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Water Valley School District

Audited Financial Statements
June 30, 2010

Fortenberry & Ballard, PC
Certified Public Accountants

Water Valley School District

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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, P.C.
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION**

Superintendent and School Board
Water Valley School District

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, 2010, which collectively comprise the Water Valley School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water Valley School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2010, and the respective changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Valley School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other supplemental 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, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
March 22, 2011

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**WATER VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The discussion and analysis of Water Valley School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review to the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets for 2010 increased \$740,389, which represents a 59% increase from fiscal year 2009. This increase in net assets is primarily due to the following: 1) the repayment of debt principal in the amount of \$245,000 was not reported as an expense in the Statement of Activities, but as a reduction of long-term liabilities on the Statement of Net Assets, 2) the receipt of approximately \$478,000 of federal funds related to the American Recovery and Reinvestment Act (ARRA) which provided additional funding for programs under Title I and Part B of IDEA, and 3) the District's conservative approach to budgeting and spending during the fiscal year.
- General revenues amounted to \$7,827,358 and \$7,820,278, or 76% and 79% of all revenues for fiscal years 2010 and 2009, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,513,277, or 24% of total revenues for 2010, and \$2,017,656, or 21% of total revenues for 2009.
- The District had \$9,600,246 and \$9,763,780 in expenses for fiscal years 2010 and 2009; only \$2,513,277 for 2010 and \$2,017,656 for 2009 of these expenses were offset by program specific charges for services and grants and contributions. General revenues of \$7,827,358 for 2010 and \$7,820,278 for 2009 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$6,977,201 in revenues and \$6,406,071 in expenditures for 2010, and \$7,405,516 in revenues and \$7,487,129 in expenditures for 2009. The General Fund's fund balance increased by \$553,706, including a prior period adjustment of \$(25,600), from 2009 to 2010, and decreased by \$81,613 from 2008 to 2009.
- Capital assets, net of accumulated depreciation, decreased by \$99,868 for 2010 and decreased by \$136,684 for 2009. The decrease for 2010 was due to the increase in accumulated depreciation.
- Long-term debt decreased by \$245,000 for 2010 and decreased by \$245,000 for 2009. The decrease for 2010 was due primarily to the principal payments made on outstanding long-term debt. In addition, the liability for compensated absences increased by \$18,023 for 2010 and increased by \$6,172 for 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the 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, sixteenth section 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. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the School District's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. The governmental fund's Balance Sheet is reconciled to the Statement of Net Assets, and the governmental fund's 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 fund's Balance Sheet and in the governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other 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. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

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.

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

The District adopts an annual operating budget for all governmental funds. Budgetary comparison schedules have been provided for the General Fund and each additional major special revenue fund.

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.

Also, included in the other supplemental information section are 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. This information is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$2,000,538 as of June 30, 2010.

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.

Table 1 presents a summary of the District's net assets at June 30, 2010 and June 30, 2009.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Current assets	\$ 606,250	278,646	118%
Restricted assets	112,587	103,450	9%
Capital assets, net	<u>3,753,776</u>	<u>3,853,644</u>	(3)%
Total assets	<u>4,472,613</u>	<u>4,235,740</u>	6%
Current liabilities	54,286	330,825	(84)%
Long-term debt outstanding	<u>2,417,789</u>	<u>2,644,766</u>	(9)%
Total liabilities	<u>2,472,075</u>	<u>2,975,591</u>	(17)%
Net assets:			
Invested in capital assets, net of related debt	1,428,776	1,283,644	11%
Restricted	409,534	349,960	17%
Unrestricted	<u>162,228</u>	<u>(373,455)</u>	143%
Total net assets	<u>\$ 2,000,538</u>	<u>1,260,149</u>	59%

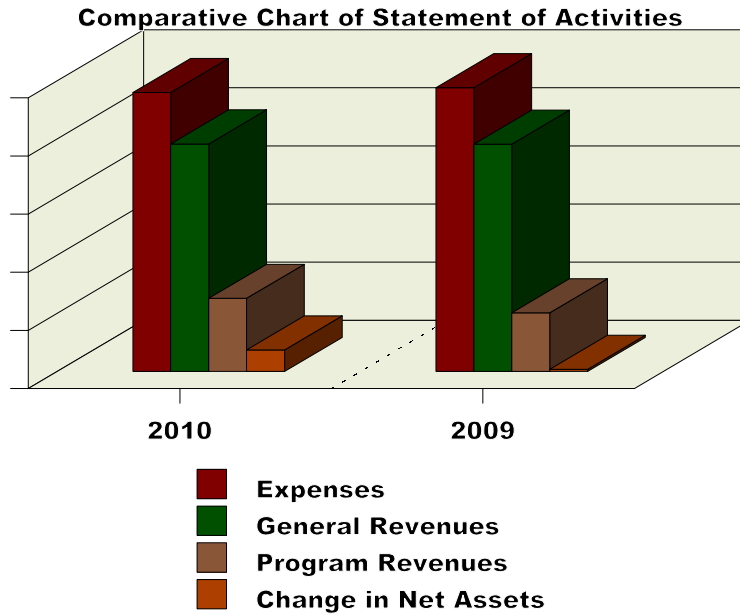
The following are significant current year transactions that have had an impact on the Statement of Net Assets:

- Decrease in net capital assets in the amount of \$99,868.
- The principal retirement of \$245,000 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2010 and June 30, 2009 were \$10,340,635 and \$9,837,934, respectively. The total cost of all programs and services was \$9,600,246 for 2010 and \$9,763,780 for 2009. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2009.

Table 2
Changes in Net Assets

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 231,306	239,992	(4)%
Operating grants and contributions	<u>2,281,971</u>	<u>1,777,664</u>	28%
Total program revenues	<u>2,513,277</u>	<u>2,017,656</u>	25%
General revenues:			
Property taxes	1,279,890	1,236,409	4%
Grants and contributions not restricted	6,514,805	6,545,512	0%
Unrestricted investment earnings	13,843	11,146	24%
Other	<u>18,820</u>	<u>27,211</u>	(31)%
Total general revenues	<u>7,827,358</u>	<u>7,820,278</u>	0%
Total revenues	<u>10,340,635</u>	<u>9,837,934</u>	5%
Expenses:			
Instruction	6,554,922	6,668,162	(2)%
Support services	2,419,562	2,454,285	(1)%
Non-instructional	509,850	510,148	0%
Interest on long-term liabilities	<u>115,912</u>	<u>131,185</u>	(12)%
Total expenses	<u>9,600,246</u>	<u>9,763,780</u>	(2)%
 Increase (Decrease) in net assets	 <u>740,389</u>	 <u>74,154</u>	 898%
 Net Assets, July 1	 <u>1,260,149</u>	 <u>1,185,995</u>	 6%
Net Assets, June 30	\$ <u>2,000,538</u>	<u>1,260,149</u>	59%



Governmental activities. The following table presents the cost of four major District functional activities: instruction, support services, non-instructional, and interest on long-term debt. 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.

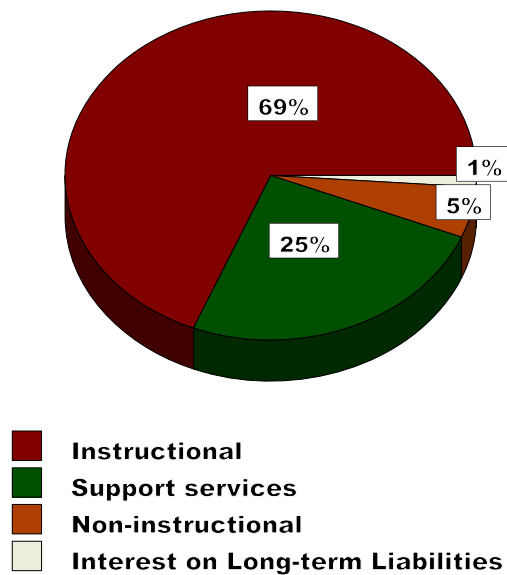
Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2010</u>	<u>2009</u>	
Instruction	\$ 6,554,922	6,668,162	(2)%
Support services	2,419,562	2,454,285	(1)%
Non-instructional	509,850	510,148	0%
Interest on long-term liabilities	115,912	131,185	(12)%
Total expenses	\$ <u>9,600,246</u>	<u>9,763,780</u>	<u>(2)%</u>

Net (Expense) Revenue

		2010	2009	Percentage Change
Instruction	\$	(5,117,897)	(5,589,730)	8%
Support services		(1,864,056)	(2,051,878)	9%
Non-instructional		10,896	26,669	(59)%
Interest on long-term liabilities		(115,912)	(131,185)	12%
Total net (expense) revenue	\$	(7,086,969)	(7,746,124)	9%

Chart of Expenses as per Statement of Activities



- Net cost of governmental activities (\$7,086,969 for 2010 and \$7,746,124 for 2009) was financed by general revenue, which is primarily made up of property taxes (\$1,279,890 for 2010 and \$1,236,409 for 2009).
- Investment earnings amounted to \$13,843 for 2010 and \$11,146 for 2009.

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, unreserved 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 \$696,277, an increase of \$609,607, which includes a decrease in reserve for inventory of \$12,115. This increase in fund balance is due primarily to the receipt of approximately \$478,000 of federal funds related to the American Recovery and Reinvestment Act (ARRA) which provided additional funding for programs under Title I and Part B of IDEA and the District's conservative approach to budgeting and spending during the fiscal year. \$309,563 or 44% of the fund balance represents unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$386,714 or 56% is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, debt service and unemployment benefits.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$553,706, which includes a prior period adjustment of \$(25,600). This increase was due primarily to the receipt of approximately \$479,000 in Budget Stabilization funds that were reported in a special revenue fund and were used to cover expenditures normally incurred in the General Fund. The increase in fund balance of the General Fund was also due to the District's conservative approach to budgeting and spending during the fiscal year. The fund balance of Other Governmental Funds showed an increase in the amount of \$46,765, which includes a prior period adjustment of \$(25,600) and a decrease in reserve for inventory of \$12,115. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
Title I - A Basic Fund	no increase or decrease
ARRA Part B Fund	no increase or decrease
MAEP Retirement Fund	\$ 9,136

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. Significant budget revisions during the fiscal year are explained as follows:

- Budgeted amounts for revenue from state sources in the General Fund were decreased during the fiscal year to reflect a decrease in Mississippi Adequate Education Program (MAEP) funds resulting from budget cuts. However, the District did receive approximately \$479,000 in Budget Stabilization funds there were reported in a special revenue fund. The budget was also revised to reflect the federal revenue received and reported in the Budget Stabilization Fund because this funding was received subsequent to the approval of the original budget.
- Budgeted amounts for instruction expenditures in the General Fund were decreased during the fiscal year. This decrease is primarily a result of the reclassification of expenditures normally incurred in the General Fund to the Budget Stabilization Fund (special revenue fund) and federal funds were received to cover those expenditures. The budget was also revised to reflect the federal revenue received and instruction expenditures incurred in the Budget Stabilization Fund. The funding was received subsequent to the approval of the original budget.
- Budgeted amounts for support services expenditures in the General Fund were decreased during the fiscal year to more accurately reflect actual expenditures incurred. Amounts originally budgeted were overstated.
- The original budget was revised to reflect actual revenue from federal sources and actual instruction and support services expenditures in various special revenue funds receiving federal funds related to the American Recovery and Reinvestment Act (ARRA). Amounts originally budgeted were based on estimates.

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, 2010, the District's total capital assets were \$6,834,160, including land, school buildings, mobile equipment, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$27,646 from 2009, due primarily to the purchase of various items of equipment. Total accumulated depreciation as of June 30, 2010, was \$3,080,384, and total depreciation expense for the year was \$127,514, resulting in total net capital assets of \$3,753,776.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Land	\$ 34,000	34,000	0%
Buildings	3,533,009	3,633,763	(3)%
Mobile equipment	154,909	171,106	(9)%
Furniture and equipment	31,858	14,775	116%
Total	<u>\$ 3,753,776</u>	<u>3,853,644</u>	<u>(3)%</u>

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

Debt Administration. At June 30, 2010, the District had \$2,417,789 in outstanding long-term debt, of which \$232,784 is due within one year. During the fiscal year, the District made principal payments in the amount of \$245,000 on existing long-term debt. The liability for compensated absences increased \$18,023 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 935,000	1,035,000	(10)%
Limited obligation bonds payable	1,390,000	1,515,000	(8)%
Three mill notes payable		20,000	(100)%
Compensated absences payable	92,789	74,766	24%
Total	<u>\$ 2,417,789</u>	<u>2,644,766</u>	<u>(9)%</u>

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

CURRENT ISSUES

The fund balance of the General Fund has declined over the past several years. However, the fund balance increased \$553,706 from the previous fiscal year resulting in a positive fund balance of \$255,017. Management of the School District has expressed some concern for the financial future of the District. Some of the most critical concerns are the continual decrease in state funding, the increase in the employers match to the Public Employee's Retirement System and the School District having to assume responsibility for a portion of the previously fully funded employee health insurance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Water Valley School District, PO Box 788, Water Valley, MS 38965.

FINANCIAL STATEMENTS

Water Valley School District
Statement of Net Assets
June 30, 2010

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 335,039
Due from other governments	264,299
Inventories	6,912
Restricted assets	112,587
Capital assets, non-depreciable:	
Land	34,000
Capital assets, net of accumulated depreciation:	
Buildings	3,533,009
Mobile equipment	154,909
Furniture and equipment	31,858
Total Assets	4,472,613
Liabilities	
Accounts payable and accrued liabilities	22,560
Interest payable on long-term liabilities	31,726
Long-term liabilities, due within one year	
Capital related liabilities	230,000
Non-capital related liabilities	2,784
Long-term liabilities, due beyond one year	
Capital related liabilities	2,095,000
Non-capital related liabilities	90,005
Total Liabilities	2,472,075
Net Assets	
Invested in capital assets, net of related debt	1,428,776
Restricted net assets:	
Expendable:	
School-based activities	61,458
Debt service	317,434
Unemployment benefits	30,642
Unrestricted	162,228
Total Net Assets	\$ 2,000,538

Water Valley School District
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 6,554,922	\$ 171,813	\$ 1,265,212	\$ -	\$ (5,117,897)
Support services	2,419,562	-	555,506	-	(1,864,056)
Non-instructional	509,850	59,493	461,253	-	10,896
Interest on long-term liabilities	115,912	-	-	-	(115,912)
Total Governmental Activities	<u>9,600,246</u>	<u>231,306</u>	<u>2,281,971</u>	<u>-</u>	<u>(7,086,969)</u>
General Revenues:					
Taxes:					
General purpose levies					1,141,127
Debt purpose levies					138,763
Unrestricted grants and contributions:					
State					5,934,927
Federal					579,878
Unrestricted investment earnings					13,843
Other					18,820
Total General Revenues					<u>7,827,358</u>
Change in Net Assets					740,389
Net Assets - Beginning					<u>1,260,149</u>
Net Assets - Ending					<u>\$ 2,000,538</u>

Water Valley School District

Balance Sheet - Governmental Funds

June 30, 2010

	Major Funds				Other	Total
	General	Title I - A	ARRA	MAEP	Governmental	Governmental
	Fund	Basic	Part B	Retirement	Funds	Funds
	Fund	Fund	Fund	Fund		
Assets						
Cash and cash equivalents	\$ 176,612	\$ -	\$ -	\$ -	\$ 158,427	\$ 335,039
Cash with fiscal agents	-	-	-	112,587	-	112,587
Due from other governments	80,522	22,002	23,364	100,081	38,330	264,299
Due from other funds	49,316	-	-	-	50,882	100,198
Inventories	-	-	-	-	6,912	6,912
Total Assets	306,450	22,002	23,364	212,668	254,551	819,035
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	551	-	20,150	-	1,859	22,560
Due to other funds	50,882	22,002	3,214	-	24,100	100,198
Total Liabilities	51,433	22,002	23,364	-	25,959	122,758
Fund Balances:						
Reserved for:						
Inventory	-	-	-	-	6,912	6,912
Debt service	-	-	-	212,668	136,492	349,160
Unemployment benefits	-	-	-	-	30,642	30,642
Unreserved, undesignated, reported in:						
General Fund	255,017	-	-	-	-	255,017
Special Revenue Funds	-	-	-	-	54,546	54,546
Total Fund Balances	255,017	-	-	212,668	228,592	696,277
Total Liabilities & Fund Balances	\$ 306,450	\$ 22,002	\$ 23,364	\$ 212,668	\$ 254,551	\$ 819,035

Water Valley School DistrictReconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 696,277
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,080,384.	3,753,776
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,417,789)
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Net Assets recognizes interest as it accrues.	(31,726)
Total Net Assets - Governmental Activities	<u>\$ 2,000,538</u>

Water Valley School DistrictStatement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2010

	Major Funds				Other	Total
	General	Title I - A	ARRA	MAEP	Governmental	Governmental
	Fund	Basic	Part B	Retirement	Funds	Funds
	Fund	Fund	Fund	Fund		
Revenues:						
Local sources	\$ 1,351,152	\$ -	\$ -	\$ 3	\$ 192,704	\$ 1,543,859
State sources	5,524,849	-	-	200,163	548,050	6,273,062
Federal sources	101,200	411,175	197,659	-	1,813,680	2,523,714
Total Revenues	6,977,201	411,175	197,659	200,166	2,554,434	10,340,635
Expenditures:						
Instruction	4,514,223	263,686	173,329	-	1,522,515	6,473,753
Support services	1,876,027	142,987	24,330	-	342,846	2,386,190
Noninstructional services	13,057	-	-	-	481,328	494,385
Debt service:						
Principal	-	-	-	125,000	120,000	245,000
Interest	-	-	-	65,445	50,791	116,236
Other	2,764	-	-	585	-	3,349
Total Expenditures	6,406,071	406,673	197,659	191,030	2,517,480	9,718,913
Excess (Deficiency) of Revenues over (under) Expenditures	571,130	4,502	-	9,136	36,954	621,722
Other Financing Sources (Uses):						
Operating transfers in	8,176	-	-	-	-	8,176
Operating transfers out	-	(4,502)	-	-	(3,674)	(8,176)
Total Other Financing Sources (Uses)	8,176	(4,502)	-	-	(3,674)	-
Net Change in Fund Balances	579,306	-	-	9,136	33,280	621,722
Fund Balances:						
July 1, 2009, as originally reported	(298,689)	-	-	203,532	181,827	86,670
Prior period adjustments	(25,600)	-	-	-	25,600	-
July 1, 2009, as restated	(324,289)	-	-	203,532	207,427	86,670
Increase (Decrease) in reserve for inventory	-	-	-	-	(12,115)	(12,115)
June 30, 2010	\$ 255,017	\$ -	\$ -	\$ 212,668	\$ 228,592	\$ 696,277

Water Valley School District

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, 2010

	<u>Amounts</u>
Net Change in Fund Balances - Governmental Funds	\$ 621,722
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$27,646 and the depreciation expense amounted to \$127,514.	(99,868)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment has no effect on net assets.	245,000
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	3,673
4. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased (increased) in the Statement of Activities.	(12,115)
5. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(18,023)
Change in Net Assets of Governmental Activities	<u>\$ 740,389</u>

Water Valley School District

Statement of Fiduciary Assets and Liabilities

June 30, 2010

	Agency Funds
Assets	
Cash and cash equivalents	\$ 515,090
Total Assets	<u>515,090</u>
Liabilities	
Accounts payable and accrued liabilities	473,742
Due to student clubs	41,348
Total Liabilities	<u>\$ 515,090</u>

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

Water Valley School District

Notes to the Financial Statements
June 30, 2010

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(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. Basis of Presentation

Government-wide Financial Statements:

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

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

1. Invested in capital assets, net of related debt, 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 assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have 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 properly included among program revenues are reported instead as general revenues.

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 as 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. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

Title I - A Basic Fund - This fund accounts for federal revenue received under the Title I grants to local educational agencies program and the expenditures incurred as approved by this program.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

ARRA Part B Fund - This fund accounts for the resources from the Recovery Act grants to States to assist them in providing a free appropriate public education to all children with disabilities.

MAEP Retirement Fund - This fund accounts for the portion of Mississippi Adequate Education Program (MAEP) revenues received by the district that are pledged to retire the district's long-term debt.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

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

Debt Service Funds - Debt Service Funds are used to account for the accumulated depreciation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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 and Basis of Accounting

In the government-wide Statement of Net Assets 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, 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

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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 city 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 are both restricted and unrestricted net assets 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.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in the *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

E. Encumbrances

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

F. Assets, liabilities, and net assets or equity

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 Sections 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.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

2. Receivables and payables

Activity 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes.

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

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

assets are reported in the applicable governmental column in the government-wide Statement of Net Assets. 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
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. 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 and/or vacation leave in accordance with school district

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

policy. The district pays for unused leave for employees as required to do so 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.

8. 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.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following are descriptions of fund reserves used by the district:

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Reserved for debt service - An account that represents that portion of fund balance in the Debt Service Fund which is legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

(2) Cash and Cash Equivalents and Cash with Fiscal Agents

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 districts' 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.

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 \$335,039 and \$515,090, respectively. The carrying amount of deposits reported in government-wide statements was: cash and cash equivalents \$335,039. The bank balance was \$1,200,099.

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, 2010, none of the district's bank balance of \$1,200,099 was exposed to custodial credit risk.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$112,587. This money is being held in a sinking fund to pay off the MAEP Limited Obligation Bonds (See Note 6). Also, this amount is shown as restricted assets on Exhibit A.

(3) Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I - A Basic Fund	\$ 22,002
	ARRA Part B Fund	3,214
	Other Governmental Funds	24,100
Other Governmental Funds	General Fund	50,882
Total		\$ <u>100,198</u>

Inter-fund loans are primarily for amounts loaned between funds to cover expenses while awaiting reimbursement of federal funds.

B. Inter-fund Transfers

Transfers In	Transfers Out	Amount
General Fund	Title I - A Basic Fund	\$ 4,502
	Other Governmental Funds	3,674
Total		\$ <u>8,176</u>

Inter-fund transfers were made to provide funds for daily operations. All inter-fund transfers were routine and consistent with the fund making the transfer.

(4) Restricted Assets

The restricted assets represent the cash with fiscal agents balance, totaling \$112,587 of the MAEP Retirement Fund.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(5) Capital Assets

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

	Balance 7-1-2009	Additions	Balance 6-30-2010
<u>Non-depreciable capital assets:</u>			
Land	\$ 34,000		34,000
Total non-depreciable capital assets	34,000	0	34,000
<u>Depreciable capital assets:</u>			
Buildings	5,715,588		5,715,588
Mobile equipment	897,606		897,606
Furniture and equipment	159,320	27,646	186,966
Total depreciable capital assets	6,772,514	27,646	6,800,160
<u>Less accumulated depreciation for:</u>			
Buildings	(2,081,825)	100,754	(2,182,579)
Mobile equipment	(726,500)	16,197	(742,697)
Furniture and equipment	(144,545)	10,563	(155,108)
Total accumulated depreciation	(2,952,870)	127,514	(3,080,384)
Total depreciable capital assets, net	3,819,644	(99,868)	3,719,776
Governmental activities capital assets, net	\$ 3,853,644	(99,868)	3,753,776

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 96,199
Support services	28,866
Non-instructional	2,449
Total depreciation expense	\$ 127,514

(6) Long-term liabilities

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

	Balance 7-1-2009	Additions	Reductions	Balance 6-30-2010	Amounts due within one year
A. General obligation bonds payable	\$ 1,035,000		100,000	935,000	100,000
B. Limited obligation bonds payable	1,515,000		125,000	1,390,000	130,000
C. Three mill notes payable	20,000		20,000	0	
D. Compensated absences payable	74,766	18,023		92,789	2,784
Total	\$ 2,644,766	18,023	245,000	2,417,789	232,784

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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	4.88-6.00%	05-15-98	05-15-18	\$ 1,900,000	935,000
Total				\$ 1,900,000	935,000

Details of the district's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 100,000	45,212	145,212
2012	110,000	40,513	150,513
2013	115,000	35,287	150,287
2014	120,000	29,767	149,767
2015	125,000	23,887	148,887
2016 - 2018	365,000	33,882	398,882
Total	\$ 935,000	208,548	1,143,548

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, 2010, the amount of outstanding bonded indebtedness was equal to 3% of property assessments as of October 31, 2009.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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 improvements, Series 1998	4.50-6.25%	01-01-98	08-01-18	\$ 2,335,000	1,390,000
Total				\$ <u>2,335,000</u>	<u>1,390,000</u>

Details of the district's June 30, 2010 limited obligation bonded indebtedness are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 130,000	59,770	189,770
2012	140,000	53,695	193,695
2013	145,000	47,210	192,210
2014	150,000	40,500	190,500
2015	160,000	33,525	193,525
2016 - 2019	<u>665,000</u>	<u>58,612</u>	<u>723,612</u>
Total	\$ <u>1,390,000</u>	<u>293,312</u>	<u>1,683,312</u>

This debt will be retired from the Mississippi Adequate Education 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.

C. Three Mill Notes Payable

This debt was paid off during the fiscal year and retired from the Three Mill Note Retirement Fund.

D. Compensated absences payable

As more fully explained in Note 1(F)(7), 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.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(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 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 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2010 was 12.00% of the 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, 2010, 2009 and 2008 were \$703,251, \$706,757, and \$731,121, respectively, which equaled the required contributions for each year.

(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 federally 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 laws will not have a material adverse effect on the financial condition of the school district.

(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.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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 63 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 up 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.

(10) 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 the date the report was available to be issued, and determined that the following subsequent events have occurred that require disclosure in the notes to the financial statements:

On October 19, 2010, the Board approved the issuance of a Qualified School Construction Bond in the amount of \$500,000.

On October 19, 2010, the Board approved the issuance of a Three Mill Notes Payable in the amount of \$400,000.

On October 19, 2010, the Board approved the refinancing of the State Aid Capital Improvement.

Water Valley School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(11) Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Funds</u>	<u>Explanation(s)</u>	<u>Amount</u>
General Fund	To reclassify transaction related to prior year audit for transfer of funds to fund 2820.	\$ (25,600)
Other Governmental Funds	To reclassify transaction related to prior year audit for transfer of fund to fund 1120.	25,600
		<hr/>
Total		\$ 0
		<hr/>

REQUIRED SUPPLEMENTARY INFORMATION

Water Valley School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2010

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,447,221	\$ 1,399,770	\$ 1,351,152	\$ (47,451)	\$ (48,618)
State sources	6,453,436	5,524,849	5,524,849	(928,587)	-
Federal sources	64,000	101,200	101,200	37,200	-
Total Revenues	7,964,657	7,025,819	6,977,201	(938,838)	(48,618)
Expenditures:					
Instruction	5,204,483	4,514,223	4,514,223	690,260	-
Support services	2,070,984	1,876,027	1,876,027	194,957	-
Noninstructional services	15,000	38,657	13,057	(23,657)	25,600
Debt service:					
Other	2,800	2,764	2,764	36	-
Total Expenditures	7,293,267	6,431,671	6,406,071	861,596	25,600
Excess (Deficiency) of Revenues over (under) Expenditures	671,390	594,148	571,130	(77,242)	(23,018)
Other Financing Sources (Uses):					
Operating transfers in	-	8,176	8,176	8,176	-
Total Other Financing Sources (Uses)	-	8,176	8,176	8,176	-
Net Change in Fund Balances	671,390	602,324	579,306	(69,066)	(23,018)
Fund Balances:					
July 1, 2009, as originally reported	-	(318,847)	(298,689)	(318,847)	20,158
Prior period adjustments	-	-	(25,600)	-	(25,600)
July 1, 2009, as restated	-	(318,847)	(324,289)	(318,847)	(5,442)
June 30, 2010	\$ 671,390	\$ 283,477	\$ 255,017	\$ (387,913)	\$ (28,460)

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

Water Valley School District
 Budgetary Comparison Schedule
 Title I-A Basic Fund
 For the Year Ended June 30, 2010

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 406,814	\$ 411,175	\$ 411,175	\$ 4,361	\$ -
Total Revenues	406,814	411,175	411,175	4,361	-
Expenditures:					
Instruction	254,890	263,686	263,686	(8,796)	-
Support services	151,924	142,987	142,987	8,937	-
Total Expenditures	406,814	406,673	406,673	141	-
Excess (Deficiency) of Revenues over (under) Expenditures	-	4,502	4,502	4,502	-
Other Financing Sources (Uses):					
Operating transfers out	-	(4,502)	(4,502)	(4,502)	-
Total Other Financing Sources (Uses)	-	(4,502)	(4,502)	(4,502)	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2009	-	-	-	-	-
June 30, 2010	\$ -	\$ -	\$ -	\$ -	\$ -

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

Water Valley School District
 Budgetary Comparison Schedule
 ARRA Part B Fund
 For the Year Ended June 30, 2010

Exhibit 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 336,288	\$ 197,659	\$ 197,659	\$ (138,629)	\$ -
Total Revenues	336,288	197,659	197,659	(138,629)	-
Expenditures:					
Instruction	211,425	173,329	173,329	38,096	-
Support services	124,863	24,330	24,330	100,533	-
Total Expenditures	336,288	197,659	197,659	138,629	-
Excess (Deficiency) of Revenues over (under) Expenditures	-	-	-	-	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2009	-	-	-	-	-
June 30, 2010	\$ -	\$ -	\$ -	\$ -	\$ -

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Water Valley School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2010

Budgetary Comparison Schedules

(1) Basis of Presentation

The Budgetary Comparison Schedules present 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**Schedule 1**

Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 29,915
National School Lunch Program	10.555	515,603
Total child nutrition cluster		545,518
Total passed-through Mississippi Department of Education		545,518
Total U. S. Department of Agriculture		545,518
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
Communications Information and Assistance and Investigation of Complaints	32.xxx	36,304
Total Federal Communications Commission		36,304
<u>Appalachian Regional Commission</u>		
Passed-through Mississippi Department of Education:		
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	773
Total Appalachian Regional Commission		773
<u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Cluster:		
Title I Grants to Local Educational Agencies	84.010	411,175
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	270,262
Total Title I Cluster		681,437
Career and Technical Education - Basic Grants to States	84.048	30,063
Safe and Drug Free Schools and Communities - State Grants	84.186	6,400
Rural Education	84.358	34,536
Improving Teacher Quality - State Grants	84.367	111,516
ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants, Recovery Act	84.394	479,450
Subtotal		661,965
Special Education Cluster:		
Special Education - Grants to States	84.027	316,368
Special Education - Preschool Grants	84.173	9,565
ARRA - Special Education - Grants to States, Recovery Act	84.391	197,659
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	10,001
Total special education cluster		533,593
Total passed-through the Mississippi Department of Education		1,876,995
Total U.S. Department of Education		1,876,995
TOTAL FOR ALL FEDERAL AWARDS		\$ 2,459,590

Notes to Schedule

1. This schedule was prepared using the same basis of accounting and 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

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2010

Schedule 2

Expenditures	Total	Instruction and Other Student			Other
		Instructional Expenditures	General Administration	School Administration	
Salaries and fringe benefits	\$ 7,983,058	6,667,002	353,911	277,952	684,193
Other	1,735,855	543,934	52,835	2,169	1,136,917
Total	\$ 9,718,913	7,210,936	406,746	280,121	1,821,110

Total number of students * 1,211

Cost per student \$ 8,026 231 1,504

NOTES TO SCHEDULE

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 ; Support Services - Business

School Administration - includes expenditures for the following functions: Support Services - School Administration

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

* Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

OTHER SUPPLEMENTAL INFORMATION

WATER VALLEY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	<u>2010</u>	<u>2009*</u>	<u>2008*</u>	<u>2007*</u>
Revenues:				
Local sources	\$ 1,351,152	1,295,341	1,309,769	1,186,900
State sources	5,524,849	6,045,251	6,308,129	6,111,709
Federal sources	101,200	64,924	66,764	80,812
Total Revenues	<u>6,977,201</u>	<u>7,405,516</u>	<u>7,684,662</u>	<u>7,379,421</u>
Expenditures:				
Instruction	4,514,223	5,428,578	5,620,368	5,311,883
Support services	1,876,027	2,035,643	2,320,261	2,305,156
Noninstructional services	13,057	15,809	21,666	33,448
Debt service:				
Other	2,764	7,099	2,775	2,780
Total Expenditures	<u>6,406,071</u>	<u>7,487,129</u>	<u>7,965,070</u>	<u>7,653,267</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>571,130</u>	<u>(81,613)</u>	<u>(280,408)</u>	<u>(273,846)</u>
Other Financing Sources (Uses):				
Operating transfers in	8,176			
Operating transfers out				(216,795)
Total Other Financing Sources (Uses)	<u>8,176</u>	<u>0</u>	<u>0</u>	<u>(216,795)</u>
Net Change in Fund Balances	<u>579,306</u>	<u>(81,613)</u>	<u>(280,408)</u>	<u>(490,641)</u>
Fund Balances:				
July 1, as originally reported	(298,689)	(217,076)	63,389	554,030
Prior period adjustments	(25,600)		(57)	
July 1, as restated	<u>(324,289)</u>	<u>(217,076)</u>	<u>63,332</u>	<u>554,030</u>
June 30,	<u>\$ 255,017</u>	<u>(298,689)</u>	<u>(217,076)</u>	<u>63,389</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

WATER VALLEY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

"UNAUDITED"

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 1,543,859	1,514,758	1,544,753	1,404,007
State sources	6,273,062	6,802,062	7,040,646	6,662,797
Federal sources	2,523,714	1,521,114	1,359,022	1,479,307
Total Revenues	<u>10,340,635</u>	<u>9,837,934</u>	<u>9,944,421</u>	<u>9,546,111</u>
Expenditures:				
Instruction	6,473,753	6,570,615	6,642,689	6,460,451
Support services	2,386,190	2,413,604	2,690,996	2,682,800
Noninstructional services	494,385	517,441	503,448	543,151
Sixteenth section				
Facilities acquisition and construction				
Debt service:				
Principal	245,000	245,000	235,000	225,000
Interest	116,236	127,546	138,997	150,618
Other	3,349	7,649	3,325	3,337
Total Expenditures	<u>9,718,913</u>	<u>9,881,855</u>	<u>10,214,455</u>	<u>10,065,357</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>621,722</u>	<u>(43,921)</u>	<u>(270,034)</u>	<u>(519,246)</u>
Other Financing Sources (Uses):				
Operating transfers in	8,176			216,795
Operating transfers out	(8,176)			(216,795)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>621,722</u>	<u>(43,921)</u>	<u>(270,034)</u>	<u>(519,246)</u>
Fund Balances:				
July 1, as originally reported	86,670	118,670	389,421	897,926
Prior period adjustment				15,322
July 1, as restated	<u>86,670</u>	<u>118,670</u>	<u>389,421</u>	<u>913,248</u>
Increase (Decrease) in reserve for inventory	(12,115)	11,921	(717)	(4,581)
June 30,	<u>\$ 696,277</u>	<u>86,670</u>	<u>118,670</u>	<u>389,421</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

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, 2010, which collectively comprise the Water Valley School District's basic financial statements and have issued our report thereon dated March 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting [Finding **2010-1** Finding **2010-2**]. 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.

Compliance and Other Matters

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

Water Valley School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Water Valley School District's responses and, accordingly, we express no opinion on them.

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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
March 22, 2011

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

Superintendent and School Board
Water Valley School District

Compliance

We have audited the compliance of the Water Valley School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Water Valley's School District's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contract and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, the Water Valley School District complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of the Water Valley School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Water Valley School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 the school district's internal control over compliance.

AICPA & MSCPA

1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone (601) 992-5292, Fax (601) 992-2033

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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, others within the entity, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
March 22, 2011

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
Certified Public Accountants

**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, 2010, which collectively comprise Water Valley School District's basic financial statements and have issued our report thereon dated March 22, 2011. 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 \$4,364 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 disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding 1:

Section 31-7-305, Miss. Code Ann. (1972), states, “payments should be delivered to the vendor no later than 45 days of receipt of an undisputed invoice and receipt, inspection and approval of the goods and services. During our test of expenditures, we noted that the payment of two invoices, were over the 45-day statutory limitation.

Recommendation:

We recommend that the school district comply with Section 31-7-305, Miss. Code Ann. (1972), and ensure that payments are made timely.

Response:

The District will pay all claims within 45 days of receiving all invoices after inspection of the goods or services.

Finding 2:

During the course of our audit, there was no bond for the principals. Section 37-9-31, Miss Code Ann. (1972), requires each school district official and employee should have been given a surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety, to be payable, conditioned and approved in the manner provided by law. During the course our audit, we noted two (2) principals were bonded for only \$25,000.

Recommendation:

The District should comply with Section 37-9-31, Miss. Code Ann. (1972).

Response:

The District will comply with Section 37-9-31, Miss. Code Ann. (1972).

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

The Water Valley School District’s responses to the findings included in this report were not audited and, accordingly, we express no opinion on them.

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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 22, 2011

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Water Valley School District

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. Noncompliance material to financial statements noted? No.
3. Internal control over financial reporting:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes.

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported.
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No.
7. Federal programs identified as major programs:
 - a. Child Nutrition
CDFA# 10.553
CDFA# 10.555
 - b. Title I Cluster:
CDFA# 84.010
CDFA# 84.389
 - c. Special Education Cluster:
CDFA# 84.027
CDFA# 84.173
CDFA# 84.391
CDFA# 84.392

- d. ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants,
Recovery Act
CFDA# 84.394
- 8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
- 9. Auditee qualified as low-risk auditee? No.

Section II: Financial Statements Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Significant Deficiencies:

Finding 2010-1:

Policies and procedures should be in place to document, tag and record into the capital assets data base all assets placed in service in the school district. We were unable to locate one item during our test of capital assets. In addition, the annual physical inventory process for furniture and equipment was not adequate in providing an adequate level of monitoring and oversight.

The effect of this deficiency could result in possible fraud or cause an overstatement of assets if the item was disposed without authority.

Recommendation:

The District should implement policies and procedures to ensure all fixed assets are maintained at the school district.

Finding 2010-2:

Management is responsible for ensuring that all revenue earned is correctly recorded and deposited in order to safeguard the assets of the district.

The school district has in place a procedure which utilizes a School Event Receipt that requires the ticket seller to record the range of pre-numbered tickets sold times the price per ticket to account for the cash received for ticket sales. While reviewing activity fund revenues for the school district, incomplete School Event Receipt Forms were noted. We also noted, the individuals issuing tickets and taking up funds should count funds and attest to the amount before putting funds in lock bag and taking the money to the financial institution.

These weaknesses occurred due to inadequate internal controls related to the collection and deposit of receipts.

Inadequate internal controls related to revenue collection could result in the loss of assets and improper revenue recognition.

Recommendation:

The District should implement policies and procedures to ensure that receipts from athletic events are safeguarded, properly recognized and recorded. Also, any individuals issuing or taking up funds should count funds and attest to the amount before placing in lock bag and taking money to financial institution.

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.

**AUDITEE'S CORRECTIVE ACTION PLAN AND SUMMARY OF PRIOR AUDIT
FINDINGS**

Water Valley School District
PO Box 788
Water Valley, MS 38965
Dr. Deborah Morán - Superintendent
Randy Goodwin - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section _____.315(b) of OMB Circular A-133, the Water Valley School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2010:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2010-1	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Name: Randy Goodwin Title: Business Manager Phone Number: 662-473-1203</p> <p>b. Corrective Action Planned:</p> <p>The District will implement policies and procedures to ensure all fixed assets are maintained at the school district.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2011</p>
2010-2	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Name: Randy Goodwin Title: Business Manager Phone Number: 662-473-1203</p> <p>b. Corrective Action Planned:</p> <p>The District will implement policies and procedures to ensure that receipts from athletic events are safeguarded, properly recognized and recorded. Also, any individuals issuing or taking up funds will count funds and attest to the amount before placing in lock bag and taking money to financial institution.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2011</p>

Water Valley School District
PO Box 788
Water Valley, MS 38965
Dr. Deborah Morán - Superintendent
Randy Goodwin - Business Manager

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section ___.315(b) of OMB Circular A-133, the Water Valley School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2010:

<u>Finding</u>	<u>Status</u>
2009-3	Corrected
2009-4	Partially corrected (Addressed in State Legal Compliance Letter. See Page 61 of report)
2009-5	Partially corrected
2009-6	Corrected
2009-7	Corrected
2009-8	Corrected
2009-9	Corrected