



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

TOWN OF DREW, MISSISSIPPI
FINANCIAL STATEMENTS
AND
REPORTS OF INDEPENDENT AUDITOR
(With Supplemental Information Schedules)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Prepared by:

Charles Buchanan, CPA, PC
Certified Public Accountants
8733 Riverview Blvd, Suite 1
Saint Louis, MO 63147
(888)-869-2720 (Phone) / (888)-862-6459 (Fax)
charlesbuchanan8@aol.com (Email)

**TOWN OF DREW
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

TABLE OF CONTENTS

	Page Number
Independent Auditor's Report	1
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements	
Reconciliation of Total Fund Balances to Total Net Assets	4
Reconciliation of Changes in Net Assets	5
Reconciliation Matrix	6
Balance Sheet – Governmental Funds	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Statement of Net Assets – Proprietary Funds	9
Statement of Revenues, Expenses and Change in Fund Net Assets – Proprietary Funds	10
Statement of Cash Flows – Proprietary Funds	11
Notes to the Financial Statements	12-20
Required Supplemental Information	
Budgetary Comparison Schedules:	
General Fund	21
Single Audit Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	23
Schedule of Expenditures of Federal Awards	24
Notes to the Schedule of Federal Awards	25
Schedule of Findings and Questioned Costs	26-27
Schedule of Prior Audit Findings	27
Supplemental Information:	
Independent Auditor's Report on Compliance with State Laws and Regulations	28
Combining Balance Sheet - Non-Major Governmental Funds	29
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Fund	30
Schedule of Surety Bonds	31

Charles Buchanan, CPA, PC
Certified Public Accountants
8733 Riverview Blvd, Suite I
Saint Louis, MO 63147
(888)-869-2720 (Phone)/(888)-862-6459 (Fax)
charlesbuchanan8@aol.com (Email)

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Board of Alderman of the
Town of Drew, 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 Drew, Mississippi (the Town) as of and for the year ended September 30, 2007, 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's management. Our responsibility is to express an opinion on the financial statements based on our audit.

Except as discussed below, 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 opinion.

As discussed in Note 1G to the financial statements, management has not recorded capital assets or depreciation expense in the governmental and business-type activities as mandated by the Government Accounting Standards Board Statement (GASB) No. 34. Accounting principles generally accepted in the United States of America require asset capitalization and depreciation over the asset's estimated useful life and reported as a direct expense of each associated functional activity, which would increase capital assets, net assets, and expenses, and changes in net assets reported in the governmental and business-type activities. The Town was required to prospectively report the acquisition or construction of infrastructure assets and depreciation expense on June 15, 2003. The Town is required to report assets and liabilities, such as allowance for bad debt and compensated absences, on the full accrual basis as opposed to the cash basis which is another comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. In addition, the Town did not produce information regarding its pension plan as required by the Government Accounting Standards Board (GASB) No. 27. The amount by which these departures would affect the related financial statements is not determinable.

In our opinion, because of the effect of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Drew, as of September 30, 2007, or the respective changes in financial position or cash flows, where applicable, thereof for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2008 on our consideration of the Town's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal controls 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 conjunction with this report in considering the results of our audit.

The Town has not presented the management's discussion and analysis as required by GASB 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

The budgetary comparison information on page 21 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the 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 Town's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Charles Buchanan, CPA, PC

Saint Louis, Missouri
February 15, 2008

Town of Drew
Government-wide Statement of Net Assets
As of September 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Pooled cash and cash equivalents	\$ 119,767	\$ 183,856	\$ 303,623
Investments	256,820	-	256,820
Taxes receivable, net of allowances	-	-	-
Internal balance	-	-	-
Due from others, net of allowances	-	134,026	134,026
Utility receivable, net of \$0 allowance for bad debt	-	59,178	59,178
Restricted assets:			
Restricted assets-cash	-	52,605	52,605
Restricted assets-customer deposits	-	-	-
Restricted assets-investments	-	72,403	72,403
Total current assets	<u>376,587</u>	<u>502,068</u>	<u>878,655</u>
Noncurrent assets:			
Capital assets (note 1G)			
Land and land improvements	-	-	-
Buildings and building improvements	-	-	-
Furniture & equipment	-	-	-
Mobile equipment	-	-	-
Infrastructure	-	-	-
Total capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Less accumulated depreciation	-	-	-
Capital assets, net	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>376,587</u>	<u>502,068</u>	<u>878,655</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	17,626	150,109	167,735
Due to others	2,807	-	2,807
Customer utility deposits	-	76,148	76,148
Compensated absences, current portion (note 3)	-	-	-
Long-term debt, current portion (note 3)	-	33,374	33,374
Total current liabilities	<u>20,433</u>	<u>259,631</u>	<u>280,064</u>
Noncurrent liabilities			
Compensated absences, net of current portion (note 3)	-	-	-
Long-term debt, net of current portion (note 3)	-	208,464	208,464
Total noncurrent liabilities	<u>-</u>	<u>208,464</u>	<u>208,464</u>
Total Liabilities	<u>20,433</u>	<u>468,095</u>	<u>488,528</u>
Net Assets (note 9)			
Invested in capital assets, net of related debt	-	-	-
Restricted :			
Debt service	-	125,008	125,008
Unrestricted	356,154	(91,035)	265,119
Total Net Assets	<u>356,154</u>	<u>33,973</u>	<u>390,127</u>
Total Liabilities and Net Assets	<u>\$ 376,587</u>	<u>\$ 502,068</u>	<u>\$ 878,655</u>

See independent auditor's report and notes to the financial statements.

Town of Drew
Reconciliation of Total Governmental Fund Balance to Total Net Assets of Governmental Activities
For the Year Ended September 30, 2007

Governmental Funds Combined Balance Sheet--Total fund balance and other credits \$ 356,154

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

Capital assets used in fund level statements are expensed upon use of financial resources to construct or acquire them. Capital assets for entity-wide statements are recognized as assets that are extinguished via depreciation charged over the life of the asset.

Capital assets, net of accumulated depreciation -

Long-term debt uses current financial resources to pay off the principle portion and related interest expense. For entity-wide statements, the unpaid principle portion is recognized as a future obligation to be repaid over time.

Long-term debt -

Compensated absences payable -

Total long-term debt -

Statement of Net Assets--Total net assets of governmental activities \$ 356,154

Town of Drew
Reconciliation of Changes in Net Assets
For the Year Ended September 30, 2007

Statement of Revenues, Expenditures, and Changes in Fund Balances--Excess of revenues and other sources over (under) expenditures and other uses	\$ (113,003)
---	--------------

Additions to capital assets and construction in progress are uses of current financial resources for fund level statements but are capitalized and depreciated for entity-wide statements. Therefore capitalized expenditures are not recognized as expenses but as capital assets that are depreciated. This expense, although not a use of current financial resources, is expensed on the entity-wide statements.

Capitalized expenditures

Reductions of long-term debt are recognized as debt service and an expenditure in the fund level statements. However in the entity-wide statements, the principle portion is not an expense but a reduction in a liability. Therefore, the amount the liability is reduced by is not expensed. This includes the reduction in compensated absences.

Principle payments

Additions to compensated absences

-

Statement of Net Assets--Change in net assets of governmental activities	<u>\$ (113,003)</u>
---	---------------------

Town of Drew
Reconciliation Matrix for the Year Ended September 30, 2007
(modified accrual to full accrual balances)

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Annual Revenue Expense</u>
Combined Fund Balance Sheet and Statement of Fiduciary Assets	\$ 376,587	\$ (20,433)	\$ (356,154)	\$ -
Capital assets, beginning of year	-	-	-	-
Accumulated depreciation at beginning of year	-	-	-	-
Depreciation expense for the year 2005	-	-	-	-
Additions to capital assets	-	-	-	-
Elimination of interfund payables and receivables	-	-	-	-
Long-term debt at beginning of year	-	-	-	-
Principle payments on long-term debt	-	-	-	-
Compensated absences payable, beginning of year	-	-	-	-
Additions to compensated absences	-	-	-	-
Subtotals	<u>376,587</u>	<u>(20,433)</u>	<u>(356,154)</u>	<u>-</u>
Close income/expense to equity	-	-	-	-
Governmentwide Statement of Net Assets-Governmental Activities	\$ 376,587	\$ (20,433)	\$ (356,154)	\$ -

See independent auditor's report and notes to the financial statements.

Town of Drew
Governmental Funds Combined Balance Sheet
As of September 30, 2007

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Pooled cash and cash equivalents	\$ 275,031	\$ 101,556	\$ 376,587
Receivables (net of allowance for uncollectible):			
Taxes	-	-	-
Due from others	-	-	-
Due from other funds	-	-	-
Total Assets	<u>275,031</u>	<u>101,556</u>	<u>376,587</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	17,506	120	17,626
Due to other funds	-	-	-
Due to others	2,807	-	2,807
Total Liabilities	<u>20,313</u>	<u>120</u>	<u>20,433</u>
Fund balance and other credits			
Unreserved, undesignated	254,718	101,436	356,154
Total fund and other credits	<u>254,718</u>	<u>101,436</u>	<u>356,154</u>
Total liabilities, fund balance, and other credits	<u>\$ 275,031</u>	<u>\$ 101,556</u>	<u>\$ 376,587</u>

See independent auditor's report and notes to the financial statements.

Town of Drew
Statement of Revenues, Expenditures, and Changes in Fund Balances-
Governmental Funds
For the Year Ended September 30, 2007

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes:			
Property taxes	\$ 287,203	\$ 11,518	\$ 298,721
Sales taxes	201,658	-	201,658
Franchise taxes	75,808	-	75,808
County road tax	13,390	-	13,390
Fines, fees, licenses, and permits	107,875	-	107,875
State sources	10,808	-	10,808
Federal sources	-	331,580	331,580
Interest income	18,139	3,940	22,079
Miscellaneous	56,905	4,229	61,134
Total revenue	<u>771,786</u>	<u>351,267</u>	<u>1,123,053</u>
Expenditures:			
Administrative	116,487	-	116,487
Public works	154,662	-	154,662
Public safety	468,223	-	468,223
Fire department	16,055	4,198	20,253
Culture and recreation	44,178	-	44,178
Health and welfare	40,709	-	40,709
Capital outlay	38,838	338,594	377,432
Debt Service:			
Principal and interest	-	-	-
Total expenditures	<u>879,152</u>	<u>342,792</u>	<u>1,221,944</u>
Excess of revenues over (under) expenditures	<u>(107,366)</u>	<u>8,475</u>	<u>(98,891)</u>
Other financing sources (uses):			
Operating transfers in	42,309	-	42,309
Operating transfers out	(56,421)	-	(56,421)
Total other financing sources (uses)	<u>(14,112)</u>	<u>-</u>	<u>(14,112)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(121,478)</u>	<u>8,475</u>	<u>(113,003)</u>
Fund balances, beginning of year	376,196	92,961	469,157
Fund balances, end of year	<u>\$ 254,718</u>	<u>\$ 101,436</u>	<u>\$ 356,154</u>

See independent auditor's report and notes to the financial statements.

Town of Drew
Statement of Net Assets-Proprietary Funds
As of September 30, 2007

Assets and Other Debits	Water and Sewer
Current assets	
Pooled cash and investments	\$ 183,856
Due from others	134,026
Utility receivable, net of \$0 allowance for bad debt	59,178
Due from other funds	-
Restricted assets-cash	52,605
Restricted assets-investments	72,403
Total current assets	<u>502,068</u>
Noncurrent assets	
Capital assets (note 1G)	
Land and land improvements	-
Buildings and building improvements	-
Infrastructure	-
Mobile equipment	-
Furniture and equipment	-
Total capital assets	<u>-</u>
Less: accumulated depreciation	<u>-</u>
Total capital assets, net	<u>-</u>
Total assets	<u><u>502,068</u></u>
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	150,109
Due to others	-
Customer deposits payable	76,148
Due to other funds	-
Accrued compensated absences, current portion, (note 3)	-
Long-term debt, current portion (note 3)	33,374
Total current liabilities	<u>259,631</u>
Noncurrent liabilities (note 3)	
Accrued compensated absences, current portion	
Long-term debt, net of current portion	208,464
Total noncurrent liabilities	<u>208,464</u>
Total liabilities	<u>468,095</u>
Net assets (note 9)	
Invested in capital assets, net of related debt	-
Restricted for debt service	125,008
Unrestricted	(91,035)
Total net assets	<u>33,973</u>
Total liabilities and net assets	<u><u>\$ 502,068</u></u>

See independent auditor's report and notes to the financial statements.

Town of Drew
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the year ended September 30, 2007

	Water and Sewer
Operating revenues	
Sales to customers	\$ 451,621
Fines, fees, licenses, and permits	2,595
Miscellaneous revenue	77
Total operating revenues	454,293
Operating expenses	
Personnel services	147,174
Supplies	40,245
Other services and charges	196,458
Total operating expenses	383,877
Operating income (loss)	70,416
Non-operating revenues (expenses)	
Capital grants	300,000
Interest revenue	5,492
Interest expense on long-term debt	(26,880)
Other non-operating expenses	(319,394)
Total non-operating expenses	(40,782)
Operating income before contribution and transfers	29,634
Other financing sources (uses)	
Operating transfers in	56,421
Operating transfers out	(42,309)
Total other financing sources (uses)	14,112
Change in net assets	43,746
Net assets, beginning of year, as restated	(9,773)
Net assets, end of year	\$ 33,973

See independent auditor report and notes to the financial statements.

Town of Drew
Statement of Cash Flow--Proprietary Fund
As of September 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 454,216
Receipts from other revenue	77
Payments to suppliers	(235,498)
Payments to employees for services	(147,174)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>71,621</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfer in	56,421
Operating transfers out	(42,309)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>14,112</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(29,504)
Capital grants	300,000
Infrastructure construction	(300,000)
Interest paid on capital debt	(26,880)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(56,384)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	5,492
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>5,492</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>34,841</u>
BALANCES, BEGINNING OF YEAR	274,023
BALANCES, END OF YEAR	<u>\$ 308,864</u>
STATEMENT OF NET ASSETS-PROPRIETARY FUND-CASH RECONCILIATION:	
Pooled cash	183,856
Restricted assets-cash	52,605
Restricted assets-investments	72,403
TOTAL CASH AND EQUIVALENTS	<u>\$ 308,864</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	\$ 70,416
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities	
Depreciation expense	-
(Increase) decrease in accounts receivable, net of allowance for doubtful accounts	(193,204)
Increase (decrease) in current liabilities	194,409
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 71,621</u>
Noncash investing, capital, and financing activities	\$ -
Fair value of donated assets	-
Lease purchase agreements	-

See independent auditor's report and notes to the financial statements.

Town of Drew
Notes to Financial Statements
September 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Drew, Mississippi, (the Town) is incorporated under the laws of the State of Mississippi. The Town operates under a Mayor-Board of Aldermen form of government, and provides the following services as authorized by its charter: public safety (police and fire), public works, sanitation, culture and recreation, public improvements, water and sewer services, and general administrative services.

As defined by accounting principles generally accepted in the United States of America (GAAP), the Town is considered a "primary government".

A. Fund Accounting

The accounts are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into four generic fund types and three broad fund categories as follow:

Governmental Funds

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds

Trust Funds - Trust Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, other governments, and/or other funds. This includes the Expendable Trust Funds, which are accounted for in essentially the same manner as governmental funds.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth *minimum* criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in fund financial statements.

Town of Drew
Notes to Financial Statements
September 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Governmental Funds and Expendable Trust Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collection governments and are recognized as revenue at that time.

Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include accumulated unpaid vacation, sick pay, and other employee amounts, which are not accrued at the fund level.

The Proprietary Fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when incurred. Revenues of the Water and Sewer fund are recognized and recorded based on monthly cycle billings.

C. Budgets

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

1. The Town Clerk submits to the Mayor and Board a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayers comments on proposed revenue sharing expenditures.
3. The budget is legally enacted at the September Board meeting.
4. Budgets for the General Funds are adopted on a cash basis.

Mississippi law requires municipalities to budget on a cash basis. Claims incurred prior to the end of year and that are paid within 30 days are recorded under the modified-accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. Revenue is accounted for under the cash basis. Capital project funds are budgeted by project and do not lapse at year end. The required budgetary basis is therefore not considered generally accepted accounting principles. Governmental accounting requires that the "budget to actual" statements be prepared according to budgetary laws and the statements of revenues, expenditures, and fund balance be prepared according to the modified-accrual basis (GAAP). The major reconciling items between the budgetary and GAAP presentations are presented on the "budget to actual" statements.

Town of Drew
Notes to Financial Statements
September 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Cash and Investments

All deposits with financial institutions must be with institutions insured by the Federal Deposit Insurance Corporation. Institutions must pledge collateral equal to at least 105% of the amount of the deposits in excess of the insured amount.

Effective October 1, 2001, the Treasurer of the State of Mississippi is charged with the responsibility to assure adequate collateralization of deposits at all entities defined in Section 27-105-5 of the Miss. Code, which category includes the Town of Drew.

Deposits—At year-end, the carrying amount of deposits was \$685,451 and the bank balance was \$659,972. Of the bank balance, \$200,000 was covered by federal depository insurance, and \$459,972 was covered by Section 27-105-5 of the Miss. Code.

The Town may invest its surplus funds in certificates of deposits, any bonds or direct obligations of the United States of America or the State of Mississippi, or in the bonds of any county, municipality or school district of Mississippi provided such bonds have been approved by a reputable bond attorney or have been validated by a decree of the Chancery Court. During 2007, the Town invested in bank certificates of deposits. Certificates of deposits are deemed to be short-term, highly liquid investments and are treated as cash equivalents in the statement of cash flows.

The market value of the Town's investments (certificates of deposit) was determined by the specific identification method based upon current yields of comparable certificates of deposits.

A summary of deposits, pooled investments, and the financial statement classification follows:

<u>Categories</u>	<u>Amount</u>	<u>Fund Type</u>	<u>Amount</u>
Total deposits and petty cash	\$ 356,228	Governmental	\$ 376,587
Total investments	329,223	Proprietary	308,864
Total book balance	<u>685,451</u>	Total book balance	<u>\$ 685,451</u>
<u>Financial statement classifications</u>			
Pooled cash and investments	560,443		
Restricted investments and cash	125,008		
Total book balance	<u>\$ 685,451</u>		

E. Receivables

All receivables are reported at their gross value and, when appropriate, are reduced by the estimated portion that is expected to be uncollectible.

The Water and Sewer Operations and Maintenance accounts receivable allowance for bad debt was \$0 for 2007. Accounting principles generally accepted in the United States of America requires an allowance for bad debt.

F. Inventories

Inventories are priced at cost using the First-In, First-Out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when purchased rather than when consumed. Inventories consist of major stores of material and supplies held at central locations.

**Town of Drew
Notes to Financial Statements
September 30, 2007**

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Capital Assets and Long-Term Liabilities

Capital assets purchased or acquired are carried at historical cost. Contributed assets are recorded at fair market value at the date received. Classes of capital assets and their capitalization levels are: land - cost or fair market value, buildings \$50,000, land improvements - \$25,000, machinery and equipment - \$5,000, infrastructure - \$100,000, and construction in progress - based on the project's class. The cost of normal maintenance and repair that do not add to the value of capital assets or materially extend their respective lives are not capitalized. Interest expenditures are not capitalized on capital assets.

Capitalized assets, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

Assets	<u>Years</u>
Buildings	40
Land improvements	20
Heavy machinery and equipment	5-15
Computer equipment	3
Vehicles	3-10
Infrastructure	8-50

Interest is capitalized on proprietary fund asset constructed with the proceeds of tax exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

GASB No. 34 requires the Town to report and depreciate new infrastructure assets effective June 15, 2003. Infrastructure, such as streets, roads, sidewalks, street lights, traffic lights, sewers, and bridges, although required to be capitalized for the first time in fiscal year 2003, has not been reported or depreciated. These infrastructure assets are likely to be the largest asset class. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The Town did not implement the general provisions of GASB No. 34 in 2003.

The Town falls in Phase 3 of GASB No. 34 implementation, and as such, is not subject to retroactive reporting.

H. Encumbrances

State law does not require that funds be available when goods are ordered, only when paid. Due to this circumstance, the Town does not employ an encumbrance system.

I. Compensated Absences

Employees are granted vacation and sick leave in varying amounts under terms of the Town's personnel policies based upon length of service. Amounts of vested or accumulated vacation and sick leave not expected to be liquidated with expendable available (i.e., current) financial resources are reported as the long-term portion of compensated absences. The Town did not recognize its liability for compensated absences.

J. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursement to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reduction as expenditures in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

Town of Drew
Notes to Financial Statements
September 30, 2007

K. Reserves of Fund Balances

Reserves of fund balances are reported in various funds to indicate that a portion of the fund balance is restricted or segregated for a specific purpose.

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 TAX REVENUES

Tax revenues consist of:

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Property taxes	\$ 287,203	\$ 11,518	\$ 298,721
Sales taxes	201,658	-	201,658
Franchise taxes	75,808	-	75,808
County road tax	13,390	-	13,390
Total tax revenues	<u>\$ 578,059</u>	<u>\$ 11,518</u>	<u>\$ 589,577</u>

Property taxes attach as an enforceable lien on property February 1.

NOTE 3 LONG-TERM DEBT

A. Notes Payable-MDECD

Financing by the Mississippi Department of Economic and Community Development consists of 3.7% notes payable dated June 28, 1996. The \$246,078 is to be repaid in monthly installments of principal and interest of \$2,239. The note is scheduled to be paid off in November 2007.

B. Bonds Payable

Financing by Capmark Finance, Inc., consist of 5% revenue bonds dated April 28, 1982. The \$650,000 issue is repaid in monthly installments of principal and interest of \$3,525.73 through April 28, 2017.

A summary of changes in long-term debt follows:

	<u>Notes Payable</u>	<u>Water Revenue Bonds</u>	<u>Total</u>
Debt payable at November 1, 2006	\$ 29,915	\$ 267,636	\$ 297,551
Debt incurred during the year	-	-	-
Repayments	(26,209)	(29,504)	(55,713)
Debt payable at September 30, 2007	<u>\$ 3,706</u>	<u>\$ 238,132</u>	<u>\$ 241,838</u>

**Town of Drew
Notes to Financial Statements
September 30, 2007**

NOTE 3 LONG- TERM DEBT (CONTINUED)

At September 30, 2007, restricted assets related to debt service were:

Restricted assets	Water and Sewer
Bond Cushion	\$ 25,847
Depreciation	12,486
Contingency	12,485
Investments	74,190
Total restricted	<u>\$ 125,008</u>

The requirements to amortize long-term obligations (excluding compensated absences) outstanding at year-end, including interest are as follows:

	<u>Business-type Activities</u>				
	<u>Capital Improvement Loans</u>		<u>Revenue Bonds</u>		
Year ending September 30	Principal	Interest	Principal	Interest	Total
2008	\$ 3,706	\$ 15	\$ 29,668	\$ 12,641	\$ 46,030
2009			31,367	10,941	42,308
2010			33,163	9,145	42,308
2011			35,063	7,245	42,308
2012			37,071	5,237	42,308
2013-2017			71,800	4,000	75,800
Total payments	<u>\$ 3,706</u>	<u>\$ 15</u>	<u>\$ 238,132</u>	<u>\$ 49,208</u>	<u>291,061</u>
Less interest					<u>49,223</u>
Total principal					<u>241,838</u>
Short-term portion					33,374
Long-term portion					<u>208,464</u>
Total					<u>\$ 241,838</u>

Town of Drew
Notes to Financial Statements
September 30, 2007

NOTE 3 LONG- TERM DEBT (CONTINUED)

- Limitation of Indebtedness:

No municipality shall hereafter issue bonds for the purposes authorized by law in an amount which, when added to the then outstanding bonded indebtedness of such municipality, shall exceed 15 percent of the assessed value of the taxable property within such municipality, according to the then last completed assessment for taxation. In computing such indebtedness, there may be deducted all bonds or other evidences of indebtedness, heretofore or hereafter issued, for school, water, sewer systems, gas, and light and power purposes and for the construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying the municipality's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case shall any municipality contract any indebtedness which, when added to all of the outstanding indebtedness, both bonded and floating, shall exceed 20 percent of the assessed value of all taxable property within such municipality. Nothing herein contained shall be construed to apply to bonds heretofore issued by any municipality for school purposes, or to bonds heretofore or hereafter issued by any municipality which are payable exclusively from the revenues of any municipally-owned utility, or to bonds issued by any municipality under the provisions of Sections 57- 1 -1 to 57 -1-51, or to any special assessment improvement bonds issued by any municipality under the provisions of Sections 21-4-1 through 21-41-53.

	15 Percent	20 Percent
Authorized Debt Limit		
Assessed valuation (\$17,410,355)	\$ 2,611,553	\$ 3,482,071
Present debt subject to 15 percent limitation	-	-
Present debt subject to 20 percent limitation including debt subject to only 15 percent limitation	-	(241,838)
Margin for further debt	\$ 2,611,553	\$ 3,240,233

NOTE 4 INTERFUND TRANSACTIONS

Interfund operating transfers were as follows:

	Transfers In	Transfers Out
General fund	\$ -	\$ 14,112
Enterprise fund		
Water and Sewer	14,112	-
Total transfers	\$ 14,112	\$ 14,112

The Town did not record any interfund receivable/ payable at September 30, 2007.

Town of Drew
Notes to Financial Statements
September 30, 2007

NOTE 5 GASB STATEMENTS 33 and 34

This report incorporates GASB Statements 33 and 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. As discussed in Note 1, the Town did not implement GASB Statement No. 34 at September 30, 2007. The Town was required to prospectively record and depreciated general infrastructure and capital assets since June 15, 2003. Infrastructure assets include roads, bridges, sewer systems, traffic lights, sidewalks, etc. Although required to, the Town did not record capital assets acquired such as land, building, equipment, vehicles, and computers. Additionally, the Town failed to record compensated absences, allowance for bad debt and bad debt expense on utility deposits.

NOTE 6 RISK MANAGEMENT

The Town 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. The Town contracts with insurance companies for coverage of property, general liability, crime and automobile, workers' compensation, and other personnel related-issues.

NOTE 7 LITIGATION LOSSES

The Town recognizes estimated losses related to litigation in the period in which the occasion giving rise to the loss occurred, the loss is probable, and the loss is reasonably estimable.

NOTE 8 PENSION PLAN

Plan Description: The Town 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 Town is required to contribute an actuarially determined rate. The current rate is 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature.

The Town omitted the GASB 27 required footnote disclosures, and we were unable to obtain the information through other procedures. The amounts required to calculate the Annual Pension Cost (APC), as required by GASB 27 were not presented on the Town's financial statements. GASB 27 defines APC as the sum of the Annual Required Contribution (ARC) one year's interest on the Net Pension Obligation (NPO) and an adjustment to offset the effect of actuarial amortization of the past under-or-over contributions.

**Town of Drew
Notes to Financial Statements
September 30, 2007**

NOTE 9 PRIOR YEAR ADJUSTMENTS

Adjustments to net assets were recorded as follows:

	Governmental Activities	Business-type Activities	Total
Net assets, beginning of year	\$ 466,625	\$ 237,083	\$ 703,708
Adjustments:			
Add Notes/Bonds Payable to liabilities	-	(241,838)	(241,838)
Adjust customer utility deposits		(1,368)	
Add Investments	2,532	-	2,532
Subtotal adjustments	<u>2,532</u>	<u>(243,206)</u>	<u>(239,306)</u>
Net assets, beginning of year, as restated	<u>469,157</u>	<u>(9,773)</u>	<u>459,384</u>
Change in net assets	<u>(113,003)</u>	<u>43,746</u>	<u>(69,257)</u>
Net assets, end of year	<u>\$ 356,154</u>	<u>\$ 33,973</u>	<u>\$ 390,127</u>

REQUIRED SUPPLEMENTAL INFORMATION

Town of Drew
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2007

	General Fund			
	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
Revenues:				
Taxes:				
Property taxes	\$ 386,622	\$ 386,622	\$ 287,203	\$ (99,419)
Sales taxes	160,000	160,000	201,658	41,658
Franchise taxes	55,000	55,000	75,808	20,808
County road tax	20,000	20,000	13,390	(6,610)
Fines, fees, licenses, and permits	84,050	84,050	107,875	23,825
State sources	8,000	8,000	10,808	2,808
Interest income	10,000	10,000	18,139	8,139
Miscellaneous	63,876	63,876	56,905	(6,971)
Total revenue	<u>787,548</u>	<u>787,548</u>	<u>771,786</u>	<u>(15,762)</u>
Expenditures:				
Administrative offices	112,110	112,110	116,487	(4,377)
Public works	173,017	173,017	137,741	35,276
Public safety	459,140	459,140	468,223	(9,083)
Fire department	21,172	21,172	16,055	5,117
Culture and recreation	44,814	44,814	44,178	636
Health and welfare	44,899	44,899	40,709	4,190
MDOT litter control	17,609	17,609	16,921	688
Capital outlay	35,287	35,287	38,838	(3,551)
Principal and interest	-	-	-	-
Total expenditures	<u>908,048</u>	<u>908,048</u>	<u>879,152</u>	<u>28,896</u>
Excess of revenues over (under) expenditures	<u>(120,500)</u>	<u>(120,500)</u>	<u>(107,366)</u>	<u>13,134</u>
Other financing sources (uses):				
Operating transfers in	-	-	42,309	42,309
Operating transfers out	-	-	(56,421)	(56,421)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(14,112)</u>	<u>(14,112)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(120,500)</u>	<u>(120,500)</u>	<u>(121,478)</u>	<u>(978)</u>
Fund balances, beginning of year	376,196	376,196	376,196	-
Prior year adjustments	-	-	-	-
Fund balances, end of year	<u>\$ 255,696</u>	<u>\$ 255,696</u>	<u>\$ 254,718</u>	<u>\$ (978)</u>

Adjustments necessary to convert the results of operation at end of year on the budget basis to the modified accrual basis (GAAP) are as follows:

Excess of revenues and other sources over (under) expenditures and other uses per the Budgetary Comparison Schedule	(121,478)
(Increases) decreases from revenues	-
(Increases) decreases from expenditures	-
Accrued as liabilities at September 30, 2006 (GAAP) but not in budget	-
Net change in fund balance per the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ (121,478)</u>

Note: The town failed to implement GASB No. 34 which requires accrual of revenue and expenses which would create differences in budget vs. actual revenue and expenses.

SINGLE AUDIT

**Charles Buchanan, CPA, PC
Certified Public Accountants
8733 Riverview Blvd., Suite 1
St. Louis, Missouri 63147
(888)-869-2720 (Phone)/(888)-862-6459 (Fax)
charlesbuchanan8@aol.com (Email)**

**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 Alderman of
Town of Drew, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Drew (the Town) as of and for the year ended September 30, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 15, 2008. We issued an adverse opinion in our report on the governmental activities, business type activities, each major fund, and the aggregate remaining funds, because the Town did not capitalize infrastructure and other capital assets; did not report depreciation expense for those assets over their estimated useful lives, did not report compensated absences or allowance for doubtful accounts, and did not produce information regarding its pension plan, among other omissions. Except as discussed in the preceding sentence, 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2007-2.

This report is intended solely for the information and use of the Board of Alderman, management of the Town, 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.

Charles Buchanan, CPA, PC

Saint Louis, Missouri
February 15, 2008

Charles Buchanan, CPA, PC
Certified Public Accountants
8733 Riverview Blvd., Suite 1
St. Louis, Missouri 63147
(888)-869-2720 (Phone)/(888)-862-6459 (Fax)
charlesbuchanan8@aol.com (Email)

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

Honorable Mayor and Board of Alderman of
Town of Drew, Mississippi

Compliance

We have audited the compliance of the Town of Drew, 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, 2007. The Town'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's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town'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 Town's compliance with those requirements.

In our opinion, the Town's 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, 2007.

Internal Control Over Compliance

The management of the Town 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 Town'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, but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessary identify all deficiencies in internal control that might be 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 Board of Commissioners, management, 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.

Charles Buchanan, CPA, PC

Saint Louis, Missouri
February 15, 2008

Town of Drew, Mississippi
Schedule of Expenditures of Federal Awards
September 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor's Number or Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>Department of Housing and Urban Development</u>			
Passed through Mississippi Development Authority:			
Community Development Block Grant	14.228	1122-05-169-PF-01	\$ 300,000
Home Investment Partnership Grant	14.239	M05-SG-280-173	331,580
Total			<u>\$ 631,580</u>

TOWN OF DREW, MISSISSIPPI
Notes to Schedule of Expenditures of Federal Awards
September 30, 2007

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the schedule) has been prepared on the accrual basis of accounting. The purpose of the schedule is to present a summary of those activities represented by the Town of Drew, Mississippi for the year ended September 30, 2007, which have been financed by the U.S. Government (federal awards). For the purpose of the schedule, federal awards include all federal assistance and procurement relationships entered into by the Town. It is not intended to and do not present either the financial position or the changes in fund balances of the Town.

Individual awards within each category of federal awards are identified by CFDA number and program name if the award is individually significant to the category of award. All other awards are presented in total by funding agency.

REVENUE AND EXPENDITURE RECOGNITION

Revenue is recognized when received or when earned by the Town. Expenditures for direct costs are recognized as incurred using the accrual method of accounting and cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organizations. Under those principles, certain types of expenditures are not allowable or are limited as to reimbursement.

**TOWN OF DREW
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Adverse
Internal control over financial reporting:	
▪ Material weakness (es) identified?	Yes
▪ Reportable condition(s) identified that are not considered to be material weakness?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
▪ Material weakness(es) identified?	No
▪ Reportable conditions identified that are not considered to be material weakness(es)?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	Community Development Grant
14.239	Home Investment Partnership Grant (HOME 2005)

Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Material Weaknesses in Internal Control:

2007-1 Finding: The Town did not adopt Government Accounting Standards Board Statement (GASB) No. 34.

The Town did not record, value, nor depreciate its general fixed assets (buildings, equipment, infrastructure, etc.); did not record compensated absence expense; did not accrue the liability for compensated absence; and did not record an allowance for doubtful utility service accounts, as required by generally accepted accounting principles. The Town's records indicate that it consistently does not collect 36% of its utility fees. In addition, the Town has not presented the management's discussion and analysis as required by GASB 34.

**TOWN OF DREW
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

2007-2 Finding: Cash representing customer utility deposits was not separated from the Town's operating cash – Reportable condition not material to financial statements

The Town did not maintain a separate bank account for escrowed customer deposits which also requires an interest-bearing checking account.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Federal Award Findings Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

SUPPLEMENTAL INFORMATION

Charles Buchanan, CPA, PC
Certified Public Accountants
8733 Riverview Blvd, Suite 1
Saint Louis, MO 63147
(888)-869-2720 (Phone)/(888)-862-6459 (Fax)
charlesbuchanan8@aol.com (Email)

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

Honorable Mayor and Board of Alderman of the
Town of Drew, Mississippi

We have audited the financial statements of the Town of Drew (the Town) as of and for the year ended September 30, 2007, and have issued our report dated February 15, 2008. We issued an adverse opinion in our report on the governmental activities, business type activities, each major fund, and the aggregate remaining funds, because the Town did not capitalize infrastructure and other capital assets; did not report depreciation expense for those assets over their estimated useful lives, and did not report compensated absences, among other omissions. Except as discussed in the preceding sentence, 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*.

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

2007-3 Finding

The Town did not have sufficient unemployment fund balance to cover the 2% limitation required by Section 71-5-359, Miss. Code Ann. (1972)

Recommendation

The Town should comply with Section 71-5-359, Miss. Code Ann. (1972), which requires that cash and investment balances to have sufficient cash to cover 2% of covered wages.

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 ensure that corrective action has been taken.

This report is intended for the information of the Town's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Charles Buchanan, CPA, PC

Saint Louis, Missouri
February 15, 2008

Town of Drew
 Non-Major Governmental Funds
 Combining Balance Sheet
 As of September 30, 2007

	Fire	HOME Project	CDBG	Water Unemployment	General Fund Unemployment	Total Non-Major Funds
ASSETS						
Pooled cash and cash equivalents	93,067	-	-	4,235	4,254	101,556
Due from others	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Total Assets	<u>93,067</u>	<u>-</u>	<u>-</u>	<u>4,235</u>	<u>4,254</u>	<u>101,556</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued expenses	120	-	-	-	-	120
Due to other funds	-	-	-	-	-	-
Due to others	-	-	-	-	-	-
Total Liabilities	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120</u>
Fund balance and other credits						
Fund balances:						
Unreserved, undesignated	92,947	-	-	4,235	4,254	101,436
Total fund balances and other credits	<u>92,947</u>	<u>-</u>	<u>-</u>	<u>4,235</u>	<u>4,254</u>	<u>101,436</u>
Total liabilities, fund balances, and other credits	<u>\$ 93,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,235</u>	<u>\$ 4,254</u>	<u>\$ 101,556</u>

Town of Drew
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2007

	Fire Fund	HOME Project	CDBG	Water Improvement	General Fund Unemployment	Total Non-Major Funds
Revenues						
Taxes:						
Property taxes	\$ 11,518	-	-	-	-	\$ 11,518
Other governments	3,928	331,580	-	-	-	335,508
Interest income	-	-	-	6	6	12
Miscellaneous	-	-	-	4,229	-	4,229
Total revenue	<u>15,446</u>	<u>331,580</u>	<u>-</u>	<u>4,235</u>	<u>6</u>	<u>351,267</u>
Expenditures						
Administrative	-	-	-	-	-	-
Fire department	4,198	-	-	-	-	4,198
Capital outlay	7,014	331,580	-	-	-	338,594
Total expenditures	<u>11,212</u>	<u>331,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>342,792</u>
Excess of revenues over (under) expenditures	<u>4,234</u>	<u>-</u>	<u>-</u>	<u>4,235</u>	<u>6</u>	<u>8,475</u>
Other financing sources (uses)						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>4,234</u>	<u>-</u>	<u>-</u>	<u>4,235</u>	<u>6</u>	<u>8,475</u>
Fund balances, beginning of year, as restated	88,713	-	-	-	4,248	92,961
Fund balances, end of year	<u>\$ 92,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,235</u>	<u>\$ 4,254</u>	<u>\$ 101,436</u>

**Town of Drew
Schedule of Surety Bonds
September 30, 2007**

Position	Company	Expiration Date	Amount	Bond No.
Mayor	Western Surety	10/15/08	\$ 380,000	18137750-01
Mayor	St. Paul Travelers	07/01/09	50,000	104520415
City Clerk	Western Surety	10/15/08	380,000	18137750-02 104520416-
Aldermen	St. Paul Travelers	07/01/09	20,000	104520420
Public Employee Honesty Blanket Position Bond	Western Surety	10/1/08	50,000	68386399