

As more fully explained in Note 1(F)(8), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 7 – Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

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 of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2013 was 14.26% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2013, 2012 and 2011 were \$803,726, \$672,261 and \$647,694, respectively, which equaled the required contributions for each year.

Note 8 – Contingencies

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

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 9 – Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 10 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school

WATER VALLEY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2013 including accrued income was \$39,387. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2014	\$ 21,000
2015	24,000
2016	37,000
2017	37,000
2018	37,000
2019 – 2023	187,000
2024 – 2026	118,000
Total	<u>\$ 461,000</u>

Note 11 – Effect of Deferred Amounts on Net Position

The net investment in capital assets net position amount of \$1,840,021 includes the effect of deferring the recognition of expenditures resulting from a deferred outflow from a deferred charge on refunding debt. The \$11,841 balance of the deferred outflow of resources at June 30, 2013 will be recognized as an expense and decrease the net investment in capital assets net position over the 8 years.

Note 12 - Subsequent Events

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the Water Valley School District evaluated the activity of the district through January 30, 2014, and determined that there were no subsequent events that should be noted in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WATER VALLEY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,544,634	\$ 1,762,693	\$ 1,517,395	\$ 218,059	\$ (245,298)
State sources	5,611,072	5,340,267	5,585,565	(270,805)	245,298
Federal sources	57,000	53,584	53,584	(3,416)	-
Total Revenues	7,212,706	7,156,544	7,156,544	(56,162)	-
Expenditures:					
Instruction	4,720,249	4,966,891	4,966,891	(246,642)	-
Support services	2,211,586	2,113,245	2,113,245	98,341	-
Noninstructional services	10,000	14,782	14,782	(4,782)	-
Debt service:					
Other	2,800	2,787	2,787	13	-
Total Expenditures	6,944,635	7,097,705	7,097,705	(153,070)	-
Excess (Deficiency) of Revenues over (under) Expenditures	268,071	58,839	58,839	(209,232)	-
Other Financing Sources (Uses):					
Bonds and notes issued	-	13,213	-	13,213	(13,213)
Operating transfers in	-	-	13,213	-	13,213
Operating transfers out	-	(500,000)	(500,000)	(500,000)	-
Total Other Financing Sources (Uses)	-	(486,787)	(486,787)	(486,787)	-
Net Change in Fund Balances	268,071	(427,948)	(427,948)	(696,019)	-
Fund Balances:					
July 1, 2012	1,800,000	2,230,553	2,179,671	430,553	(50,882)
June 30, 2013	\$ 2,068,071	\$ 1,802,605	\$ 1,751,723	\$ (265,466)	\$ (50,882)

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

**WATER VALLEY SCHOOL DISTRICT
Required Supplementary Information**

**Budgetary Comparison Schedule
Title I-A Basic Fund
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 418,437	\$ 490,266	\$ 490,266	\$ 71,829	\$ -
Total Revenues	418,437	490,266	490,266	71,829	-
Expenditures:					
Instruction	256,864	304,644	304,644	(47,780)	-
Support services	161,573	185,622	185,622	(24,049)	-
Total Expenditures	418,437	490,266	490,266	(71,829)	-
Excess (Deficiency) of Revenues over (under) Expenditures	-	-	-	-	-
Other Financing Sources (Uses):					
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2012	-	-	-	-	-
June 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -

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

WATER VALLEY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2013

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, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

**WATER VALLEY SCHOOL DISTRICT
Supplemental Information**

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 135,822
National school lunch program	10.555	331,946
Summer Food Service Program for Children	10.559	11,279
Total child nutrition cluster		479,047
Total passed-through Mississippi Department of Education		479,047
Total U.S. Department of Agriculture		479,047
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	93,295
Total Department of Health and Human Services		93,295
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Career and Technical Education - Basic Grants to States	84.048	22,742
Rural Education	84.358	24,007
Improving Teacher Quality State Grants	84.367	93,253
Subtotal		140,002
Title I cluster:		
Title I grants to local educational agencies	84.010	490,266
Total Title I cluster		490,266
Special education cluster:		
Special education - grants to states	84.027	292,256
Special education - preschool grants	84.173	10,513
Total special education cluster		302,769
Total passed-through Mississippi Department of Education		933,037
Total U.S. Department of Education		933,037
<u>U.S. Department of Homeland Security</u>		
Passed-through the Mississippi Emergency Management Agency:		
Emergency Management Performance Grants	97.042	14,961
Total Department of Homeland Security		14,961
Total for All Federal Awards		\$ 1,520,340

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

**WATER VALLEY SCHOOL DISTRICT
Supplemental Information**

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2013**

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 7,630,578	6,200,853	383,024	446,182	600,519
Other	2,056,660	648,731	37,603	2,460	1,367,866
Total	\$ 9,687,238	6,849,584	420,627	448,642	1,968,385
Total number of students *	1,201				
Cost per student	\$ 8,066	5,703	350	374	1,639

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

Other - includes all expenditure functions not included in Instruction or Administration Categories.

* includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year

OTHER INFORMATION

WATER VALLEY SCHOOL DISTRICT
Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years
UNAUDITED

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 1,517,395	\$ 1,621,059	\$ 1,519,417	\$ 1,351,152
State sources	5,585,565	5,866,205	5,467,345	5,524,849
Federal sources	53,584	81,887	67,598	101,200
Total Revenues	7,156,544	7,569,151	7,054,360	6,977,201
Expenditures:				
Instruction	4,966,891	4,712,034	4,175,661	4,514,223
Support services	2,113,245	2,075,213	1,802,518	1,876,027
Noninstructional Services	14,782	13,329	26,790	13,057
Debt service:				
Other	2,787	5,816	19,302	2,764
Total Expenditures	7,097,705	6,806,392	6,024,271	6,406,071
Excess (Deficiency) of Revenues over (under) Expenditures	58,839	762,759	1,030,089	571,130
Other Financing Sources (Uses):				
Sale of transportation equipment			14,900	
Operating transfers in	13,213	112,291	17,000	8,176
Operating transfers out	(500,000)			
Total Other Financing Sources (Uses)	(486,787)	112,291	31,900	8,176
Net Change in Fund Balances	(427,948)	875,050	1,061,989	579,306
Fund Balances:				
Beginning of period, as originally reported	2,179,671	1,304,621	255,017	(298,689)
Prior period adjustments			(12,385)	(25,600)
Beginning of period, as restated	2,179,671	1,304,621	242,632	(324,289)
End of Period	\$ 1,751,723	2,179,671	\$ 1,304,621	\$ 255,017

*SOURCE - PRIOR YEAR AUDIT REPORTS

WATER VALLEY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2013	2012*	2011 *	2010*
Revenues:				
Local sources	\$ 1,758,132	\$ 1,856,632	\$ 1,784,858	\$ 1,543,859
State sources	6,387,243	6,476,974	6,099,266	6,273,062
Federal sources	1,593,526	1,823,198	2,403,227	2,523,714
Total Revenues	9,738,901	10,156,804	10,287,351	10,340,635
Expenditures:				
Instruction	6,241,009	5,996,038	5,906,525	6,473,753
Support services	2,554,976	2,764,591	2,471,298	2,386,190
Noninstructional services	487,921	464,250	498,983	494,385
Facilities acquisition and construction		257,777	243,094	
Debt service:				
Principal	330,000	286,000	230,000	245,000
Interest	69,545	77,422	82,939	116,236
Other	3,787	8,316	21,035	3,349
Total Expenditures	9,687,238	9,854,394	9,453,874	9,718,913
 Excess (Deficiency) of Revenues over (under) Expenditures	 51,663	 302,410	 833,477	 621,722
Other Financing Sources (Uses):				
Refunding bonds issued			1,296,000	
Bonds and notes issued			900,000	
Payment held by escrow agent	24,000	15,000	(1,260,000)	
Payment to QSCB debt escrow agent	(24,000)	(15,000)		
Sale of transportation equipment			14,900	
Operating transfers in	513,213	112,291	17,000	8,176
Other financing sources		1,000		
Operating transfers out	(513,213)	(112,291)	(17,000)	(8,176)
Other financing uses			(18,948)	
Total Other Financing Sources (Uses)	0	1,000	931,952	0
 Net Change in Fund Balances	 51,663	 303,410	 1,765,429	 621,722
 Fund Balances:				
Beginning of period	2,767,276	2,463,907	696,277	86,670
Increase (Decrease) in reserve for inventory	5,629	(41)	2,201	(12,115)
 End of Period	 \$ 2,824,568	 2,767,276	 \$ 2,463,907	 \$ 696,277

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



WATKINS, WARD AND STAFFORD

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

Superintendent and School Board
Water Valley School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Water Valley School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Water Valley School District's basic financial statements, and have issued our report thereon dated January 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Water Valley School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water Valley School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Water Valley School District's internal control. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal

control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins, Ward, and Stafford, PLLC
Jackson, Mississippi
January 30, 2014

Watkins Ward and Stafford, PLLC



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**Independent Auditor’s Report
on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance
Required by OMB Circular A-133**

Superintendent and School Board
Water Valley School District

Report on Compliance for Each Major Federal Program

We have audited Water Valley School District’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Water Valley School District’s major federal programs for the year ended June 30, 2013. Water Valley School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Water Valley School District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, is-sued 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 Water Valley School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Water Valley School District’s compliance.

Opinion on Each Major Federal Program

In our opinion, Water Valley School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Water Valley School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Water Valley School District’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Water Valley School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Watkins, Ward, and Stafford, PLLC
Jackson, Mississippi
January 30, 2014

Watkins Ward and Stafford, P.C.

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



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

Superintendent and School Board
Water Valley School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Water Valley School District as of and for the year ended June 30, 2013, which collectively comprise Water Valley School District's basic financial statements and have issued our report thereon dated January 30, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$3,002 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Watkins, Ward, and Stafford, PLLC
Jackson, Mississippi
January 30, 2014

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WATER VALLEY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2013

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued: | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major programs: | Unqualified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | None reported |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Cluster
84.027; 84.173	Special Education Cluster

- | | | |
|-----|---|-----------|
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section___.315(b) of OMB Circular A-133. | No |

WATER VALLEY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.