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TOWN OF DERMA

FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

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TOWN OF DERMA
TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Government – Wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes In fund Balances of Governmental Funds to the Statement of Activities – Governmental Funds	8
Statement of Net Assets – Proprietary Funds	9
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	10
Statement of Cash Flows – Proprietary Funds	11
Notes to Financial Statements	13
Required Supplementary Information:	
Budget Comparison Schedule – Cash Budgetary Basis	26
Notes to Required Supplementary Information	28
Other Supplementary Information:	
Schedule of Expenditures of Federal Awards	29
Notes to Schedule of Expenditures of Federal Awards	30
Other Supplemental Schedules:	
Schedule of Long-Term Debt	31
Schedule of Surety Bonds	32
Independent Auditor's Report on Compliance with State Laws and Regulations	33
Report of Compliance and on Internal Control Over Financial Reporting Based on an Audit of financial Statements Performed In Accordance with *Government Auditing Standards*	34
Report of Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With Circular A-133	36
Summary Schedule of Prior Audit Findings	38
Schedule of Findings and Questioned Costs	39

RSW RONNIE S. WINDHAM, CPA, LLC
P.O BOX 159, OXFORD, MS 38655 (662) 281-1091 cell (662) 816-2562 fax (662) 281-1025

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Town Council
Town of Derma, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Derma, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Derma, Mississippi, 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 Stated 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1.D. to the financial statements, management has not recorded all depreciation on all general capital assets acquired prior to October 1, 2002 in governmental activities and accordingly has not provided for accumulated depreciation on these assets. Accounting principles generally accepted in the United States of America require that general capital assets be depreciated, which would decrease the assets and net assets and increase the expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects, if any, of not providing depreciation on all general capital assets acquired prior to October 1, 2002 in governmental activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Derma, Mississippi, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition to our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Derma, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2007, on our consideration of the Town of Derma, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That purpose of that reports 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.

Town of Derma, Mississippi has not presented Management's Discussion and Analysis that is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board

The Budgetary Comparison Schedule 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.

Ronnie S Windham CPA

Ronnie S. Windham, CPA
Oxford, Mississippi
August 3, 2007

FINANCIAL STATEMENT

TOWN OF DERMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS AND OTHER DEBITS			
Cash and cash equivalents	$ 84,343	$ 127,347	$ 211,690
Receivables, net of allowance for uncollectibles	56,227	25,794	82,021
Due from other funds	34,541	0	34,541
Intergovernmental Receivables	8,900	179,088	187,988
Prepaids	0	0	0
Restricted Assets	0	0	0
Cash Bond Reserves	0	80,020	80,020
Customer deposits	0	0	0
Capital assets, net	576,350	3,366,827	3,943,177
Capitalized interest and bond costs (net)	0	0	0
Total Assets	$ 760,361	$ 3,779,076	$ 4,539,437
LIABILITIES AND OTHER CREDITS			
Accounts Payable	$ 0	$ 185,185	$ 185,185
Other payables	0	31,810	31,810
Due to other Funds	0	34,541	34,541
Customer deposits	0	0	0
Compensated absences	0	0	0
Deferred Revenue	56,135	0	56,135
Noncurrent liabilities:	0	0	0
Capital related debt due within one year	0	22,835	22,835
Capital related debt due in more than one year	0	984,146	984,146
Total Liabilities	$ 56,135	$ 1,258,517	$ 1,314,652
NET ASSETS			
Invested in capital assets, net of related debt	$ 576,350	$ 2,180,758	$ 2,757,108
Restricted for:		0	
Capital Projects	0	0	0
Other Purposes	0	0	0
Restricted for debt covenants		80,020	80,020
Unrestricted	127,876	294,322	422,198
Total Net Assets	$ 704,226	$ 2,555,100	$ 3,259,326

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

TOWN OF DERMA
STATEMENT OF NET ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	$ 55,200	$ (795)	$	$	$ 54,405	$	$ 54,405
Public safety	120,322	(476)		(10,923)	108,923		108,923
Fire	18,551		(14,202)	0	4,349		4,349
Streets	50,888	(516)			50,372		50,372
Parks and recreation	936	(472)			464		464
Interest on long-term debt	0				0		0
Total governmental activities	$ 245,897	$ (2,259)	$ (14,202)	$ (10,923)	$ 218,513	$ 0	$ 218,513
Business-type activities:							
Water and Sewer	229,753	(270,468)	0	(1,441,575)		(1,482,290)	(1,482,290)
Sanitation	34,541	(39,142)		0		(4,601)	(4,601)
Total business-type activities	$ 264,294	$ (309,610)	$ 0	$ (1,441,575)	$ 0	$ (1,486,891)	$ (1,486,891)
Total	$ 510,191	$ (311,869)	$ (14,202)	$ (1,452,498)	$ 218,513	$ (1,486,891)	$ (1,268,378)
General revenues:							
Taxes:							
Taxes levied for general purpose					$ 63,265	$	$ 63,265
Sales taxes and gas taxes					70,650		70,650
Franchise taxes and licenses					13,307		13,307
Fines and Forfeitures					50,832		50,832
Grants and contributions not restricted to specific programs					0		0
Homestead Exemption Reimbursement					6,134		6,134
Other Intergovernmental revenues and grants					8,933		8,933
Investment Earnings					128	982	1,110
Miscellaneous					2,933		2,933
Gain on sale of capital assets					0		0
Transfers					43,292	(5,531)	37,761
Total general revenues and transfers					$ 259,474	$ (4,549)	$ 254,925
Change in net assets					40,961	1,482,342	1,523,303
Net assets- beginning					663,265	1,072,758	1,736,023
Prior period adjustment							
Net assets- ending					$ 704,226	$ 2,555,100	$ 3,259,326

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

TOWN OF DERMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS			
Cash and cash equivalents	$ 61,361	$ 22,982	$ 84,343
Taxes Receivable	56,227		56,227
Fines Receivable	0		0
allowance for uncollectibles	0		0
Due from other governments	8,900		8,900
Due from other funds	34,541	0	34,541
Prepaids			0
Total Assets	$ 161,029	$ 22,982	$ 184,011
LIABILITIES AND OTHER CREDITS			
Accounts Payable	$ 0	$	$ 0
Deferred Revenue	56,135		56,135
Other Payables	0		0
Due to Other Funds	0		0
Accrued Leave	0		0
Total Liabilities	$ 56,135	$ 0	$ 56,135
FUND BALANCES			
Reserved			
Reserved for bond			0
Reserved for prepaids			0
Unreserved, undesignated reported in:			0
General fund	104,894	0	104,894
Special revenue funds		22,982	22,982
Capital projects funds		0	0
Total fund balances	$ 104,894	$ 22,982	$ 127,876
Total liabilities and fund balances	$ 161,029	$ 22,982	$ 184,011

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

TOWN OF DERMA
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Total Fund Balance- Governmental Funds	$ 127,876
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the government funds	576,350
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds	
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.	0
Total Net Assets-Governmental Activities	$ 704,226

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

TOWN OF DERMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Major Funds		
	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property taxes	$ 61,872	$ 6,782	$ 68,654
Unrestricted intergovernmental	79,062	521	79,583
Restricted Intergovernmental	7,312	10,202	17,514
Permits and Fees	795		795
Miscelaneous	72,930	4,000	76,930
TOTAL REVENUE	$ 221,971	$ 21,505	$ 243,476
EXPENDITURES			
General governmental	55,200		55,200
Public safety	115,793		115,793
Fire	0	18,212	18,212
Public Works	35,595		35,595
Parks and recreation	936		936
Debt services			0
Principal			0
Interest			0
Other		7,532	7,532
TOTAL EXPENDITURES	$ 207,524	$ 25,744	$ 233,268
Excess (deficiency) of revenues over expenditures	$ 14,447	$ (4,239)	$ 10,208
Other financing sources (uses):			
Transfers in	39,622	8,452	48,074
Transfers out	0	(4,782)	(4,782)
Investment Income	0	88	88
Total other financing sources (uses):	39,622	3,758	43,380
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ 54,069	$ (481)	$ 53,588
Fund Balances - Beginning			
Prior period Adjustment	0	0	0
Fund Balances - Beginning, as restates	$ 50,825	$ 23,463	$ 74,288
Fund Balances - Ending	$ 104,894	$ 22,982	$ 127,876

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

TOWN OF DERMA
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances- total government funds	$ 53,588
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reports as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(12,627)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas, in the governmental funds proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decreases financial resources. This is the amount by which the proceeds from the sale of assets exceeds the gain on the sale of net assets.	
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount that debt proceeds exceeded debt payments in the current period.	0
Governmental funds report the effect of issuance costs and similar items when debt it first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the net effect of these differences in the treatment of long-term debt and related items.	
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required in the Statement of Activities using the full-accrual basis of accounting.	0
Some expenses reported in the Statement of Activities do not require the use of current financial resourced and, therefore, are not reported as expenditures in governmental funds	0
This is the amount of increase in compensated absences.	0
This is the amount of increase in claims and judgments.	
Change in Net Assets of Governmental Activities	$ 40,961

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

TOWN OF DERMA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2006

	Water and Sewer Fund Current	Solid Waste Fund Current	Totals Current Year
ASSETS			
Cash and cash equivalents	$ 127,347	$ 0	$ 127,347
Customer receivables, net of allowance	25,794	0	25,794
Unbilled Income			0
Due from other funds		0	0
Other receivables	179,088		179,088
Inventory, at cost			0
Prepaids			0
Restricted Assets			0
Cash Bond Reserves	80,020		80,020
Customer deposits	0		0
Capital assets, net	3,366,827		3,366,827
Capitalized interest and bond costs (net)			0
Total Assets	$ 3,779,076	$ 0	$ 3,779,076
LIABILITIES			
Accounts Payable	$ 185,185	$ 0	$ 185,185
Due to other funds	0	34,541	34,541
Other payable	31,810		31,810
Customer deposits	0		0
Compensated absences	0	0	0
Noncurrent liabilities:	0	0	0
Capital related debt due within one year	22,835	0	22,835
Capital related debt due in more than one year	984,146	0	984,146
Total Liabilities	$ 1,223,976	$ 34,541	$ 1,258,517
NET ASSETS			
Invested in capital assets, net of related debt	2,180,758	0	2,180,758
Restricted for debt covenants	80,020	0	80,020
Unrestricted	328,863	(34,541)	294,322
Total Net Assets	$ 2,589,641	$ (34,541)	$ 2,555,100

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

TOWN OF DERMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2006

	Water and Sewer Fund Current	Solid Waste Fund Current Year	Totals Current Year
Operating revenues:			
Charges for services	$ 172,755	$ 39,142	$ 211,897
Tap fees	1,175		1,175
Other Operating Revenues	19,990		19,990
Sewer treatment charges	76,548		76,548
	$ 270,468	$ 39,142	$ 309,610
Operating expenses:			
Personnel services	84,251	0	84,251
Supplies and material	26,745	0	26,745
Other services and charges	11,439	34,541	45,980
Capital repairs	18,360	0	18,360
Depreciation	64,077	0	64,077
Total operating expenses	$ 204,872	$ 34,541	$ 239,413
Operating income (loss)	$ 65,596	$ 4,601	$ 70,197
Other sources (uses)			
Capital Grants	(1,441,575)	0	(1,441,575)
Investment earnings	(982)	0	(982)
Interest expense	24,881	0	24,881
Operating transfers in	(148,855)		(148,855)
Operating transfers out	154,386		154,386
	$ (1,412,145)	$ 0	$ (1,412,145)
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,477,741	4,601	1,482,342
Total net assets - beginning	1,072,758	0	1,072,758
Total net assets - ending	$ 2,550,499	$ 4,601	$ 2,555,100

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

TOWN OF DERMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2006

	Water and Sewer Fund	Solid Waste Fund	Totals
Cash flow from operating activities:			
Cash received from customers (excluding deposit)	$ 257,827	$ 39,142	$ 296,969
Cash paid to suppliers	(56,544)	(34,541)	(91,085)
Cash paid to employees	(84,251)	0	(84,251)
Net cash provided (used) by operating activities	$ 117,032	$ 4,601	$ 121,633
Cash flow from non-capital financing activities:			
Operating transfers out	(154,386)		(154,386)
Operating transfers in	148,855	0	148,855
Net cash provided by non-capital financing activities	$ (5,531)	$ 0	$ (5,531)
Cash flow from capital and related financing activities:			
Loan Proceeds	254,152		254,152
Capital Grant Received	1,441,575		1,441,575
Principal paid on notes	(21,174)	0	(21,174)
Interest paid	(24,881)	0	(24,881)
Net cash provided (used) by capital and related financing activities	$ 1,649,672	$ 0	$ 1,649,672
Cash flow from investing activities:			
Purchase of fixed assets	x (1,781,732)		(1,781,732)
Interest received	982	0	982
Net cash provided (used) by investing activities	$ (1,780,750)	$ 0	$ (1,780,750)
Net increase (decrease) in cash for the year	(19,577)	4,601	(14,976)
Cash and restricted cash - October 1, 2005	222,343	0	222,343
Cash and restricted cash - September 30, 2006	$ 202,766	$ 4,601	$ 207,367

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

TOWN OF DERMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2006

Reconciliation of Operating Income to Net
Cash Provided by Operating Activities

	Water and Sewer	Solid Waste Fund	Totals
Income (loss) from operations	$ 65,596	$ 4,601	$ 70,197
Adjustment to reconcile operating income to net cash provided by operating income activities:			
Depreciation	64,077		64,077
Other nonoperating revenue			
(Increase) decrease in accounts receivable	(2,711)	0	(2,711)
(Increase) decrease in prepaid assets		0	0
Increase (decrease) in other liabilities	17,307	0	17,307
Increase (decrease) in accounts payable	(27,237)	0	(27,237)
Net Cash provided by operating activities	$ 117,032	$ 4,601	$ 121,633
Other Required Disclosures:			
Interest expense	$ 24,881	$ 0	$ 24,881

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Town the option of electing to apply FASB pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended September 30, 2006, the Town implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

1.A. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity comprises the following:

Primary Government: Town of Derma

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the Town appointed a voting majority of the units' board; the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. These component units' funds are blended into those of the Town's by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute it assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Funds

The General Fund is the primary operating fund of the Town and always classified as a major funds. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

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

1.B. BASIS OF PRESENTATION - continued

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the Town other than debt service payments made by enterprise funds.

Proprietary Fund

Enterprise Fund

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Water and Sewer Fund.

Fiduciary Funds (Not included in governmental-wide statements)

Agency Funds

Agency funds account for assets held by the Town in a purely custodial capacity. The reporting entity includes four agency funds. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. The agency funds are as follows:

Fund	Brief Description
Clearing Fund	Accounts for funds transferred in to pay claims and for disbursement of payroll checks for Town. Funds are transferred in monthly from Governmental and Proprietary type funds and disbursements are made to the Town's vendors and employees.

1.B. BASIS OF PRESENTATION - continued

Major and Nonmajor Funds

The funds further classified as major or nonmajor are as follows:

Fund	Brief Description
Major:	
General	See above for description.
Fire Fund	To account for operations of the fire department.
Fund	
Nonmajor:	
None	

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement of focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING- (continued)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Budgets and Budgetary Accounting

Budgets are adopted on the cash basis of accounting.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 15, the Mayor and Town Council proposed an operating budget for the fiscal year commending the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. As required by State law, the Town conducts public hearings on the budget.
3. The budget as submitted is reviewed by the Mayor and Town Council and necessary revisions are made to the budget. Then the budget is approved prior to September 15.
4. The budget is formally revised no later than July of each year or any time a deficit is indicated.
5. Budgetary comparisons are employed by management as a management control device during the year for all governmental funds and Water and Sewer Enterprise Fund. The budget and actual comparisons are formally presented in the financial statements to the Mayor and Town Council. Budgetary control over other funds is achieved through applicable state law, bond ordinances, or other restrictions imposed when the fund is created.

Budgeted amounts are as originally adopted or as amended by the Town Council as of September 30, 2006.

1.D. ASSETS, LIABILITIES AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the Town. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 10 for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, and police fines. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the governmental-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Unbilled Revenues

An estimated amount has been recorded for utility services provided but not billed as of the end of the year.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

1.D. ASSETS, LIABILITIES AND EQUITY - continued

Government-wide Statements

In the government-wide financial statements, general assets including major general infrastructure assets acquired during the current year are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Prior to October 1, 2002, and the implementation of GASB 34, governmental fund's major general infrastructure assets were not capitalized. In accordance with the provisions of GASB 34, the Town has elected to defer the reporting of major general infrastructure assets acquired before the adoption of GASB 34, or October 1, 2002. Accordingly, those assets and depreciation thereon have not been reported in these financial statements. The Town has until the year ended September 30, 2007, to retroactively report these assets. The retroactive capitalization period will be for major general infrastructure assets acquired from October 1, 1979 through September 30, 2002. The major general infrastructure assets will be reported at estimated historical cost once they are inventoried.

Also, the town has not yet provided for depreciation on general assets (other than infrastructure) acquired prior to October 1, 2002 as required by GASB 34. Consequently, depreciation expense and accumulated depreciation in these assets has not been reported in these financial statements. Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25-50 years
Improvements	10-50 years
Machinery and Equipment	3-20 years
Utility System	25-50 years
Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to revenue bond reserve accounts and unspent bond proceeds.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

1.D. ASSETS, LIABILITIES AND EQUITY - continued

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of general obligation bonds, revenue bonds, notes payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Property Tax

Property taxes attach as an enforceable lien on property as of the last Monday in August. Taxes are levied by September 15 and are payable by February 1. The Town bills and collects its own property taxes. Town property tax revenues are recognized when collected.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

1.E. REVENUES, EXPENDITURES AND EXPENSES

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenses are classified as follows:

Governmental Funds – By Character

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2: CASH AND CASH EQUIVALENTS

A summary of cash balances including bank account deposits and cash on hand at September 30, 2006, follows:

Fund	Unrestricted	Restricted	Total
General Fund	$ 84,292	$ 0	$ 84,292
Enterprise Fund	127,347	80,020	207,367
Totals	$ 211,639	$ 80,020	$ 291,659

In accordance with state statutes, the Town maintains deposits within approved limits at those depositories authorized by the Town Council. State statutes require that all of the Town's deposits be protected by collateral or insurance equal to 105% of the total deposits not covered by insurance. The Town's deposits are collateralized through the Statewide Collateral Pool Program sponsored by the State of Mississippi Treasury Department.

At September 30, 2006, all the Town's funds on deposit in financial institutions were insured or collateralized per the schedule below:

	Category 1	Category 2	Category 3	Total
Carrying amount per books	$ 254,894	$ 36,765	$ 0	$ 291,659
Balance per bank	$ 254,874	$ 166,590	$ 0	$ 421,484

NOTE 2: CASH AND CASH EQUIVALENTS - continued

The categories of risk are described as follows:

Category 1 – Insured by Federal Deposit Insurance Corporation

Category 2 – Collateralized with securities held by the pledging financial institution's agent in the Town's name.

Category 3 - Uncollateralized

NOTE 3: ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

At September 30, 2006, accounts receivable were as follows:

	Governmental Activities	Business-type Activities	Total
Taxes receivable	$ 56,227	$	$ 56,227
Water, sewer, garbage, electric		26,291	26,291
Allowance for uncollectible accounts(-)	0	(497)	(497)
Net accounts receivable	$ 56,227	$ 25,794	$ 82,021

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Non-depreciable assets:				
Land	$	$	$	$
Depreciable assets:				
Buildings				
Vehicles	50,304			50,304
Machinery and equipment	46,800	7,532		54,332
Infrastructure	1,272,480			1,272,480
Totals at historical cost	$ 1,369,584	$ 7,532	$ 0	$ 1,377,116
Less accumulated depreciation for:				
Buildings				
Vehicles	35,087	4,527		39,614
Machinery and equipment	42,120	339		42,459
Infrastructure	703,400	15,295		718,695
Total accumulated depreciation	$ 780,607	$ 20,161	$ 0	$ 800,768
Governmental activities capital assets, net	$ 588,977	$ (12,629)	$ 0	$ 576,348

NOTE 4: CAPITAL ASSETS (continued)

Depreciation expenses were charged to governmental functions as follows:

Public property	$ 15,293
Public safety	4,868
Total depreciation expense	$ 20,161

The Town adopted a capitalization threshold of $500 for general fixed assets and a threshold of $5,000 for infrastructure assets effective for the current fiscal year. The Town has retroactively applied these thresholds to all general fixed assets in service at September 30, 2006.

	Beginning Balance	Additions	Retirements	Ending Balance
Business-type Activities:				
Non-depreciable assets:				
Land	$ 12,060	$	$	$ 12,060
Depreciable assets:				
Buildings	0			
Vehicles	15,000			15,000
Machinery and equipment	142,286	984		143,270
Infrastructure	1,614,057			1,614,057
Construction in progress	763,097	1,780,748		2,543,845
Totals at historical cost	$ 2,546,500	$ 1,781,732	$ 0	$ 4,328,232
Less accumulated depreciation for:				
Buildings				
Vehicles	12,825	675		13,500
Machinery and equipment	46,979	31,121		78,100
Infrastructure	837,524	32,281		869,805
Total accumulated depreciation	$ 897,328	$ 64,077	$ 0	$ 961,405
Business-type activities capital assets, net	$ 1,649,172	$ 1,717,655	$ 0	$ 3,366,827

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation has been calculated on the fixed assets using the following useful lives:

Plant, building, and improvements	5 - 40 Years
Machinery and Equipments	5 - 15 Years
Furniture and Fixtures	5 – 20 Years
Vehicles	5 – 10 Years

Depreciation expenses were charged to proprietary functions as follows:

Vehicle	$ 675
Machinery & Equipment	31,121
Infrastructure	32,281
Total depreciation expense	$ 64,007

NOTE 5: LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES:

Date Issued	Definition and Purpose	Beginning Balance Oct. 1, 2005	Additions	Reductions	Ending Balance Sept. 30, 2006	Amounts Due Within One Year
	GO BONDS	$ 0	$	$	$ 0	$
	REVENUE BONDS					
2/7/1972	Farmers Home Water & Sewer	46,903		11,345	35,558	12,571
10/22/1981	Farmers Home Water & Sewer	108,252		9,829	98,423	10,264
2/3/2004	Regions Bank	644,567	20,433	665,000	0	0
11/9/2005	Rural Development Water & Sewer	0	873,000	0	873,000	0
	Total Governmental Activities Long-Term Debt	$ 799,722	$ 873,433	$ 686,174	$ 1,006,981	$ 22,835

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of September 30, 2006 are as follows:

Year Ended September 30	Governmental Activities		Business-type Activities		
	Principal	Interest	Principal	Interest	Total
2007	$ 0	$ 0	$ 22,835	$ 41,855	$ 64,690
2008	0	0	34,345	41862	76,207
2009	0	0	24,465	40226	64,691
2010	0	0	25602	39088	64,690
2011	0	0	26795	37896	64,691
2012-2016	0	0	122513	170799	293,312
2017-2021	0	0	99664	148792	248,456
2022-2026	0	0	122721	125735	248456
Total	$ 0	$ 0	$ 478,940	$ 646,253	$ 1,125,193

NOTE 6: PENSION PLAN

Plan Description. The Town of Derma, Mississippi, contributes to the Public Employee's 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 to 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 information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25 percent of their annual covered salary and the Town of Derma, Mississippi, is required to contribute at an actuarially determined rate. The rate was 10.75 percent of annual covered payroll until July 1, 2006 when it was increased to 11.3 percent with a subsequent increase of .55 percent per year until 2010. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town of Derma, Mississippi's contributions to PERS for the year ended September 30, 2006 were $17,184.30, equal to the required contributions of this year.

NOTE 7: COMMITMENTS AND CONTINGENCIES

The Town of Derma has entered into a joint and several relationships with other public entities in the Mississippi Municipal Worker's Compensation Group and the Mississippi Municipal Liability Group. Each member shares responsibility for premium contribution based on payroll and their own loss experiences as well as assessments needed for fund inadequacies. They also share the benefit of fund surplus in the form of dividends when applicable.

In the normal course of business, the Town is occasionally a defendant in various lawsuits filed against it. These cases are turned over to the Town's insurer's attorneys, who handle the defense of these suits.

The town participated in a number of Federal, State and County programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the town may be required to reimburse the grantor government. The town believes that disallowed expenditures, if any, found in subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Town.

NOTE 8: RISK MANAGEMENT

The Town of Derma has entered into a joint and several relationship with other public entities in the Mississippi Municipal Worker's Compensation Group and the Mississippi Municipal Liability Group. Each member shares responsibility for premium contribution based on payroll and their own loss experience as well as assessments needed for fund inadequacies. They also share the benefit of fund surplus in the form of dividends when applicable.

The Town of Derma is a member of the Mississippi Municipal Association Unemployment Compensation Group Account with unemployment Compensation Control Systems, Inc., of Mississippi as its agent.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF DERMA, MISSISSIPPI
BUDGET COMPARISON SCHEDULE CASH BUDGETARY BASIS - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
General Fund:				
Resources (inflows):				
Property taxes	$ 59,387	$ 59,387	$ 49,364	$ (10,023)
Automobile property taxes	23,113	23,113	20,008	(3,105)
Total taxes	$ 82,500	$ 82,500	$ 69,372	$ (13,128)
Intergovernmental:				
State of Mississippi:				
Sales tax and State Aid	76,300	76,300	76,762	462
State fire rebate	9,446	10,346	10,202	(144)
TVA tax	25,809	25,809	7,338	(18,471)
Federal:				0
Cops grant salaries	20,252	20,252	0	(20,252)
LLEBG grant (cops equipment	5,000	0	0	0
Homeland security grant	7,312	7,312	7,312	0
Total Intergovernmental	$ 144,119	$ 140,019	$ 101,614	$ (38,405)
Fines & assessments				
Fines	30,000	30,000	32,071	2,071
Assessments	18,000	18,000	18,761	761
	$ 48,000	$ 48,000	$ 50,832	$ 2,832
Licenses & permits:				
Privilege licenses	740	740	795	55
Total licenses & permits	$ 740	$ 740	$ 795	$ 55
Interest on accounts	3,340	1,740	127	(1,613)
Miscellaneous:				
Miscellaneous	22,713	18,913	13,583	(5,330)
Total miscellaneous	$ 22,713	$ 18,913	$ 13,583	$ (5,330)
Other financing sources:				
Operating transfers in	104,400	51,870	48,126	(3,744)
Amounts available for appropriation	$ 405,812	$ 343,782	$ 284,449	$ (61,404)
Charges to appropriations (Outflows):				
General & Administrative:				
Personnel Services	$ 26,283	$ 26,283	$ 23,356	$ 2,927
Materials & supplies	4,300	4,300	1,560	2,740
Other services & charges	41,577	39,419	24,932	14,487
Capital outlay	0	2,158	0	2,158
Transfers	0	0	3,352	(3,352)
Total general & administrative	72,160	72,160	53,200	18,960
General Improvement:				
Capital ontlay	1,500	1,500		1,500
Total general improvement	1,500	1,500	0	1,500
Police:				
Personnel Services	93,490	93,490	76,032	17,458
Materials & supplies	22,006	22,006	15,840	6,166
Contractual/Other Service	34,465	27,165	23,922	3,243
Capital outlay	0	2,200	0	2,200
Debit service	0	5,100	0	5,100
Total police	149,961	149,961	115,794	34,167
Public Works:				
Personnel Services	16,715	16,715	15,205	1,510
Materials & supplies	5,000	5,000	3,379	1,621
Contractual/Other Service		19,567	15,385	4,182
Debt services		1,968		1,968
Other services & charges	21,535			0
Total public works	43,250	43,250	33,969	9,281

TOWN OF DERMA, MISSISSIPPI
BUDGET COMPARISON SCHEDULE CASH BUDGETARY BASIS - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Sanitation:				
Personnel Services				0
Materials & supplies	830	830	426	404
Contractual/Other Service	39,700	39,700	35,741	3,959
Total sanitation	40,530	40,530	36,167	4,363
Parks & recreation:				
Contractual/Other Service	1,800	1,800	936	864
Total parks & recreation	1,800	1,800	936	864
Cops Equipment Grant:				
Other services & charges	5,000			0
Total cops equipment grant	5,000	0	0	0
Fire:				
Personnel Services	600	600	0	600
Materials & supplies	9,700	13,087	11,526	1,561
Other services & charges	10,411	8,811	6,686	2,125
Debt Service	0	7,783	7,532	251
Transfers	0	0	4,782	(4,782)
Total fire	20,711	30,281	30,526	(245)
Derma Apartment:				
Personnel Services				0
Materials & supplies				0
Other services & charges	3,000	3,000	0	3,000
Capital outlay				0
Total Derma apartment	3,000	3,000	0	3,000
Water I & S:				
Personnel Services				0
Materials & supplies				0
Other services & charges	0		28	(28)
Transfers	4,300	4,300	1,278	3,022
Total water I & S	4,300	4,300	1,306	2,994
Total charges for appropriation	$ 342,212	$ 346,782	$ 271,898	$ 74,884

Total actual resources (Inflows) - budgetary basis	$ 284,449
Total actual charges to appropriations (Outflows) - budgetary basis	(271,898)
Excess of actual charges over resources - budgetary basis	12,551
Reconcile to Statement of Revenues, Expenditures & Changes in Fund Balances- Governmental Funds:	
Accounts receivable, net of deferred revenue, prior year	0
Accounts receivable, net of deferred revenue, current year	41,037
Net change in fund balances - Governmental Funds	$ 53,588

TOWN OF DERMA, MISSISSIPPI
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006

A. BUDGETARY INFORMATION

Budgetary requirements dictate how and when the Town's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October, the Board of Aldermen of the Town, using historical and anticipated fiscal data and proposed budgets submitted by the department managers for their departments, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Aldermen that the budgetary estimates will not be met, it may make revisions to the budget.

The Town's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are not encumbrances to budget because state statutes do not require that funds be available when goods or services are ordered, only when payment is made.

B. BASIS OF PRESENTATION

The Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major special revenue fund.

For the year ended September 30, 2005, the Town implemented GASB Statement No. 41 – *Budgetary Comparison Schedules – Perspective Differences*, which amends Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The statement clarifies the budgetary presentation requirements. The Budgetary Comparison Schedule –budget to Actual (Non-GAAP) is part of the required supplemental information.

C. BUDGET/GAAP RECONCILIATION

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

SUPPLEMENTARY INFORMATION

TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Federal Grantor/Pass-through Grantor or Cluster Title	Federal CFDA number	Pass-through Entity Identifying Number	Federal Expenditures
U.S Department of Housing and Urban Development:			
Pass through programs form the MS Development Authority			
CDBG Public Facility Fund-Sewer Plant Improvements	14.228	1120-03-165-PF-01	7,000
Total U.S. Department of Housing and Urban Development			7,000
U.S. Department of Homeland Security			
Pass through programs from the MS Emergency			
Department of Public Safety	97.004	05H5165	7,312
Passed through MS Emergency Management	97.039	013-18940-11	3,611
Total U.S. Department of Homeland Security			10,923
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities Grant	10.760	38-7-646013051	922,776
Water and Waste Disposal Systems for Rural Communities Loan	10.760	38-7-646013051	465,559
Total U.S. Department of Agriculture			1,388,335
Total Expenditures of Federal Awards			$ 1,406,258

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

TOWN OF DERMA, MISSISSIPPI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2006

NOTE 1 – BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards including the federal grant activity of the City of Grenada, Mississippi, and is presented on the accrual basis of accounting. The information in this statement is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF LONG-TERM DEBT
YEAR ENDED SEPTEMBER 30, 2005

DEFINITION & PURPOSE	BALANCE 10/1/2005	TRANSACTIONS ISSUED	DURING YEAR	BALANCE 9/30/2006
G.O. BONDS	$ 0	$ 0	$ 0	$ 0
REVENUE BONDS				
02-07-72, Farmers Home Adm. Water & Sewer	46,903	0	11,345	35,558
10-22-81, Farmers Home Adm. Water & Sewer	108,252	0	9,829	98,423
02-03-04, Regions Bank	644,567	20,433	665,000	0
11-9-05, Rural Development	0	873,000	0	873,000
TOTALS	$ 799,722	$ 893,433	$ 686,174	$ 1,006,981

TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR TOWN OFFICIALS
SEPTEMBER 30, 2006

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

SPECIAL REPORT

RSW RONNIE S. WINDHAM, CPA, LLC
P.O BOX 159, OXFORD, MS 38655 (662) 281-1091 cell (662) 816-2562 fax (662) 281-1025

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

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

We have audited the accompanying combined statement of cash receipts and disbursements (all funds) for the Town of Derma, Mississippi, for the year ended September 30, 2006, and have issued our report dated August 3, 2007. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards.*

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

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

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

This report in intended solely for the information and use of the board of aldermen and Town's management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ronnie S Windham, CPA

Ronnie S. Windham, CPA
Oxford, Mississippi
August 3, 2007

INTERNAL CONTROL AND COMPLIANCE

RSW RONNIE S. WINDHAM, CPA, LLC
P.O BOX 159, OXFORD, MS 38655 (662) 281-1091 cell (662) 816-2562 fax (662) 281-1025

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

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

We have audited the statement of cash receipts and disbursements (all funds) for the Town of Derma, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated August 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Derma's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report in intended solely for the information and use of the audit committee, management, Mississippi State Auditors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ronnie S. Windham, CPA

Ronnie S. Windham, CPA
Oxford, Mississippi
August 3, 2007

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

Honorable Mayor and Board of Alderpersons
Town of Derma, Mississippi

Compliance

We have audited the compliance of the Town of Derma, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Town of Derma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Derma's management. Our responsibility is to express an opinion on the Town of Derma's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of the Town of Derma is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Derma's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we considered to be material weaknesses.

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

Ronnie S. Windham, CPA

Ronnie S. Windham, CPA
Oxford, Mississippi
August 3, 2007

FINDINGS

TOWN OF DERMA, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an adverse opinion on the combined statement of cash receipts and disbursements of the Town of Derma due to the exclusion of government–wide financial statements in accordance with GASB 34.

2. There were no reportable conditions disclosed during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of the Town of Derma, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No reportable condition in internal control over major federal award programs was disclosed during the audit.

5. The auditor's report on compliance for the major federal award programs for the Town of Derma expresses an unqualified opinion on all major federal programs.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

7. The programs tested as major programs included: USDA Water and Waste Disposal Systems CFDA 10.760.

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

9. The Town of Derma did not qualify as a low-risk auditee.

FINDINGS–FINANCIAL STATEMENT AUDIT

COMPLIANCE

None

Continued

TOWN OF DERMA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

SUMMARY OF AUDITOR'S RESULTS

REPORTABLE CONDITIONS

None

FINDINGS AND QUESTIONED COSTS–MAJOR FEDERAL AWARD PROGRAMS AUDIT

None