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TOWN OF DECATUR, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

TONY CHANCE & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
514-A AIRPORT ROAD
FOREST, MISSISSIPPI 39074

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**TOWN OF DECATUR, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
Town of Decatur, 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 Decatur, Mississippi as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements. These financial statements are the responsibility of the Town of Decatur, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, Town of Decatur, Mississippi, prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Decatur, Mississippi as of September 30, 2010, and the respective changes in cash thereof, for the year then ended in conformity with basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2011, on our consideration of the Town of Decatur, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 31 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Decatur, Mississippi's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is 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 U. S. Office of Management, and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. All other supplemental schedules are presented for purposes of additional analysis as required by the Office of the State Auditor and is not a required part of the financial statements. The schedule of federal awards and the additional supplemental schedules, except for the schedule of capital assets, has been subjected to the auditing procedures applied in the audit of the financial

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory material and the statement of capital assets have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Tony Chance & Company
Forest, Mississippi
June 29, 2011

A handwritten signature in black ink, appearing to read "Tony Chance", written in a cursive style.

**TOWN OF DECATUR, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

The Discussion and Analysis of the Town of Decatur's financial performance on a cash basis provides an overall review of the Town's financial activities for the year ended September 30, 2010. The intent of this discussion and analysis is to look at the Town's performance as a whole. Information contained in this section is qualified by the more detailed information contained elsewhere in the Town's financial statements, notes to the financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the Town's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is in a format consistent with the presentation requirements of the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments* issued June, 1999.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2010 were as follows:

- The Town's net cash increased by \$9,811, or 1.9% from 2009.
- Total net assets are comprised of the following:
 - (1) Cash in banks of \$529,778.
 - (2) Cash of \$149,832 is restricted by constraints imposed from outside the Town such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$379,946 represent the portion available to maintain the Town's continuing obligations to citizens and creditors.
- The Town has \$2,711,097 in total revenue. General revenues account for \$533,237, or 20% of all revenues. Program specific revenues in the form of charges for services, and grants account for \$2,177,860 or 80% of total revenues.
- The Town had \$2,701,286 in expenses; 21% or \$566,232 of these expenses were covered by program specific charges for services; \$1,611,628 of expenses were covered by grants, and the balance of \$523,426 was covered by general revenues of the Town.
- Among major funds, the General Fund had \$801,954 in revenue and \$832,306 in expenditures. The General Fund's cash balance decreased \$30,352 over the prior year.
- The Proprietary fund had \$1,889,719 in revenue and \$1,848,045 in expenditures. The Proprietary fund's balance increased \$41,674 over the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The statement of activities and net assets presents information on the Town's cash position, with the difference in year end balances reported as net assets – cash basis. Over time, increases or decreases in cash assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement is prepared using the cash basis of accounting where revenues are reported when received and expenses are reported when paid. The statement of activities and net assets presents information showing how the Town's cash position changed during the most recent fiscal year.

The government-wide financial statement outlines functions of the Town that are principally supported by property taxes and intergovernmental revenues (governmental activities) and water and sewer charges (proprietary activities). The governmental activities of the Town include general government, public safety, streets and sanitation, culture and recreation, and economic development.

The government-wide financial statement can be found on pages 15 and 16 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statement. Governmental Funds are reported using the cash method of accounting. The Governmental Funds Statement provides a detailed short-term view of the Town's operations.

The basic governmental fund financial statement can be found on pages 18 to 20 of this report.

Proprietary funds. The Town of Decatur maintains one type of proprietary fund, the water and sewer fund. The water and sewer fund is used to report the same functions presented as business-type activities in the government-wide financial statement.

Proprietary funds provide the same type of information as the government-wide financial statement, only in more detail.

The basic proprietary fund financial statement can be found on pages 23 through 26 of this report.

Fiduciary funds. The Town's fiduciary fund includes payroll clearing accounts. The fiduciary fund financial statement reports resources that are not available to fund the Town programs. The fiduciary fund financial statement is reported similarly to proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 to 29 of this report.

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

The Town adopts an annual operating budget for all governmental funds and proprietary funds. Budgetary comparison statements have been provided for the General Fund and the Enterprise Fund. This required supplementary information can be found on pages 34 to 37 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

One of the most important questions to ask about the Town of Decatur's finances is, "Has the Town's cash increased or decreased as a result of the year's activities?" The Statement of Activities and Net Assets reports information about the Town as a whole and about its activities in a way that helps answer this question. This statement includes all the activities resulting from the use of the cash basis of accounting.

Net assets. The Town's combined net assets, on the cash basis of accounting, increased from \$519,967 to \$529,778 between fiscal years 2009 and 2010.

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

The following table reflects condensed information on the Town's cash assets:

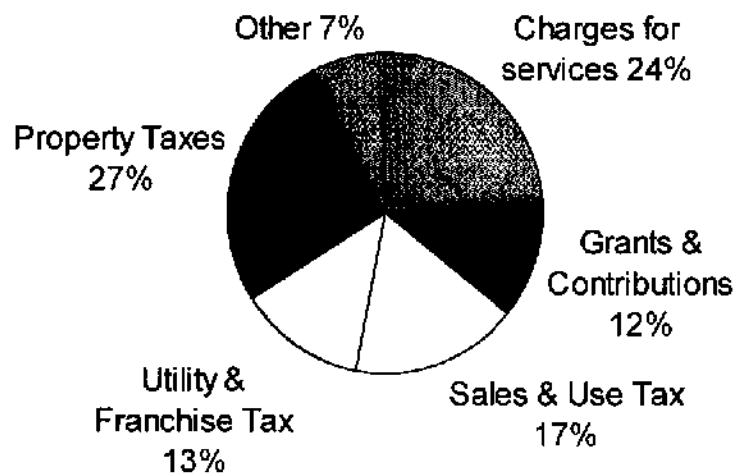
	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net Assets:						
Cash and cash equivalents:						
Restricted	\$ 78,237	\$ 79,747	\$ 71,595	\$ 69,686	\$ 149,832	\$149,433
Unrestricted	279,365	309,718	100,581	60,816	379,946	370,534
Total Net Assets	\$357,602	\$389,465	\$172,176	\$130,502	\$529,778	\$519,967

Changes in net assets. The Town's total revenues and expenses for governmental and business-type activities are reflected in the following table:

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Program Revenues:						
Charges for services	\$195,961	\$125,984	\$ 370,271	\$ 411,219	\$566,232	\$537,203
Capital grants	98,221	-	1,513,407	61,650	1,611,628	61,650
General Revenues:						
Sales and use taxes	140,392	141,134	-	-	140,392	141,134
Property taxes	219,281	208,487	-	-	219,281	208,487
Franchise taxes	106,732	109,678	-	-	106,732	109,678
Other	60,791	95,482	6,041	1,583	66,832	97,065
Total Revenues	\$821,378	\$680,765	\$1,889,719	\$ 474,452	\$2,711,097	\$1,155,217
Program Expenses:						
General Government	\$ 328,774	\$295,346	\$ -	\$ -	\$328,774	\$295,346
Public Safety	264,636	265,740	-	-	264,636	265,740
Streets and Sanitation	99,943	28,958	-	-	99,943	28,958
Culture and Recreation	1,750	6,459	-	-	1,750	6,459
Water and Sewer	-	-	330,925	435,543	330,925	435,543
Capital Outlay	158,138	44,704	1,504,009	61,650	1,662,147	106,354
Debt principal payments	-	-	13,111	12,553	13,111	12,553
Total Expenses	\$ 853,241	\$641,207	\$1,848,045	\$ 509,746	\$2,701,286	\$1,150,953
Increase (Decrease) in Net Assets	\$ (31,863)	\$ 39,558	\$ 41,674	\$(35,294)	9,811	\$4,264

Governmental activities. Revenues for the Town's governmental activities for the year ended September 30, 2010 were \$821,378 compared to \$680,765 in 2009. Revenues increased \$140,613 mostly due to increased grant revenue.

Revenues by Source Governmental Activities

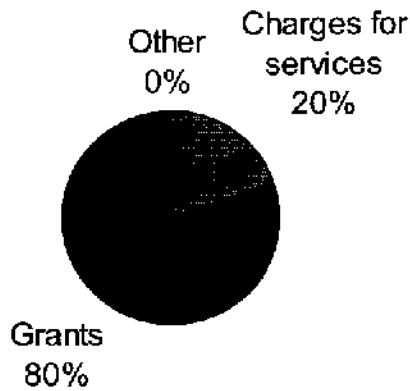


The cost of providing all governmental activities this year was \$853,241, an increase of \$212,034 from the prior year. Of this amount, general government expenses increased \$33,428; public safety expenses decreased \$1,104; streets and sanitation expenses increased \$70,985; culture and recreation expenses decreased \$4,709.

The Town's largest programs are general government and public safety. Expenses exceeding revenues are offset by general revenues generated by taxes, investment income and other general revenues.

Business-type activities: Revenues for business-type activities are, for the most part, comprised of charges for services. During the current year the Town has an ongoing project for sewer and drainage rehabilitation and received several grants totaling \$1,513,407. Charges for services for the Town's business-type activities were \$370,271 for 2010, a decrease of \$40,948 from 2009.

Revenues by Sources Business-Type Activities



The cost of these business-type activities was \$1,848,045 for 2010, an increase of \$1,338,299 from 2009 primarily due to capital projects.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$357,602, an increase of \$9,811. \$279,366 or 78% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the Town's discretion. The remaining fund balance of \$78,236 or 22% is reserved or designated to indicate that it is not available for spending because it has already been committed.

BUDGETARY HIGHLIGHTS

The Town's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

Over the course of the year, the Town did not revise the annual operating budget. Schedules showing the final budget amounts compared to the Town's actual financial activity for the General Fund and the Enterprise Fund are provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of September 30, 2010, the Town's total capital assets were \$5,495,652, including land, city buildings, infrastructure, vehicles, and furniture and equipment. This amount represents an increase of \$1,652,648 from the previous year.

Additional information on the Town's capital assets can be found in the Schedule of Capital Assets on pages 35 of this report.

Debt Administration. At September 30, 2010, the Town's long-term debt, including capital leases, was \$590,160. Long-term debt decreased by \$22,823 during the current year.

Additional information on the Town's long-term debt can be found in Schedule of Long-Term Debt on page 36 of this report.

CURRENT ISSUES

- a) The Town has been approved by the Mississippi Development Authority to receive a capital loan to resurface Country Club Road at a cost of approximately \$340,000.
- b) The Town is in the process of receiving bids on a general obligation improvement note to resurface Simkin Road at a cost of approximately \$138,000.
- c) The Town has applied for a Community Development Block Grant for sewer expansion. The cost is estimated to be \$500,000.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Town of Decatur's finances and to show the Town's accountability for the money it receives. Interested parties may direct questions to or request additional financial information from the Mayor's Office of the Town of Decatur, 66 7th Street, Decatur, MS 39327.

GOVERNMENT-WIDE FINANCIAL STATEMENT

TOWN OF DECATUR, MISSISSIPPI
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2010

Function/Programs	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 328,774	\$ 1,928	\$ -	\$ -	\$ (326,846)	\$ -	\$ (326,846)
Public safety	264,636	115,846	450	-	(148,340)	-	(148,340)
Culture and recreation	1,750	-	-	-	(1,750)	-	(1,750)
Streets and sanitation	99,943	78,187	-	-	(21,756)	-	(21,756)
Capital Outlay	158,138	-	-	97,771	(60,367)	-	(60,367)
Total governmental activities	853,241	195,961	450	97,771	(559,059)	-	(559,059)
Business-type activities:							
Water and sewer	330,925	370,271	-	-	39,346	39,346	39,346
Capital Outlay	1,504,009	-	-	1,513,407	9,398	9,398	9,398
Debt principal payments	13,111	-	-	-	(13,111)	(13,111)	(13,111)
Total business-type activities	1,848,045	370,271	-	1,513,407	35,633	35,633	35,633
Total Primary Government	\$ 2,701,286	\$ 566,232	\$ 450	\$ 1,611,178	\$ (559,059)	\$ 35,633	\$ (523,426)

General Receipts:

Taxes:			
Ad valorem	219,281	-	219,281
Sales taxes	140,392	-	140,392
Franchises taxes	106,732	-	106,732
Intergovernmental	37,619	-	37,619
Sale of vehicles	2,725	950	3,675
Donations	12,634	-	12,634
Interest income	1,740	739	2,479
Miscellaneous	6,073	4,352	10,425
Total General receipts	527,196	6,041	533,237
Changes in Net Assets	(31,863)	41,674	9,811
Net Assets at Beginning of Year	389,465	130,502	519,967
Net Assets at End of Year	\$ 357,602	\$ 172,176	\$ 529,778

TOWN OF DECATUR, MISSISSIPPI
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Function/Programs	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets		
			Charges for Operating Services	Capital Grants	Governmental Activities	Business-type Activities	Total
(Continued)							
	Assets						
Cash and cash equivalents					279,366	100,581	379,947
Restricted cash					78,236	71,595	149,831
Total Assets					\$ 357,602	\$ 172,176	\$ 529,778
	Net Assets						
Restricted for debt service					-	27,270	\$ 27,270
Restricted for fire prevention					31,083	-	31,083
Restricted for cemetery					44,447	-	44,447
Restricted for meter deposits					-	44,325	44,325
Restricted for unemployment compensation					2,706	-	2,706
Unrestricted					279,366	100,581	379,947
Total Net Assets					\$ 357,602	\$ 172,176	\$ 529,778

The accompanying notes are an integral part of this statement

FUND FINANCIAL STATEMENT

Town of Decatur, Mississippi
Statement of Cash Receipts and Disbursements -
Governmental and Business-type Activities
For the year ended September 30, 2010

	<u>Governmental Funds</u>					<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	
RECEIPTS:						
Taxes:						
General property taxes	\$ 194,711	\$ -	\$ -	\$ -	\$ -	\$ 194,711
Road and bridge taxes	23,650	-	-	-	-	23,650
Penalties and interest on delinquent taxes	920	-	-	-	-	920
Licenses and permits						
Privilege licenses	1,928	-	-	-	-	1,928
Franchise charges-utilities	106,732	-	-	-	-	106,732
Intergovernmental revenues:						
Federal receipts:						
SRF-sewer system improvements	-	-	-	829,002	-	829,002
CDBG-ARRA-drainage improvements	-	-	-	584,405	-	584,405
CDBG-street improvements	-	-	46,499	-	-	46,499
General municipal aid:						
State of Mississippi	741	-	-	-	-	741
Newton County	748	6,527	-	-	-	7,275
State shared revenues:						
Sales taxes	140,392	-	-	-	-	140,392
Gasoline taxes	4,009	-	-	-	-	4,009
Public safety	-	-	-	-	-	-
Fire protection	-	7,767	-	-	-	7,767
Homestead reimbursement	17,827	-	-	-	-	17,827
Mississippi Development Authority-water meter grant	-	-	-	100,000	-	100,000
Emergency Management grant-sirens	-	-	51,272	-	-	51,272
Police grant	450	-	-	-	-	450

Town of Decatur, Mississippi
Statement of Cash Receipts and Disbursements
Governmental and Business-type Activities
For the year ended September 30, 2010

	Governmental Funds					Total
	General Fund	Special Revenue Fund	Capital Projects Fund	Proprietary Fund	Fiduciary Fund	
RECEIPTS (Continued)						
Charges for services:						
Sanitation	78,187	-	-	-	-	78,187
Water and sewer utility				370,271		370,271
Fines and forfeits	115,846					115,846
Sale of vehicles	2,725			950		3,675
Interest income	849	885		739	6	2,479
Donations	8,944	3,690				12,634
Miscellaneous	5,524	549		4,352		10,425
Total Receipts	<u>704,183</u>	<u>19,418</u>	<u>97,771</u>	<u>1,889,719</u>	<u>6</u>	<u>2,711,097</u>
DISBURSEMENTS:						
General government	321,270	7,504				328,774
Public safety:						
Police	261,021					261,021
Fire		3,615				3,615
Culture and recreation	1,750					1,750
Streets and sanitation	99,943					99,943
Water and sewer				304,424		304,424
Capital outlay	50,551	9,816	97,771	1,504,009		1,662,147
Interest expense				26,501		26,501
Total Disbursements	<u>734,535</u>	<u>20,935</u>	<u>97,771</u>	<u>1,834,934</u>		<u>2,688,175</u>
Excess (Deficiency) of receipts over disbursements	<u>(30,352)</u>	<u>(1,517)</u>	<u>-</u>	<u>54,785</u>	<u>6</u>	<u>22,922</u>

Town of Decatur, Mississippi
Statement of Cash Receipts and Disbursements
Governmental and Business-type Activities
For the year ended September 30, 2010

	Governmental Funds					Total
	General Fund	Special Revenue Fund	Capital Projects Fund	Proprietary Fund	Fiduciary Fund	
(Continued)						
OTHER FINANCING USES:						
Bonds retired	-	-	-	9,246	-	9,246
Notes repaid	-	-	-	3,865	-	3,865
Total Other Financing Uses	-	-	-	13,111	-	13,111
Excess (Deficiency) of receipts over disbursements and other financing uses	(30,352)	(1,517)	-	41,674	6	9,811
CASH BASIS FUND BALANCE - BEGINNING OF YEAR	309,718	77,047	-	130,502	2,700	519,967
CASH BASIS FUND BALANCE END OF YEAR	\$ 279,366	\$ 75,530	\$ -	\$ 172,176	\$ 2,706	\$ 529,778

The accompanying notes are an integral part of this financial statement

TOWN OF DECATUR, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2010

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Decatur, Mississippi ("Town") operates under the mayor/board of aldermen form of government and provides services as authorized by law.

A. Financial Reporting Entity

The financial statement of the town consists of all the funds of the town. It also consists of the following:

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities.

Statement of Activities and Net Assets – The government-wide statement of activities and net assets reports expenses and revenues in a format that focuses on the cost of each of the government's functions. It is prepared on the cash receipts and disbursements basis of accounting.

Statement of Cash Receipts and Disbursements – The financial statement is prepared on a cash receipts and disbursements basis, as prescribed by the Office of the State Auditor. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

Budgetary comparison schedules – Compliance with the adopted budget is an important component of the government's accountability to the public.

Component Units – The criteria for including organizations as component units within the Town's reporting entity, as set forth in Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*, have been applied. A primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose a financial burden on, the primary government. A primary government may also be financially accountable for organizations that are financially dependent on it.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

Based on the application of the criteria above, no component units of the Town of Decatur were identified.

B. Government-wide and Fund Financial Statements

The statement of activities demonstrates the degree to which expenses of a given function are offset by program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from services or privileges provided and grants and contributions that are restricted to meeting certain operational or capital needs of a function. Taxes and other items not included in program revenues are reported as general revenues.

Major individual governmental and propriety funds are reported in separate columns in the Statement of Cash Receipts and Disbursements.

C. Fund Accounting

The accounts of the Town are organized on the basis of funds, each of which is a separate accounting entity. The Town reports the following major 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 expendable trusts or major capital projects) that are legally restricted for specific expenditure purposes.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Projects Funds – Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by propriety funds or for assets that will be held in trust for individuals, private organizations, or other governments.

PROPRIETARY FUND

Enterprise Fund - The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses of providing water and sewer services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY FUNDS

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations and/or other funds. These funds are custodial in nature and do not involve measurement of results of operations.

D. Account Classifications

Receipts and disbursements were classified according to requirements for small towns in State of Mississippi as prescribed by the Office of the State Auditor.

E. Cash and Other Deposits (and Cash Equivalents)

The Town deposits excess funds in the financial institutions selected by the Town Council in accordance with state statutes.

Cash consists of amounts on deposit in demand accounts and savings accounts. Other deposits consist of certificates of deposit. Cash and other deposits are valued at cost.

For purposes of the statement of cash flows, the Town considers all highly liquid investments and certificates of deposit to be cash equivalents if they have a maturity of three months or less when acquired.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Investments

The Town is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved; or in interest-bearing time certificates of deposit or interest-bearing accounts with any financial institution approved for the deposit of state funds; or in any type of investment permitted by Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972).

For accounting purposes, certificates of deposit and interest-bearing accounts are classified as cash and other deposits.

G. Restricted Asset

The use of certain assets may be restricted by specific provisions of bond resolutions and/or agreements with various parties. Assets so designated are identified as restricted assets on the statement of activities and net assets. The Town generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

H. Compensated Absences

Employees of the Town accumulate sick leave at a minimum amount as required by state law or at an amount provided by policy of the Town. Employees are allowed vacation leave, but vacation time is generally required to be used within one year of accrual. The Town does not provide for payment of accumulated sick leave, but up to 10 days of accumulated vacation will be paid if requested by the employee.

I. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. All unpaid taxes become delinquent February 1. For a fee Newton County bills and collects all the property taxes of the Town. Town property tax revenues are recognized when collected. The millage rate for the Town for January through December, 2010 was 35.00 mills.

The taxes were distributed to funds in accordance with prescribed tax levies. A tax sale was held for uncollected taxes. Remaining uncollected taxes were not accrued.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Ad valorem tax collections were within the limitations of Section 27-39-320 to 27-39-323 as follows:

\$ 204,760	Base 2008-2009	\$ 194,711	Taxes collected
			2009-2010
<u>20,476</u>	10% Increase	<u>17,827</u>	Homestead Exemption
			Reimbursements
		212,538	Total Collections
		<u>12,698</u>	Under Limitations
<u>\$ 225,236</u>	Total	<u>\$ 225,236</u>	Total

J. Economic Dependency

Two heavy water users of the Water and Sewer Enterprise Fund accounted for 26% of gross revenue.

K. Budgetary and Budgetary Accounting

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

1. Prior to September 1, the Mayor submits to the Board of Aldermen 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. During September, the budget must be published in a newspaper published in the town (or the county if none is published by the town).
3. Prior to the adoption of the budget, at least one public hearing is held by the Board of Aldermen to provide the general public with an opportunity to comment on the taxing and spending plan incorporated in the proposed budget. The public hearing must be held at least one week prior to the adoption of the budget with advance notice and held outside normal working hours.
4. Prior to September 15, the budget is legally enacted through passage of an ordinance.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

5. Routine budget revisions may be made by the Board as often as necessary. However, when a department's total budget has been revised up or down by ten percent (10%) or more, public notice must be given of the change. Also, during the first three months of office, while operating under the prior Board's budget, the new Board is limited to one revision if a deficit is evident.
6. It is the Town's policy for the Board to approve all budget transfers between departments and/or funds.
7. Formal budgetary integration is employed as a management control device during the year for the various funds. Budgeting data presented is as originally adopted or amended by the Board of Aldermen.
8. Budgets for the various funds are not adopted on a basis consistent with generally accepted accounting principles (GAAP) but rather on a cash basis as required by State statutes.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Comparative Data

Comparative data have not been presented in all statements because their inclusion would make statements unduly complex and difficult to understand.

Note 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the Town's deposits with financial institutions was \$529,778.

Note 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS – Continued

Investments

Investments made by the Town that are included on the statement of activities and net assets are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the categories described below:

Category 1 - Insured or registered for which the securities are held by the Town or its agent in the Town's name.

Category 2 – Uninsured and unregistered for which the securities are held by the broker or dealer's trust department or agent in the Town's name.

Category 3 – Uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Town's name.

<u>Investment Type</u>	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3 -</u>		
Certificates of Deposit	\$ <u>36,145</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>36,145</u>	\$ <u>36,145</u>

Note 3. DEFINED BENEFIT 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, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 601 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members were required to contribute a percentage of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The current year employee rates were 7.25% through June 30, and 9% from July 1 forward. The current employer's rate is 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town's contributions to PERS for the fiscal year ending September 30, 2010, was \$40,777, which equaled the required contributions for the year.

Note 4. 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.

Except as described below, the Town carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool:

The Town participates in the Mississippi Municipal Liability Plan (MMLD), an insurance-purchasing pool. The Town, along with other municipalities as a group, purchased insurance to insure against losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Settled claims resulting from these insured risks have not exceeded the Town's insurance coverage since it joined the pool.

The Town is a member of the Mississippi Municipal Workers Compensation Group (MMWCG). The group is a risk-sharing pool, frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the Town's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member.

The Town's agreement with the two entities provides that the entities will be self-sustaining through premiums and will provide \$500,000 per occurrence coverage for lost liability under automobile and general liability and \$1,000,000 statutory workers' compensation protection.

Note 5. CAPITAL LEASES

In January, 2008, the Town entered into a lease agreement for one piece of equipment costing \$76,853. The lease is for five years, expiring March, 2013. The Town pays \$1,021.21 per month for 60 months with a final payment of \$27,400.

Minimum future lease payments under capital leases at September 30, 2010, for each of the next three years and in the aggregate are:

<u>Year Ended September 30:</u>	<u>Amount</u>
2011	\$ 12,255
2012	12,255
2013	<u>32,506</u>
	<u>\$ 57,016</u>

Note 6. Subsequent Events

- a) The Town has been approved by the Mississippi Development Authority to receive a capital loan to resurface Country Club Road at a cost of approximately \$340,000.
- b) The Town is in the process of receiving bids on a general obligation improvement note to resurface Simkin Road at a cost of approximately \$138,000.
- c) The Town has applied for a Community Development Block Grant for sewer expansion. The cost is estimated to be \$500,000.

Note 7. COMMITMENTS AND CONTINGENCIES

Grant Audit

The Town receives Federal grants for specific purposes that are subject to review and audit by Federal agencies. Such audits could result in a request for reimbursement by the Federal Government for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Town management, such disallowance, if any, will not be significant.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF DECATUR, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Budget Amounts</u>		<u>Actual (Cash Basis)</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
General property taxes	\$ 215,000	\$ 215,000	\$ 195,631	\$ (19,369)
Road and bridge taxes	20,000	20,000	23,650	3,650
Licenses and permits	2,100	2,100	1,928	(172)
Franchise taxes on utilities	110,000	110,000	106,732	(3,268)
State shared revenues	180,000	180,000	164,167	(15,833)
Charges for services	85,500	85,500	78,187	(7,313)
Fines and forfeits	118,000	118,000	115,846	(2,154)
Interest income	3,500	3,500	849	(2,651)
Other income	20,000	20,000	17,193	(2,807)
Total Revenues	<u>754,100</u>	<u>754,100</u>	<u>704,183</u>	<u>(49,917)</u>
Disbursements:				
General Government	388,000	388,000	321,270	(66,730)
Public safety	298,000	298,000	261,021	(36,979)
Culture and recreation	-	-	1,750	1,750
Streets and sanitation	144,000	144,000	99,943	(44,057)
Capital outlay	46,000	46,000	50,551	4,551
Total Disbursements	<u>876,000</u>	<u>876,000</u>	<u>734,535</u>	<u>(141,465)</u>
Net Change in Cash Balance	(121,900)	(121,900)	(30,352)	\$ <u>91,548</u>
Cash Balance, October 1, 2009	<u>309,718</u>	<u>309,718</u>	<u>309,718</u>	
Cash Balance, September 30, 2010	<u>\$ 187,818</u>	<u>\$ 187,818</u>	<u>\$ 279,366</u>	

TOWN OF DECATUR, MISSISSIPPI

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

Note A - Budgetary Information

Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the Town, using historical and anticipated fiscal data, prepares an original budget for the general fund for said fiscal year. The completed budget for the fiscal year includes 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 budgetary estimates will not be met, it may make revisions to the budget.

The Town's budget is prepared on the cash basis of accounting. All appropriations lapse at year-end, and there are no encumbrances to the budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

Note B – Basis of Presentation

The Budgetary Comparison Schedule – Budget and Actual presents the original adopted budget, the final adopted budget, actual amounts on a budgetary basis and variance between the final budget and the actual amounts. The schedule is presented for the General Fund.

Note C – Budget Reconciliation

As discussed in Note 1, the financial statements are prepared on the basis of cash receipts and disbursements which is the same as the basis used for budget preparation.

SUPPLEMENTAL INFORMATION

TOWN OF DECATUR, MISSISSIPPI
SCHEDULE OF INVESTMENTS - ALL FUNDS
September 30, 2010

<u>Ownership</u>	<u>Type of Investment</u>	<u>Interest Rate</u>	<u>Acquisition Date</u>	<u>Maturity Date</u>	<u>Other Information</u>	<u>Investment Cost/Value</u>
General Fund	Certificate of Deposit	1.50%	10/12/2009	24 Months	Citizens Bank	<u>\$ 36,145</u>
TOTAL INVESTMENTS						<u><u>\$ 36,145</u></u>

TOWN OF DECATUR, MISSISSIPPI
UNAUDITED SCHEDULE OF CAPITAL ASSETS
For the year ended September 30, 2010

	<u>Balance</u> 9/30/2009	<u>Additions</u>	<u>Retirements</u>	<u>Balance,</u> 9/30/2010
Governmental Activities:				
Land	\$ 44,463	\$ 10,489	\$ -	\$ 54,952
Buildings	251,907	-	-	251,907
Machinery and equipment	194,810	101,149	9,500	286,459
Infrastructure	<u>25,160</u>	<u>46,499</u>	<u>-</u>	<u>71,659</u>
Total Governmental activities capital assets	<u>516,340</u>	<u>158,137</u>	<u>9,500</u>	<u>664,977</u>
Proprietary Activities :				
Water plant	2,207,193	701,938	-	2,909,131
Sewer plant	837,134	793,271	-	1,630,405
Equipment	<u>282,339</u>	<u>8,800</u>	<u>-</u>	<u>291,139</u>
Total Proprietary-type capital assets	<u>3,326,666</u>	<u>1,504,009</u>	<u>-</u>	<u>4,830,675</u>
Total Capital Assets	<u>\$ 3,843,006</u>	<u>\$ 1,662,146</u>	<u>\$ 9,500</u>	<u>\$ 5,495,652</u>

**Town of Decatur, Mississippi
Schedule of Long-Term Debt
Year Ended September 30, 2010**

<u>Definition and Purpose</u>	<u>Balance Outstanding 09/30/09</u>	<u>Transactions During Fiscal Ye</u>		<u>Balance Outstanding 09/30/10</u>
		<u>Issued</u>	<u>Redeemed</u>	
Revenue Bonds:				
2002 Combined Water and Sewer	\$ 506,319	\$ -	\$ 9,246	\$ 497,074
Total Revenue Bonds	<u>506,319</u>	<u>-</u>	<u>9,246</u>	<u>497,074</u>
Other Long-Term Debt:				
Rural Development	44,344	-	3,865	40,479
Total Other Long-Term Debt	<u>44,344</u>	<u>-</u>	<u>3,865</u>	<u>40,479</u>
Capital Lease:				
Equipment Lease	62,319	-	9,712	52,607
Total Lease Obligation	<u>62,319</u>	<u>-</u>	<u>9,712</u>	<u>52,607</u>
Total	<u>\$ 612,982</u>	<u>\$ -</u>	<u>\$ 22,823</u>	<u>\$ 590,160</u>

Town of Decatur, Mississippi
Schedule of Surety Bonds for Municipal Officials
Year Ended September 30, 2010

Name	Position	Surety	Amount
Randy Rushing	Mayor	Harthcock Insurance and Realty	\$ 50,000
Jinya Lea Clarke	Clerk	Harthcock Insurance and Realty	\$ 50,000
	Tax Collector	Harthcock Insurance and Realty	\$ 5,000
	Water Clerk (FHA)	Harthcock Insurance and Realty	\$ 60,000
Pam Joyner	Deputy Clerk	Harthcock Insurance and Realty	\$ 10,000
Joedy Pennington	Police Chief	Harthcock Insurance and Realty	\$ 50,000
Don Evans, II	Policeman	Harthcock Insurance and Realty	\$ 25,000
Joseph Hathorn	Policeman	Harthcock Insurance and Realty	\$ 25,000
Josh Walker	Policeman	Harthcock Insurance and Realty	\$ 25,000
Leo Winford	Policeman	Harthcock Insurance and Realty	\$ 25,000
Jeff Clayton	Policeman	Harthcock Insurance and Realty	\$ 25,000
Justin Gressett	Policeman	Harthcock Insurance and Realty	\$ 25,000
Dan Hurst	Policeman	Harthcock Insurance and Realty	\$ 25,000
Pete Pierman	Policeman	Harthcock Insurance and Realty	\$ 25,000
Jeremy Pinson	Policeman	Harthcock Insurance and Realty	\$ 25,000
Caleb Page	Policeman	Harthcock Insurance and Realty	\$ 25,000
	Aldermen	Clyde C. Scott Insurance Agency	\$ 15,000

SINGLE AUDIT SECTION

TOWN OF DECATUR, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
September 30, 2010

<u>Federal Agency/Pass-through Entity/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Entity Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency Passed-through MS Dept. of Environmental Quality American Recovery and Reinvestment Act Sewer System Improvements	66.458	ARRA C280892-01-2-ARSR	\$ <u>828,902</u>
Total U.S. Environmental Protection Agency			<u>828,902</u>
U.S. Department of Economic & Community Development Passed-through MS Dept. of Economic & Community Development Community Development Block Grant Hurricane Katrina - Drainage Improvements	14.228	R-110-163-01-GZ	584,405
U.S. Department of Economic & Community Development Passed-through MS Dept. of Economic & Community Development Community Development Block Grant Street Improvements	14.228	1102-09-163-PF-01	<u>46,498</u>
Total U.S. Department of Economic & Community Development			<u>630,903</u>
Total Expenditures of Federal Awards			<u>\$ 1,459,805</u>

This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable to the financial statements.

TOWN OF DECATUR, MISSISSIPPI

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010**

Note A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the Federal grant activity of the Town of Decatur, Mississippi under programs of the Federal government for the year ended September 30, 2010. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town of Decatur, it is not intended to and does not present the financial position or changes in net assets of the Town of Decatur, Mississippi.

Note B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

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PUBLIC ACCOUNTANTS

**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 Aldermen
Town of Decatur, Mississippi

We have audited the Statement of Cash Receipts and Disbursements, of the governmental activities, including the business type activities, each major fund and the aggregate remaining fund information of the Town of Decatur, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the Town of Decatur, Mississippi's basic financial statements and have issued our report thereon dated June 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Decatur, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Decatur's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Decatur, Mississippi'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (Findings 2010-1.)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (Findings 2010-1.)

Compliance and Other Matters

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

We note certain other matters that we reported to management of Town of Decatur, Mississippi, in a separate letter dated June 29, 2010.

Town of Decatur, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Town of Decatur, Mississippi's response and, accordingly, we express no opinion on it.

This report is intended for the information of the management, Mayor and Board of Aldermen, others within the entity, 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.

Tony Chance & Company
Forest, Mississippi
June 29, 2011

A handwritten signature in cursive script, appearing to read "Tony Chance", written over a horizontal line.

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

Honorable Mayor and Board of Aldermen
Town of Decatur, Mississippi

Compliance

We have audited the Town of Decatur, Mississippi's, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Decatur, Mississippi's major federal programs for the year ended September 30, 2010. The Town of Decatur, Mississippi'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 Town of Decatur, Mississippi's management. Our responsibility is to express an opinion on Town of Decatur, Mississippi'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 Town of Decatur, Mississippi'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 Town of Decatur, Mississippi's compliance with those requirements.

In our opinion, Town of Decatur, Mississippi, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of Town of Decatur, Mississippi, 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 Town of Decatur, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Decatur, Mississippi's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non compliance with a type of compliance requirement of a federal program on a timely basis a material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a material weakness. (Findings 2010-1.)

Mayor and Board of Aldermen
Town of Decatur, Mississippi
Page 2

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (Findings 2010-1.)

Town of Decatur, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Town of Decatur, Mississippi's responses and, accordingly, we express no opinion on the responses.

This report is intended for the information and use of management, Mayor and Board of Aldermen and others within the entity, 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.

Tony Chance and Company
Forest, Mississippi
June 29, 2011

A handwritten signature in black ink, appearing to read 'Tony Chance', with a long horizontal flourish extending to the right.

TOWN OF DECATUR, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2010

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Town of Decatur, Mississippi.
2. One significant deficiency in internal control were disclosed during the audit of the financial statements and are reported in the report on internal control over financial reporting and on compliance and other matters based on the audit of financial statements performed in accordance with *Governmental Auditing Standards*. This condition is also reported as a material weakness.
3. No instances of non-compliance material to the financial statements of Town of Decatur, Mississippi were disclosed during the audit.
4. No reportable conditions related to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for Town of Decatur, Mississippi expresses an unqualified opinion on all major federal programs.
6. The audit did not disclose any findings which are required to be reported under Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:
 - U. S. Environmental Protection Agency – American Recovery and Reinvestment Act – Sewer System Improvements ARRA #C280892-01-2-ARSR
 - U. S. Department of Economic and Community Development – Hurricane Katrina Drainage Improvements - #R-110-163-01-GZ
8. The threshold used for distinguishing between Type A and Type B programs was \$300,000.

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS

- The Town is responsible for establishing and maintaining internal controls and for the fair presentation in the financial statements of financial position, results of activities, and cash flows, including the notes to financial statements, in conformity with U. S. generally accepted accounting principles.

As part of the audit, the Town requested us to prepare the financial statements, including the related notes to financial statements. The clerk reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, the Town did not perform a detailed review of the financial statements. The absence of this control procedure is considered a significant deficiency and a material weakness because the potential exists that a material misstatement of the financial statements could occur.

Town of Decatur's Response

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. The Town is responsible for making decisions concerning costs and the related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

This communication is intended solely for the information and use of the Mayor and Board of Aldermen of the Town of Decatur, Mississippi, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

TONY CHANCE AND COMPANY

STATE COMPLIANCE SECTION

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

Honorable Mayor and Board of Aldermen
Town of Decatur, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information off the Town of Decatur, Mississippi as of and for the year ended September 30, 2010, which collectively comprise the Town of Decatur, Mississippi's basic financial statements and have issued our report dated June 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 immaterial findings and recommendations and your responses are as follows:

1. Finding

During our review of the Town's fiscal year 2010 budget, we noted that the Town's budgetary process did not comply with section 21-35-5 Miss. Code Ann. (1972). The Town did not publish a notice of public hearing for the fiscal year 2010 budget.

Recommendation

The Town should ensure that a notice of public hearing be published to provide the general public with an opportunity to comment on the taxing and spending plan incorporated in the proposed budget.

Town's Response

We concur with the finding. The Town will ensure that a notice of public hearing be published in a timely manner.

2. Finding

The comparison of actual activity to budgeted amounts in the Budgetary Comparison Schedule for the General Fund revealed the Town overspent budgeted amounts for the Culture and Recreation Program by \$1,750 (Section 21-35-15, Miss. Code Ann, 1972).

Recommendation

The Town should amend it's budget prior to exceeding the budget limitation. Revisions greater than 10% should be published as with the original budget.

Town's Response

We concur with the finding. The Town will ensure that all expenditures to exceed the current budget will be formally amended.

The Office of the State Auditor or a public accounting firm will review, on a 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 of Decatur, Mississippi'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.

Tony Chance & Company
Forest, Mississippi
June 29, 2011



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June 29, 2011

Honorable Mayor and Board of Aldermen
Town of Decatur
Decatur, Mississippi

In planning and performing our audit of the financial statements of Town of Decatur, Mississippi, as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Forest, Mississippi's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and also a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial

statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the Town of Decatur's internal control to be a material weakness:

The Town is responsible for establishing and maintaining internal controls which include the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U. S. generally accepted accounting principles.

In the current year, as well as the prior year, we note that as part of the audit, the Town requested us to prepare the financial statements, including the related notes to financial statements. The Mayor and Town Clerk reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, the Town did not perform a detailed review of the financial statements. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement could occur.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the above stated deficiency in Town of Decatur's internal control to be a significant deficiency, as well.

This communication is intended solely for the information and use of the Mayor and Board of Aldermen of the Town of Decatur, Mississippi, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Tony Chance", written in a cursive style.

TONY CHANCE AND COMPANY

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June 29, 2011

To the Honorable Mayor and Board of Aldermen
Town of Decatur
Decatur, Mississippi

We have audited the financial statements of the Town of Decatur, Mississippi for the year ended September 30, 2010, and have issued our report thereon dated June 29, 2011. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2011, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatement may exist and not be detected by us.

As part of our audit, we considered the internal controls of the Town. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2010. We noted no transactions entered into by the Town during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

To the Honorable Mayor and Board of Aldermen
Town of Decatur
Decatur, Mississippi
June 29, 2011

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing matter that could be significant to the financial statements or auditors' report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representation from management that is included in the management representation letter dated June 29, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Honorable Mayor and Board of Aldermen
Town of Decatur
Decatur, Mississippi
July 29, 2011

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended for the sole use of the Mayor, Board of Aldermen and management of Town of Decatur, Mississippi and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Tony Chance", written over a horizontal line.

Tony Chance and Company, CPA's