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## INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council  
City of Water Valley, 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 City of Water Valley, Mississippi, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Water Valley, 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 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 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 affects, 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 City of Water Valley, Mississippi, as of September 30, 2008, 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 City of Water Valley, Mississippi, as of September 30, 2008, 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 June 8, 2010, on our consideration of the City of Water Valley, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of Water Valley, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Water Valley, Mississippi, basic financial statements. The other supplemental schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the City of Water Valley, Mississippi.

Ronnie S. Windham, CPA  
Oxford, Mississippi  
June 8, 2010

**CITY OF WATER VALLEY**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2008**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS AND OTHER DEBITS</b>			
Cash and cash equivalents	\$ 1,163,766	\$ 565,087	\$ 1,728,853
Receivables, net of allowance for uncollectibles	810,355	792,175	1,602,530
Due from other funds	5,876		5,876
Inventory, at cost		116,552	116,552
Other receivables		77,471	77,471
Restricted Assets			0
Cash Bond Reserves		89,432	89,432
Customer deposits		237,199	237,199
Capital assets, net	4,240,076	7,216,748	11,456,824
Capitalized interest and bond costs (net)			0
Total Assets	<u>\$ 6,220,073</u>	<u>\$ 9,094,664</u>	<u>\$ 15,314,736</u>
<b>LIABILITIES AND OTHER CREDITS</b>			
Accounts Payable	\$ 26,905	\$ 419,383	\$ 446,288
Other payables	61,750	213,830	275,580
Due to other Funds	1,273	120	1,393
Customer deposits		235,286	235,286
Compensated absences	31,693	20,400	52,093
Deferred Revenue	690,992		690,992
Noncurrent liabilities:			0
Capital related debt due within one year	22,152	69,734	91,886
Capital related debt due in more than one year	7,170	139,775	146,945
Total Liabilities	<u>\$ 841,935</u>	<u>\$ 1,098,528</u>	<u>\$ 1,940,463</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 4,211,917	\$ 7,007,239	\$ 11,219,156
Restricted for:			
Capital Projects			0
Other Purposes			0
Restricted for debt covenants			0
Unrestricted	1,166,221	988,896	2,155,117
Total Net Assets	<u>\$ 5,378,138</u>	<u>\$ 7,996,135</u>	<u>\$ 13,374,273</u>

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

**CITY OF WATER VALLEY  
STATEMENT OF NET ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 647,125	\$	\$	207,593	\$ (439,532)		\$ (439,532)
Public safety	727,663				(727,663)		(727,663)
Fire	326,690		19,043		(307,647)		(307,647)
Streets	365,008				(365,008)		(365,008)
Parks and recreation	159,693				(159,693)		(159,693)
Interest on long-term debt	2,677				(2,677)		(2,677)
Total governmental activities	<u>2,228,856</u>	<u>0</u>	<u>19,043</u>	<u>207,593</u>	<u>(2,002,220)</u>	<u>0</u>	<u>(2,002,220)</u>
Business-type activities:							
Electric	5,081,945	5,239,656				157,711	157,711
Water and Sewer	864,270	901,610				37,340	37,340
Sanitation	246,898	291,827				44,929	44,929
Total business-type activities	<u>6,193,113</u>	<u>6,433,093</u>	<u>0</u>	<u>0</u>		<u>239,980</u>	<u>239,980</u>
Total	<u>\$ 8,421,969</u>	<u>\$ 6,433,093</u>	<u>\$ 19,043</u>	<u>\$ 207,593</u>	<u>\$ (2,002,220)</u>	<u>\$ 239,980</u>	<u>\$ (1,762,240)</u>
General revenues:							
Taxes:							
Taxes levied for general purpose					\$ 672,476	\$	\$ 672,476
Sales taxes and gas taxes					512,381		512,381
Franchise taxes and licenses					71,590		71,590
Fines and Forfeitures					71,927		71,927
Grants and contributions not restricted to specific programs							
Homestead Exemption Reimbursement					61,036		61,036
Other Intergovernmental revenues and grants					531,120		531,120
Investment Earnings					45,910	39,473	85,383
Miscellaneous					21,961		21,961
Gain on sale of capital assets					250		250
Transfers					195,083	(195,083)	0
Total general revenues and transfers					<u>2,183,734</u>	<u>(155,610)</u>	<u>2,028,124</u>
Change in net assets					181,514	84,370	265,884
Net assets- beginning					5,196,624	7,911,767	13,108,391
Net assets- ending					<u>\$ 5,378,138</u>	<u>\$ 7,996,137</u>	<u>\$ 13,374,275</u>

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

**CITY OF WATER VALLEY  
BALANCE SHEET-GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS AND OTHER DEBITS</b>			
Cash and cash equivalents	\$ 335,353	\$ 828,412	\$ 1,163,765
Taxes Receivable	690,992		690,992
Fines Receivable	118,163		118,163
Allowance for uncollectibles	(79,274)		(79,274)
Due from other governments	80,474		80,474
Due from other funds		5,876	5,876
Prepays			0
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 1,145,708</u>	<u>\$ 834,288</u>	<u>\$ 1,979,996</u>
<b>LIABILITIES AND OTHER CREDITS</b>			
Accounts Payable	\$ 24,371	\$ 2,534	\$ 26,905
Deferred Revenue	690,992		690,992
Accrued Payroll	47,911	1,737	49,648
Other Payables	12,209	627	12,836
Due to Other Funds	1,701		1,701
Accrued Leave	31,693		31,693
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>\$ 808,877</u>	<u>\$ 4,898</u>	<u>\$ 813,775</u>
<b>FUND BALANCES</b>			
Reserved			
Reserved for bond			0
Reserved for prepaids			0
Unreserved, undesignated reported in:			0
General fund	336,831		336,831
Special revenue funds		45,400	45,400
Capital projects funds		783,990	783,990
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>\$ 336,831</u>	<u>\$ 829,390</u>	<u>\$ 1,166,221</u>
Total liabilities and fund balances	<u>\$ 1,145,708</u>	<u>\$ 834,288</u>	<u>\$ 1,979,996</u>

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

**CITY OF WATER VALLEY  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008**

Total Fund Balance- Governmental Funds	\$ 1,166,221
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	4,240,076
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.	(28,159)
	<hr/>
Total Net Assets-Governmental Activities	\$ <u><u>5,378,138</u></u>

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

**CITY OF WATER VALLEY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES-GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>General Fund</u>	<u>Total Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
Property taxes	\$ 623,001	\$ 49,475	\$ 672,476
Unrestricted intergovernmental	1,093,925	23,766	1,117,691
Restricted Intergovernmental	0	213,482	213,482
Permits and Fees	71,590	0	71,590
Miscellaneous	116,719	58,726	175,445
<b>TOTAL REVENUE</b>	<u>1,905,235</u>	<u>345,449</u>	<u>2,250,684</u>
<b>EXPENDITURES</b>			
General governmental	367,533	80,432	447,965
Public safety	1,029,202	6,561	1,035,763
Streets	338,778		338,778
Parks and recreation	157,443	1,537	158,980
Capital Outlay	8,679	329,782	338,461
Debt services			0
Principal		35,726	35,726
Interest	0	2,677	2,677
Other	0		0
<b>TOTAL EXPENDITURES</b>	<u>1,901,635</u>	<u>456,715</u>	<u>2,358,350</u>
Excess (deficiency) of revenues over expenditures	<u>3,600</u>	<u>(111,266)</u>	<u>(107,666)</u>
<b>Other financing sources (uses):</b>			
Transfers in	176,857	93,667	270,524
Transfers out	(19,846)	(30,000)	(49,846)
Sales of Capital Assets	0		0
<b>Total other financing sources (uses):</b>	<u>157,011</u>	<u>63,667</u>	<u>220,678</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>160,611</u>	<u>(47,599)</u>	<u>113,012</u>
<b>Fund Balances - Beginning</b>			
Prior period Adjustment			
<b>Fund Balances - Beginning, as restated</b>	<u>177,757</u>	<u>875,452</u>	<u>1,053,209</u>
<b>Fund Balances - Ending</b>	<u>\$ 338,368</u>	<u>\$ 827,853</u>	<u>\$ 1,166,221</u>

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

**CITY OF WATER VALLEY**  
**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, 2008**

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

Net change in fund balances- total government funds	\$	113,012
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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.		32,549
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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.		35,953
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This is the amount of increase in claims and judgments.		<u>                    </u>
Change in Net Assets of Governmental Activities	\$	<u>181,514</u>

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

**CITY OF WATER VALLEY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
SEPTEMBER 30, 2008**

	<u>Business-type Activities- Enterprise funds</u>			
	Electric	Water and	Solid Waste	Totals
	Department Current	Sewer Fund Current	Fund Current	Current Year
<b>ASSETS</b>				
Cash and cash equivalents	\$ 220,362	\$ 326,730	\$ 17,995	\$ 565,087
Customer receivables, net of allowance	689,250	78,540	24,385	792,175
Due from other funds	0			0
Other receivables	77,471			77,471
Inventory, at cost	116,552			116,552
Cash Bond Reserves	89,432			89,432
Customer deposits	214,336	22,862		237,198
Capital assets, net	2,032,657	5,093,379	90,712	7,216,748
Total Assets	<u>\$ 3,440,060</u>	<u>\$ 5,521,511</u>	<u>\$ 133,092</u>	<u>\$ 9,094,663</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 406,886	\$ 12,270	\$ 227	\$ 419,383
Other payable	201,134	7,076	5,740	213,950
Customer deposits	214,336	20,950		235,286
Compensated absences	13,813	5,402	1,184	20,399
Noncurrent liabilities:				
Capital related debt due within one year		31,381	38,353	69,734
Capital related debt due in more than one year		93,498	46,277	139,775
	<u>836,169</u>	<u>170,577</u>	<u>91,781</u>	<u>1,098,527</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,032,657	4,968,500	6,082	7,007,239
Unrestricted	571,235	382,434	35,229	988,898
Total Net Assets	<u>\$ 2,603,892</u>	<u>\$ 5,350,934</u>	<u>\$ 41,311</u>	<u>\$ 7,996,137</u>

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

**CITY OF WATER VALLEY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR YEAR ENDED SEPTEMBER 30, 2008**

	<u>Business-type Activities- Enterprise funds</u>			
	<u>Electric Department Current Year</u>	<u>Water and Sewer Fund Current</u>	<u>Solid Waste Fund Current Year</u>	<u>Totals Current Year</u>
Operating revenues:				
Charges for services	\$ 5,239,656	\$ 542,245	\$ 291,827	\$ 6,073,728
Tap fees		5,737		5,737
Other Operating Revenues		7,101		7,101
Sewer treatment charges		346,527		346,527
	<u>5,239,656</u>	<u>901,610</u>	<u>291,827</u>	<u>6,433,093</u>
Operating expenses:				
Personnel services	385,586	208,692	82,341	676,619
Supplies and material	4,220,191	148,846	95,862	4,464,899
Other services and charges	312,460	115,709	26,137	454,306
Capital repairs	67,480	112,376	6,251	186,107
Depreciation	96,228	274,203	30,903	401,334
Total operating expenses	<u>5,081,945</u>	<u>859,826</u>	<u>241,494</u>	<u>6,183,265</u>
Operating income (loss)	<u>157,711</u>	<u>41,784</u>	<u>50,333</u>	<u>249,828</u>
Other sources (uses)				
Investment earnings	26,603	11,947	923	39,473
Interest expense		(4,444)	(5,404)	(9,848)
Operating transfers out		(137,188)	(57,895)	(195,083)
	<u>26,603</u>	<u>(129,685)</u>	<u>(62,376)</u>	<u>(165,458)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	184,314	(87,901)	(12,043)	84,370
Total net assets - beginning	<u>2,419,578</u>	<u>5,438,835</u>	<u>53,354</u>	<u>7,911,767</u>
Total net assets - ending	<u>\$ 2,603,892</u>	<u>\$ 5,350,934</u>	<u>\$ 41,311</u>	<u>\$ 7,996,137</u>

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

**City of Water Valley  
Statement of Cash Flow  
9/30/08**

	Electric Department	Water and Sewer Fund	Solid Waste Fund	Totals
Cash Flow from operating Activities:				
Cash received from customers (excluding deposit)	\$ 5,225,428	\$ 878,276	\$ 291,827	\$ 6,395,531
Cash Paid to suppliers	(4,549,110)	(364,505)	(136,154)	(5,049,769)
Cash paid to employees	(385,586)	(211,034)	(80,426)	(677,046)
Net cash provided (used) by operating activities:	<u>\$ 290,732</u>	<u>\$ 302,737</u>	<u>\$ 75,247</u>	<u>\$ 668,716</u>
Cash flow from non-capital financing activities:				
Operating transfers out	\$ -	\$ (859,372)	\$ (57,895)	\$ (917,267)
Operating transfers in	-	722,185	-	722,185
Net cash provided by non-capital and related financing activities	<u>\$ -</u>	<u>\$ (137,187)</u>	<u>\$ (57,895)</u>	<u>\$ (195,082)</u>
Cash flow from capital and related financing activities:				
Capital Grants	-	-	-	-
Capital Leases	-	(28,143)	(34,043)	(62,186)
Principal paid on bonds	-	-	-	-
Principal paid on notes	-	-	-	-
Interest paid	-	(4,444)	(5,404)	(9,848)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>\$ (32,587)</u>	<u>\$ (39,447)</u>	<u>\$ (72,034)</u>
Cash flow from investing activities:				
Purchase of fixed assets	\$ (236,735)	\$ -	\$ -	\$ (236,735)
Interest received	26,603	11,947	923	39,473
Net cash provided (used) by investing activities	<u>\$ (210,132)</u>	<u>\$ 11,947</u>	<u>\$ 923</u>	<u>\$ (197,262)</u>
Net Increase (decrease) in cash for the year	\$ 80,600	\$ 144,910	\$ (21,172)	\$ 204,338
Cash and restricted cash-October 1, 2007	<u>\$ 443,531</u>	<u>\$ 204,681</u>	<u>\$ 39,167</u>	<u>\$ 687,379</u>
Cash and restricted cash-September 30, 2008	<u>\$ 524,131</u>	<u>\$ 349,591</u>	<u>\$ 17,995</u>	<u>\$ 891,717</u>

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

**CITY OF WATER VALLEY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR YEAR ENDED SEPTEMBER 30, 2008**

Reconciliation of Operating Income to Net  
Cash Provided by Operating Activities

	<u>Electric</u>	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
Income (loss) from operations	\$ 157,711	\$ 41,784	\$ 50,333	\$ 249,828
Adjustment to reconcile operating income to net cash provided by operating income activities:				
Depreciation	96,228	274,203	30,903	401,334
Other nonoperating revenue				
(Increase) decrease in accounts receivable	(17,744)	(16,695)	733	(33,706)
(Increase) decrease in prepaid assets				0
Increase (decrease) in other liabilities		(693)	(1,338)	(2,031)
Increase (decrease) in accounts payable	<u>54,537</u>	<u>4,139</u>	<u>(5,384)</u>	<u>53,292</u>
Net Cash provided by operating activities	<u>\$ 290,732</u>	<u>\$ 302,738</u>	<u>\$ 75,247</u>	<u>\$ 668,717</u>
Other Required Disclosures:				
Interest expense	<u>\$ 0</u>	<u>\$ 4,444</u>	<u>\$ 5,404</u>	<u>\$ 9,848</u>

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

**CITY OF WATER VALLEY  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2008**

	Payroll	Accounts Payable Clearing	Land Redemption	Unemployment Tax Clearing	Court Assessment Clearing	Total Agency Funds
<b>ASSETS</b>						
Cash	\$ 3,776	\$ 1,635	\$ 624	\$ -	\$ 37,690	\$ 43,725
Interfund Receivables	2,827	15,746				18,573
	<u>\$ 6,603</u>	<u>\$ 17,381</u>	<u>\$ 624</u>	<u>\$ -</u>	<u>\$ 37,690</u>	<u>\$ 62,298</u>
Total Assets						
<b>LIABILITIES</b>						
Interfund Payables	\$ -	\$ 18,311	\$ 252	\$ -	\$ 833	\$ 19,396
Other Payables	-		22,870		13,065	35,935
Total Liabilities	<u>\$ -</u>	<u>\$ 18,311</u>	<u>\$ 23,122</u>	<u>\$ -</u>	<u>\$ 13,898</u>	<u>\$ 55,331</u>

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

**CITY OF WATER VALLEY, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City 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 City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City 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, 2003, the City 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 City’s financial reporting entity comprises the following:

Primary Government:	City of Water Valley
Blended Component Unit:	Water Valley Electric Department

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units’ board; the City 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 City Council or the component unit provides services entirely to the City. These component units’ funds are blended into those of the City’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 City has no discretely presented component units.

*Blended Component Units*

Component units that are blended into the reporting activity types of the City’s report are presented below:

<b>Component Unit</b>	<b>Brief Description/Inclusion Criteria</b>	<b>Reporting</b>
Water Valley Electric Department	Created to provide electrical service under Section 3416 of the Miss. Code. The Mayor and Aldermen serve as the Power Board.	Proprietary

## 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 its 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 City 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 City and always classified as a major fund. 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.

#### *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 principal on the general long-term debt of the City other than debt service payments made by enterprise funds.

**1.B. BASIS OF PRESENTATION – continued**

**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 Valley Water and Sewer Fund and Solid Waste Fund and Water Valley Electric Department.

**Fiduciary Funds (Not included in governmental-wide statements)**

*Agency Funds*

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes five 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:

<b>Fund</b>	<b>Brief Description</b>
Accounts Payable Clearing	Accounts for funds transferred in to pay claims of the City. Funds are transferred in monthly from Governmental and Proprietary type funds and disbursements are made to the City’s vendors.
Payroll Fund	Accounts for disbursement of payroll checks for the City. Funds are transferred in monthly from Governmental and Proprietary type funds and payroll checks are disbursed to employees.
Court Assessment Clearing	All fines collected are deposited to this fund. Settlements are made monthly from this fund to the State for the State portion of fines.
Land Redemption	To account for land sold for delinquent taxes.
Unemployment Clearing	To clear funds for unemployment tax.

**Major and Nonmajor Funds**

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

<b>Fund</b>	<b>Brief Description</b>
<i>Major:</i> General	See above for description.
<b>Fund</b>	<b>Brief Description</b>
<i>Nonmajor:</i> Special Revenue Funds:	
Box Culvert	Accounts for the proceeds of a federal grant to reduce flooding.
Sports	Accounts for funds used to construct the sports complex.
Airport	Accounts for improvements to airport.
Industrial Special	To account for accumulation of funds further industrial development.

## 1.B. BASIS OF PRESENTATION - continued

### Major and Nonmajor Funds- continued

<b>Fund</b>	<b>Brief Description</b>
<i>Nonmajor- continued:</i> Fire Audit Rebate	Accounts for funds for fire equipment.
Volunteer Fire	Accounts for revenues to volunteer fire group.
Police Seized Property	Accounts for property seized in criminal cases.
Library	Accounts for funds of personnel at the library.
Debt Service	Accounts for payments on leases.

## 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.

### 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.

## **1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING - continued**

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

1. Prior to September 15, the Mayor and City Council proposed an operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. As required by State law, the City conducts public hearings on the budget.
3. The budget as submitted is reviewed by the Mayor and City 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 City 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 City Council as of September 30, 2008.

## **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 deposit of the City. 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 9 for details of interfund transactions, including receivables and payables at year-end.

## 1.D. ASSETS, LIABILITIES AND EQUITY -continued

### 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.

### Inventory

Inventory is valued at cost. The inventory in the Electric Department of \$116,552 consists of expendable supplies held for consumption.

### 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.

#### *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 City 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 City has until the year ended September 30, 2008, 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. The City did not retroactively report these assets by September 30, 2008.

Also, the City 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

## 1.D. ASSETS, LIABILITIES AND EQUITY – continued

### *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.

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 principal 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.

### **Compensated Absences**

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

### **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.”

**1.D. ASSETS, LIABILITIES AND EQUITY – continued**

*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.

**1.E. REVENUES, EXPENDITURES AND EXPENSES**

**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 City bills and collects its own property taxes. City 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.

**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	Current (further classified by function)
	Debt Service
	Capital Outlay
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, 2008, follows:

<u>Fund</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
General Fund	\$ 377,361	\$ 0	\$ 371,361
Debt Service Fund	58,063		58,063
Capital Projects Fund	721,140	13,200	734,340
Enterprise Fund	542,223	349,494	891,717
Agency Fund	<u>6,035</u>	<u>37,690</u>	<u>43,725</u>
Totals	<u>\$ 1,698,823</u>	<u>\$400,384</u>	<u>\$ 2,099,206</u>

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

**NOTE 2: CASH AND CASH EQUIVALENTS -continued**

At September 30, 2008, all the City's funds on deposit in financial institutions were insured or collateralized per the schedule below:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Carrying amount per books	\$ 100,000	\$ 1,999,206	\$ 0	\$ 2,099,206
Balance per bank	\$ 100,000	\$ 2,260,675	\$ 0	\$ 2,360,675

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 City's name.

Category 3 - Uncollateralized

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

At September 30, 2008, accounts receivable were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes receivable	\$ 690,992	\$	\$ 690,992
Fine forfeits	38,889		38,889
Due from other governments	80,474		80,474
Water, sewer, garbage, electric	<u>0</u>	<u>817,911</u>	<u>817,911</u>
Net accounts receivable	<u>\$ 810,355</u>	<u>\$ 817,911</u>	<u>\$ 1,628,266</u>

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Non-depreciable assets:				
Land	\$	\$	\$	\$
Depreciable assets:				
Buildings	565,511	0	0	565,511
Vehicles	138,636	0	0	138,635
Machinery and equipment	299,888	10,642	0	310,530
Infrastructure	<u>6,613,540</u>	<u>327,819</u>	<u>0</u>	<u>6,941,359</u>
Totals at historical cost	7,617,575	338,461	0	7,956,036
Less accumulated depreciation for:				
Buildings	240,410	10,849	0	251,259
Vehicles	313,378	18,590	0	331,968
Machinery and equipment	125,111	26,230	0	151,341
Infrastructure	<u>2,731,149</u>	<u>250,243</u>	<u>0</u>	<u>2,981,392</u>
Total accumulated depreciation	3,410,048	305,912	0	3,715,960
Governmental activities capital assets, net	<u>\$ 4,207,527</u>	<u>32,549</u>	<u>\$ 0</u>	<u>\$ 4,240,076</u>

**NOTE 4: CAPITAL ASSETS -continued**

The City adopted a capitalization threshold of \$5,000 for general fixed assets and a threshold of \$5,000 for infrastructure assets effective for the current fiscal year. The City has retroactively applied these thresholds to all general fixed assets in service at September 30, 2008.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type Activities:				
Non-depreciable assets:				
Land	0	0	0	0
Depreciable assets:				
Electric Plant	3,236,774	183,998	0	3,420,772
Water and Sewer system	9,282,256	0	0	9,282,256
Machinery and equipment	587,880	80,663	0	668,543
Vehicles	91,176	0	0	91,176
Office furniture and fixtures	0	0	0	0
Construction in progress	<u>69,032</u>	<u>52,737</u>	<u>0</u>	<u>121,769</u>
Totals at historical cost	13,267,118	317,398	0	13,584,516
Less accumulated depreciation for:				
Electric Plant	1,413,656	96,228	0	1,509,884
Water and sewer system	4,411,906	262,997	0	4,674,903
Machinery and equipment	49,694	30,903	0	80,597
Vehicles	<u>91,176</u>	<u>11,206</u>	<u>0</u>	<u>102,382</u>
Total accumulated depreciation	5,933,432	401,334	0	6,367,766
Business-type activities capital assets, net	<u>\$ 7,300,686</u>	<u>\$ - 83,936</u>	<u>\$ 0</u>	<u>\$ 7,216,750</u>

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 Equipment	5 - 15 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	5 - 10 Years

Depreciation expenses were charged to governmental functions as follows:

General government	\$ 5,046
Public property	256,046
Public safety	25,289
Streets	<u>19,531</u>
Total depreciation expense	<u>\$ 305,912</u>

**NOTE 5: LONG-TERM DEBT**

GOVERNMENTAL ACTIVITIES:

Date Issued	Definition and Purpose	Beginning Balance			Ending Balance		Amounts Due Within One Year
		Oct. 1, 2007	Additions	Reductions	Sept. 30, 2008		
GO BONDS							
CAPITAL LEASES:							
4/1/2005	Police Car, 4.75%, 4 years	\$ 9,346	\$ 0	\$ 5,017	\$ 4,329	\$ 4,329	
1/3/2003	Police Car, 3.00%, 4 years	0	0	0	0	0	
4/8/2004	Police Car, 3.10%, 4 years	5,175	0	5,175	0	0	
10/15/2003	Police Car, 3.07%, 4 years	5,100	0	5,100	0	0	
12/20/2002	Backhoe, 3.00%, 4 years	0	0	0	0	0	
10/15/2003	Tractor, 3.07%, 4 years	4,546	0	4,546	0	0	
6/15/2005	Loader, 4.00%, 4 years	18,381	0	9,010	9,371	9,371	
	Street Truck, 4.50%, 5 years	21,566	0	6,874	14,692	7,522	
	Total	64,114	0	35,722	28,392	21,222	
	Compensated Absences	54,031	0	22,339	31,692		
	Total Governmental Activities						
	Long-Term Debt	\$ 128,727	\$ 0	\$ 58,061	\$ 60,084		

BUSINESS-TYPE ACTIVITIES:

Date Issued	Definition and Purpose	Beginning Balance			Ending Balance		Amounts Due Within One Year
		Oct. 1, 2007	Additions	Reductions	Sept. 30, 2008		
CAPITAL LEASES:							
8/20/2004	Garbage Truck, 3.20%, 5 years	30,692	0	13,590	17,102	17,102	
2/1/2007	Garbage Truck, 4.98%, 4 years	88,215	0	20,453	67,762	21,485	
9/1/2006	2006 Ford Truck, 4.82%, 5 yrs	14,868	0	3,981	10,887	3,968	
12/16/2005	2006 Backhoe, 5.75%	51,185	0	11,831	39,354	12,452	
10/15/2003	Pump, 3.07%, 4 years	6,306	0	6,306	0	0	
5/5/2008	Case 125 Tractor, 4.8%, 5 yrs		80,663	6,025	74,638	14,961	
	TOTAL	191,266	80,663	62,186	209,743	69,968	
	Compensated Absences	26,066	0	-5,668	20,398		
	Total Business-Type Activities						
	Long-Term Debt	\$ 217,332	\$ 80,663	\$ 56,518	\$ 230,141		

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of September 30, 2008, are as follows:

Year Ended September 30	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2009	21,222	1,286	69,968	9,378	101,854
2010	7,170	338	55,241	6,482	69,231
2011	0	0	57,016	3,703	60,719
2012	0	0	17,273	944	18,217
2013	0	0	10,245	162	10,407
Total	28,392	1,624	209,743	20,669	260,428

**NOTE 6: PENSION PLAN**

Plan Description. The City of Water Valley, 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 City of Water Valley, Mississippi, is required to contribute at an actuarially determined rate. The current rate is 11.85 percent of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Water Valley, Mississippi's contributions to PERS for the years ended September 30, 2008 and 2007 were \$176,456 and \$164,303, equal to the required contributions of each year.

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

The City of Water Valley 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 City is occasionally a defendant in various lawsuits filed against it. These cases are turned over to the City's insurer's attorneys, who handle the defense of these suits. At present, it is impossible to predict if any loss may be incurred from these suits. The City believes that these suits will be successfully defended.

The city 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 city may be required to reimburse the grantor government. The city 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 City.

**NOTE 8: RISK MANAGEMENT**

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

**NOTE 9: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule as of September 30, 2008, represents interfund receivables and payables:

	Interfund Receivables	Interfund Payables
Government Funds:		
Due from proprietary funds	\$ 0	\$
Due to proprietary funds		
Due to agency funds	26,364	0
Proprietary Funds:		
Due from governmental funds	0	0
Due to governmental funds	0	
Due to agency funds	0	120
Agency Funds:		
Due to governmental funds		26,364
Due from proprietary funds	<u>120</u>	<u>0</u>
Total	<u>\$ 26,484</u>	<u>\$ 26,484</u>

**CITY OF WATER VALLEY, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2008**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b><u>RECEIPTS:</u></b>				
Ad Valorem Taxes:				
Real & Personnel	\$ 679,496	\$ 679,496	689,053	9,557
Licenses & Permits	10,000	10,000	11,468	1,468
Franchise Tax	65,000	65,000	55,107	(9,893)
State of Mississippi:				
Sales Tax	460,000	460,000	480,936	20,936
State Shared Revenue	15,000	15,000	11,231	(3,769)
Homeland Security				0
In Lieu – TVA	58,408	58,408	65,233	6,825
Yalobusha County:				
Grants From Local Units	34,000	34,000	32,222	(1,778)
Pro Rate Tax				0
In Lieu – Other:				
Federal Payments in lieu of Tax	15,630	15,630	15,643	13
Fine & Forfeitures	80,000	80,000	71,927	(8,073)
Charge for Services				
General Government	1,700	1,700	1,704	4
Public Safety	500	500	440	(60)
Highways and Street	1,400	1,400	1,104	(296)
Sanitation	275,000	275,000	292,560	17,560
Culture and Recreation	2,000	2,000	3,125	1,125
Other (Cemetery)	4,000	4,000	7,500	3,500
Other Revenue	547,720	547,720	635,399	87,679
<b>Total Receipts</b>	<b>\$ 2,249,854</b>	<b>\$ 2,249,854</b>	<b>2,374,653</b>	<b>124,799</b>
<b><u>EXPENDITURES:</u></b>				
General Government:				
Personnel Services	\$ 203,090	\$ 203,090	192,624	10,466
Supplies	171,126	171,126	158,007	13,119
Other Services & Charges	9,120	9,120	8,512	608
Transfers	4,900	4,900	4,885	15
Capital Outlay	0	0		0
<b>Total</b>	<b>388,235</b>	<b>388,235</b>	<b>364,028</b>	<b>24,207</b>
Public Safety:				
Police Department				
Personnel Services	514,250	514,250	515,869	(1,619)
Supplies	168,416	168,416	153,848	14,568
Other Services & Charges	46,811	46,811	43,334	3,477
Transfers	23,500	23,500	21,823	1,677
Capital Outlay	0	0	0	0
<b>Total</b>	<b>752,976</b>	<b>752,976</b>	<b>734,874</b>	<b>18,102</b>

**CITY OF WATER VALLEY, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – BUDGET AND ACTUAL -continued**  
**GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2008**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Fire Department:				
Personnel Services	316,088	316,088	305,518	10,570
Supplies	33,271	33,271	24,242	9,029
Other Services & Charges	4,112	4,112	3,237	875
Transfers		0	0	0
Capital Outlay	0	0	0	0
Total	<u>353,471</u>	<u>353,471</u>	<u>332,997</u>	<u>20,474</u>
Municipal Fire Protection:	<u>2,400</u>	<u>2,400</u>	<u>1,676</u>	<u>(724)</u>
Total Public Safety	<u>1,108,847</u>	<u>1,108,847</u>	<u>1,069,547</u>	<u>37,852</u>
Public Works:				
Street Department:				
Personnel Services	244,366	244,366	232,609	11,757
Supplies	114,545	114,545	57,755	56,791
Other Services & Charges	65,024	65,024	53,077	11,947
Transfers	39,327	39,327	39,225	102
Capital Outlay	0	0	0	0
Total	<u>463,263</u>	<u>463,263</u>	<u>382,666</u>	<u>80,597</u>
Sanitation:				
Personnel Services	92,518	92,518	83,678	8,840
Supplies	96,867	96,867	95,852	1,015
Other Services & Charges	39,983	39,983	39,075	908
Transfers	32,080	32,080	31,061	1,019
Capital Outlay	0	0	0	0
Total	<u>261,448</u>	<u>261,448</u>	<u>249,665</u>	<u>11,783</u>
Total Public Works	<u>724,711</u>	<u>724,711</u>	<u>632,331</u>	<u>92,380</u>
Park & Recreational:				
Cemetery:				
Personnel Services	103,631	103,631	105,477	(1,845)
Supplies	35,598	35,598	35,831	(233)
Other Services & Charges	13,038	13,038	13,722	(685)
Transfers	11,586	11,586	10,031	1,556
Capital Outlay	0			0
Total	<u>163,853</u>	<u>163,853</u>	<u>165,061</u>	<u>(1,207)</u>
Total Expenditures	<u>2,385,647</u>	<u>2,385,647</u>	<u>2,230,967</u>	<u>153,231</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>(135,793)</u>	<u>(135,793)</u>	<u>143,686</u>	<u>(28,432)</u>

**CITY OF WATER VALLEY, MISSISSIPPI  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**A. BUDGETARY INFORMATION**

Budgetary requirements dictate how and when the City'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 City, 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 City'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, 2008 the City 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).

**CITY OF WATER VALLEY, MISSISSIPPI  
SCHEDULE OF LONG-TERM DEBT  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Date Issued		Balance Outstanding Oct 1, 2007	Transactions		Balance Outstanding Sept 30, 2008
			Issued	Redeemed	
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>LONG TERM LEASES</b>					
4/1/2005	Police Car, 4.75%, 4 years	\$ 9,346	\$ 0	\$ 5,017	4,329
1/3/2003	Police Car, 3.00%, 4 years	0	0	0	0
4/8/2004	Police Car, 3.10%, 4 years	5,175	0	5,175	0
10/15/2003	Police Car, 3.07%, 4 years	5,100	0	5,100	0
12/20/2002	Backhoe, 3.00%, 4 years	0	0	0	0
10/15/2003	Tractor, 3.07%, 4 years	4,546	0	4,546	0
6/15/2005	Loader, 4.00%, 4 years	18,381	0	9,010	9,371
9/9/2006	Street Truck, 4.50%, 5 years	21,566	0	6,874	14,692
	Total long term leases	<u>64,114</u>	<u>0</u>	<u>35,722</u>	<u>28,392</u>
	Total Governmental Funds Long-Term Debt	<u>64,114</u>	<u>0</u>	<u>35,722</u>	<u>28,392</u>
<b>PROPRIETARY FUNDS LONG-TERM DEBT:</b>					
<b>GARBAGE LONG TERM LEASES</b>					
8/20/2004	Garbage Truck, 3.20%, 5 years	30,692	0	13,590	17,102
2/1/2007	Garbage Truck, 5.045%, 4 years	88,215	0	20,453	67,762
	Total garbage fund long-term debt	<u>118,907</u>	<u>0</u>	<u>34,043</u>	<u>84,864</u>
<b>WATER LONG TERM LEASES</b>					
4/1/2003	Water & Sewer Eq., 4%, 4 years	0	0	0	0
9/1/2006	2006 Ford Truck, 4.82%, 5 years	14,868	0	3,981	10,887
12/16/2005	2006 Backhoe, 5.75%	51,185	0	11,831	39,354
10/15/2003	Pump, 3.07%, 4 years	6,306	0	6,306	0
5/5/2008	Case 125 Tractor, 4.8%, 5 yrs	0	80,663	6,025	74,638
	Total water fund long-term leases	<u>72,359</u>	<u>80,663</u>	<u>28,143</u>	<u>124,879</u>
	Total Proprietary Funds Long-Term Debt	<u>191,266</u>	<u>80,663</u>	<u>62,186</u>	<u>209,743</u>
	Total Long-Term Debt	<u>\$ 255,380</u>	<u>\$ 80,663</u>	<u>\$ 97,908</u>	<u>\$ 238,135</u>

CITY OF WATER VALLEY, MISSISSIPPI  
 SCHEDULE OF RECONCILIATION OF ORIGINAL AD VALOREM  
 TAX ROLLS TO FUND COLLECTIONS  
 YEAR ENDED SEPTEMBER 30, 2008

	<u>Assessed Value</u>	<u>Millage Rate</u>	<u>Tax</u>	
<b>ADJUSTED ASSESSED VALUATION</b>				
Realty	\$ 8,871,667	37	\$ 328,252	
Personal - other than auto	8,342,916	37	308,688	
Public Utilities	505,726	37	18,712	
Mobile Home	31,015	37	1,148	
Personal - auto	2,602,478	37	96,292	
Total	\$ 20,353,802		\$ 753,091	
Less Homestead exemption allowed			(73,673)	
County tax collector's commission-auto			(4,874)	
Add: Actual homestead reimbursement	30,518	2	61,035	
Prior year tax collections			8,184	
Penalties and interest on delinquent taxes			<u>5,016</u>	
Total to be accounted for			<u><u>748,779</u></u>	748,779

	<u>Taxes, Penalties, and Interest</u>	<u>Homestead Reimbursement</u>	<u>Total</u>	
<b>CREDITS:</b>				
General Fund	\$ 627,624	\$ 56,500	\$ 684,124	
Fire	4,513	415	4,928	
Library	<u>45,355</u>	<u>4,120</u>	<u>49,475</u>	
Total City	\$ 677,492	\$ 61,035	\$ 738,527	
			<u>738,527</u>	
			\$ 10,252	

**BALANCE REPRESENTED BY:**

Unpaid taxes	12,361
Unaccounted for - over settled	<u>(2,109)</u>
Total accounted for	<u><u>748,779</u></u>

**TOWN OF WATER VALLEY, MISSISSIPPI**  
**SCHEDULE OF SURETY BONDS FOR TOWN OFFICIALS**  
**SEPTEMBER 30, 2008**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
William G Norris	Mayor	Western Surety Co.	\$25,000
Charles Harris	Alderman	Western Surety Co.	\$5,000
Fred E White	Alderman	Western Surety Co.	\$5,000
Thomas S Swerengen	Alderman	Western Surety Co.	\$5,000
Lance Clement	Alderman	Western Surety Co.	\$5,000
Sherry Johnson	Alderman	Western Surety Co.	\$5,000
Vivian Snider	City Clerk	Western Surety Co.	\$50,000
Audra Haireston	Court Clerk	Western Surety Co.	\$10,000
Judy Davis	Deputy Clerk	Western Surety Co.	\$10,000
Betty Buford	Deputy Clerk	Western Surety Co.	\$10,000
Michael W King	Police Chief	Western Surety Co.	\$50,000



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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE REQUIREMENTS OF THE OFFICE OF THE STATE AUDITOR, AS SET FORTH IN THE MUNICIPAL COMPLIANCE QUESTIONNAIRE

Honorable Mayor and Board of Aldermen  
City of Water Valley, Mississippi

We have audited the financial statements of City of Water Valley, Mississippi as of and for the year ended September 30, 2008, and have issued our report thereon dated June 8, 2010.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 those procedures and our audit of the financial statements disclosed the following material instances of noncompliance with state laws and regulations.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Water Valley, Mississippi had not complied with the requirements of the Office of the State Auditor, as set forth in the Municipal Compliance questionnaire except for the following:

The city does not settle assessments monthly to the appropriate state agency as required by the regulations and sections 99-19-73.

This report is intended solely for the use of the City Board, 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.

RONNIE S. WINDHAM, CPA  
Oxford, Mississippi

June 8, 2010





# RONNIE S. WINDHAM, CPA, LLC

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

To the City Council  
City of Water Valley, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Water Valley, Mississippi, as of and for the year ended September 30, 2008 which collectively comprise the City of Water Valley, Mississippi's basic financial statements and have issued our report thereon dated June 8, 2010. The report on the financial statements of the governmental activities was qualified because the City has not recorded depreciation expense or accumulated depreciation on general capital assets acquired in years prior to October 1, 2002. 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.

### Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Water Valley, Mississippi had not complied with the requirements of the Office of the State Auditor, as set forth in the Municipal Compliance questionnaire except for the following:

The city does not settle assessments monthly to the appropriate state agency as required by the regulations and sections 99-19-73.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Water Valley, Mississippi'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 provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Water Valley, Mississippi's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

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

This report is intended solely for the information and use of management, City Council, 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  
Oxford, Mississippi

June 8, 2010