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WATER VALLEY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2008

Presented by:
Dribben & Associates, Ltd.
Albert F. Dribben, CPA
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McComb, MS 39649-1411

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

WATER VALLEY SCHOOL DISTRICT

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

April 9, 2009

Superintendent and School Board
Water Valley School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Water Valley School District as of and for the year ended June 30, 2008, which collectively comprise the Water Valley School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water Valley School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Water Valley School District, as of June 30, 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 accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2009, on our consideration of the Water Valley School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 11 through 16 and the Budgetary Comparison Schedule and corresponding notes on pages 43 through 45 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.

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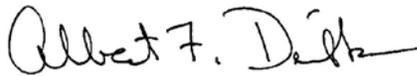
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Valley School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented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

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink that reads "Albert F. Dribben". The signature is written in a cursive style with a long horizontal flourish at the end.

Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

WATER VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

WATER VALLEY SCHOOL DISTRICT

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Water Valley School District
SAMMY HIGDON, SUPERINTENDENT

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

The discussion and analysis of the Water Valley School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$189,807, which represents a 14% decrease from fiscal year 2007. This decrease in net assets is a result of the deficiency of program revenues and general revenues over the expenses of governmental activities during the fiscal year.
- General revenues accounted for \$8,079,383 in revenue, or 81% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,865,038, or 19% of total revenues.
- The District had \$10,134,228 in expenses; only \$1,865,038 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$8,079,383 and beginning net assets were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,684,662 in revenues and \$7,965,070 in expenditures. The net change in fund balance for the General Fund was a decrease of \$280,465 from the previous fiscal year.
- Capital assets, net of accumulated depreciation, decreased by \$149,844 due primarily to the current year depreciation of capital assets.
- Long-term debt decreased by \$226,379 due primarily to principal payments made during the fiscal year on existing long-term debt.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, 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 government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional and interest and other expenses on long-term liabilities.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133, a schedule of instructional, administrative and other expenditures for governmental funds, and statements of revenues, expenditures and changes in fund balances for the general fund and for all governmental funds for the last four years are also included in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,185,995 as of June 30, 2008.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$1,175,328 of the District's net assets reflects its investment in capital assets (e.g., land, buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$296,337 of the District's net assets reflects its restricted net assets. This portion of the net assets is restricted and expendable for school based activities, debt service and unemployment benefits. The unrestricted portion of the District's net assets is a negative amount of \$285,670. This negative amount is a result of the negative fund balance of the General Fund at fiscal year end and the non-capital related debt outstanding at year end.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007.

	Net Assets		Percentage
	June 30, 2008	June 30, 2007	Change
Current assets	\$ 272,384	\$ 314,810	(13.0) %
Other assets	94,505	85,102	11.0 %
Capital assets, net	<u>3,990,328</u>	<u>4,140,172</u>	(3.6) %
Total assets	<u>4,357,217</u>	<u>4,540,084</u>	(4.0) %
Current liabilities	287,628	54,309	429.6 %
Long-term debt outstanding	<u>2,883,594</u>	<u>3,109,973</u>	(7.3) %
Total liabilities	<u>3,171,222</u>	<u>3,164,282</u>	0.2 %
Net assets:			
Invested in capital assets, net of related debt	1,175,328	1,090,172	7.8 %
Restricted	296,337	282,214	5.0 %
Unrestricted	<u>(285,670)</u>	<u>3,416</u>	(8462.7) %
Total net assets	<u>\$ 1,185,995</u>	<u>1,375,802</u>	(13.8) %

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

- Current assets decreased from the previous fiscal year due primarily to a decrease in cash and cash equivalents.
- Other assets increased from the previous fiscal year due primarily to an increase in cash with fiscal agent in the programs. Therefore, this amount is reported as other (restricted) assets in the government-wide financial statements.
 - Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
 - Unrestricted net assets decreased from the previous fiscal year due primarily to the deficiency of revenues over expenditures in the General Fund during the fiscal year resulting in a negative fund balance in the General Fund.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$9,944,421. The total cost of all programs and services was \$10,134,228. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007.

	<u>Change in Net Assets</u>		<u>Percentage</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 244,544	\$ 261,692	(6.6) %
Operating grants and contributions	1,620,494	1,706,871	(5.1) %
General revenues:			
Property taxes	1,248,515	1,074,714	16.2 %
Grants and contributions not restricted	6,779,174	6,435,233	5.3 %
Other	<u>51,694</u>	<u>67,601</u>	(23.5) %
Total revenues	<u>9,944,421</u>	<u>9,546,111</u>	4.2 %
Expenses:			
Instruction	6,741,951	6,548,697	3.0 %
Support services	2,745,449	2,689,134	2.1 %
Non-instructional	508,915	547,522	(7.1) %
Interest and other expenses on long-term liabilities	<u>137,913</u>	<u>149,691</u>	(7.9) %
Total expenses	<u>10,134,228</u>	<u>9,935,044</u>	2.0 %
 Increase (Decrease) in net assets	 (189,807)	 (388,933)	 (51.2) %
 Net Assets, July 1	 1,375,802	 1,749,413	 (21.4) %
Prior Period Adjustments	<u>0</u>	<u>15,322</u>	(100.0) %
Net Assets, Restated, July 1	<u>1,375,802</u>	<u>1,764,735</u>	(22.0) %
 Net Assets, June 30	 <u>\$ 1,185,995</u>	 <u>\$ 1,375,802</u>	 (13.8) %

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

- Program revenues decreased from the previous fiscal year due primarily to a decrease in operating grants and contributions.
- General revenues increased from the previous fiscal year due primarily to an increase in taxes and unrestricted state grants and contributions.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007, the cost of four major District functional activities: instruction, support services, non-instructional and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>2008</u>		<u>2007</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 6,741,951	\$ (5,746,868)	\$ 6,548,697	\$ (5,469,740)
Support services	2,745,449	(2,347,314)	2,689,134	(2,310,968)
Non-instructional	508,915	(37,095)	547,522	(36,082)
Interest and other expenses on long-term liabilities	<u>137,913</u>	<u>(137,913)</u>	<u>149,691</u>	<u>(149,691)</u>
Total expenses	<u>\$ 10,134,228</u>	<u>\$ (8,269,190)</u>	<u>\$ 9,935,044</u>	<u>\$ (7,966,481)</u>

- The net cost of governmental activities for fiscal year 2008 in the amount of \$8,269,190 was financed by general revenue, which is made up of primarily property taxes of \$1,248,515 and state revenue of \$6,712,409, and beginning net assets.
- Investment earnings accounted for \$28,500 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2008, its governmental funds reported a combined fund balance of \$118,670. The net change in fund balance for the fiscal year was a decrease of \$270,751 due primarily to the deficiency of revenues over expenditures in the General Fund. A portion of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The amounts reported as unreserved, undesignated in the General Fund and Special Revenue Funds are negative. This is a result of the deficiency of revenues over expenditures during the fiscal year in the General Fund and various Special Revenues Funds. The remaining portion of the fund balance is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, unemployment benefits and debt service purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was a decrease of \$280,465 resulting from the deficiency of revenues over expenditures during the fiscal year. The net change in fund balance for the 3-Mill Retirement Note Fund for the fiscal year was an increase of \$11,978. The net change in fund balance for the WVSD GO Bond Retirement Fund for the fiscal year was an increase of \$12,350. The net change in fund balance for the MAEP Retirement Fund for the fiscal year was an increase of \$9,403. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$24,017.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. However, the budget revisions were routine in nature and were not considered significant when compared to overall revenues and expenditures.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major special revenue funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets, before depreciation, were \$6,794,514, including land, buildings, mobile equipment and furniture and equipment. Total depreciation expense for the year was \$149,766. Total accumulated depreciation as of June 30, 2008 was \$2,804,186, resulting in total net capital assets of \$3,990,328.

	<u>Capital Assets, Net of Depreciation</u>		Percentage <u>Change</u>
	<u>2008</u>	<u>2007</u>	
Land	\$ 34,000	\$ 34,000	0.0 %
Buildings	3,736,802	3,839,842	(2.7) %
Mobile equipment	195,143	230,925	(15.5) %
Furniture and equipment	<u>24,383</u>	<u>35,405</u>	(31.1) %
Total	<u>\$ 3,990,328</u>	<u>\$ 4,140,172</u>	(3.6) %

Debt Administration. At June 30, 2008, the District had \$2,883,594 in general and limited obligation bonds and other long-term debt outstanding, of which \$246,500 is due within one year. During the fiscal year, the District made principal payments in the amount of \$235,000 on existing long-term debt.

	<u>Outstanding Debt</u>		Percentage <u>Change</u>
	<u>2008</u>	<u>2007</u>	
General obligation bonds payable	\$ 1,130,000	\$ 1,220,000	(7.4) %
Limited obligation bonds payable	1,635,000	1,750,000	(6.6) %
Three mill notes payable	50,000	80,000	(37.5) %
Compensated absences payable	<u>68,594</u>	<u>59,973</u>	14.4 %
Total	<u>\$ 2,883,594</u>	<u>\$ 3,109,973</u>	(7.3) %

CURRENT ISSUES

The fund balance of the General Fund decreased from the previous fiscal year resulting in a negative fund balance of \$217,076. The fund balance of the General Fund has continued to decline over the past several years. Management of the School District has expressed some concern for the financial future of the District. Some of the most critical concerns are the increase in the employers match to the Public Employee's Retirement System and the School District having to assume responsibility for a portion of the previously fully funded employee health insurance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

WATER VALLEY SCHOOL DISTRICT

FINANCIAL STATEMENTS

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 19,938
Due from other governments	245,340
Inventories	7,106
Restricted assets	94,505
Capital assets, non-depreciable:	
Land	34,000
Capital assets, net of accumulated depreciation:	
Buildings	3,736,802
Mobile equipment	195,143
Furniture and equipment	24,383
Total Assets	<u>\$ 4,357,217</u>
Liabilities	
Accounts payable and accrued liabilities	4,089
Bank overdrafts	244,130
Interest payable on long-term liabilities	39,409
Long-term liabilities, due within one year	
Capital related liabilities	245,000
Non-capital related liabilities	1,500
Long-term liabilities, due beyond one year	
Capital related liabilities	2,570,000
Non-capital related liabilities	67,094
Total Liabilities	<u>\$ 3,171,222</u>
Net Assets	
Investment in capital assets, net of related debt	1,175,328
Restricted net assets:	
Expendable:	
School - based activities	6,641
Debt service	265,801
Unemployment benefits	23,895
Unrestricted	<u>(285,670)</u>
Total Net Assets	<u>\$ 1,185,995</u>

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

WATER VALLEY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 6,741,951	173,911	821,172	(5,746,868)
Support services	2,745,449	-	398,135	(2,347,314)
Non-instructional	508,915	70,633	401,187	(37,095)
Interest and other expenses on long-term liabilities	137,913	-	-	(137,913)
 Total governmental activities	 \$ 10,134,228	 244,544	 1,620,494	 (8,269,190)
		General Revenues:		
		Taxes:		
			General purpose levies	1,088,585
			Debt purpose levies	159,930
		Unrestricted grants and contributions:		
			State	6,712,409
			Federal	66,765
			Unrestricted investment earnings	28,500
			Other	23,194
			Total General Revenues	<u>8,079,383</u>
			Change in Net Assets	<u>(189,807)</u>
			Net Assets - Beginning	1,375,802
			Net Assets - Ending	<u>\$ 1,185,995</u>

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

WATER VALLEY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2008

Exhibit C

	Major Funds						Total Governmental Funds
	General Fund	Title I-A Basic Fund	3-Mill Retirement Note Fund	WVSD GO Bond Retirement Fund	MAEP Retirement Fund	Other Governmental Funds	
ASSETS							
Cash and cash equivalents	\$ -	-	1,499	3,677	-	14,762	19,938
Cash with fiscal agents	-	-	-	-	94,505	-	94,505
Due from other governments	89,183	31,720	980	2,467	100,082	20,908	245,340
Due from other funds	59,025	-	40,000	62,000	-	17,000	178,025
Inventories	-	-	-	-	-	7,106	7,106
Total Assets	<u>148,208</u>	<u>31,720</u>	<u>42,479</u>	<u>68,144</u>	<u>194,587</u>	<u>59,776</u>	<u>544,914</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	2,154	-	-	-	-	1,935	4,089
Bank overdrafts	244,130	-	-	-	-	-	244,130
Due to other funds	119,000	31,720	-	-	-	27,305	178,025
Total Liabilities	<u>365,284</u>	<u>31,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,240</u>	<u>426,244</u>
Fund Balances:							
Reserved for:							
Inventory	-	-	-	-	-	7,106	7,106
Unemployment benefits	-	-	-	-	-	23,895	23,895
Debt service purposes	-	-	42,479	68,144	194,587	-	305,210
Unreserved:							
Undesignated, reported in:							
General fund	(217,076)	-	-	-	-	-	(217,076)
Special revenue funds	-	-	-	-	-	(465)	(465)
Total Fund Balances	<u>(217,076)</u>	<u>-</u>	<u>42,479</u>	<u>68,144</u>	<u>194,587</u>	<u>30,536</u>	<u>118,670</u>
Total Liabilities and Fund Balances	<u>\$ 148,208</u>	<u>31,720</u>	<u>42,479</u>	<u>68,144</u>	<u>194,587</u>	<u>59,776</u>	<u>544,914</u>

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

WATER VALLEY SCHOOL DISTRICT
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2008

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 118,670
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,804,186.	3,990,328
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,883,594)
3. Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Net Assets recognizes interest as it accrues.	<u>(39,409)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 1,185,995</u></u>

WATER VALLEY SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2008

	Major Funds						Total Governmental Funds
	General Fund	Title I-A Basic Fund	3-Mill Retirement Fund	WVSD GO Bond Retirement Fund	MAEP Retirement Fund	Other Governmental Funds	
Revenues:							
Local sources	\$ 1,309,769	-	45,890	117,180	1,618	70,296	1,544,753
State sources	6,308,129	-	-	-	200,164	532,353	7,040,646
Federal sources	66,764	355,469	-	-	-	936,789	1,359,022
Total Revenues	<u>7,684,662</u>	<u>355,469</u>	<u>45,890</u>	<u>117,180</u>	<u>201,782</u>	<u>1,539,438</u>	<u>9,944,421</u>
Expenditures:							
Instruction	5,620,368	222,842	-	-	-	799,479	6,642,689
Support services	2,320,261	132,627	-	-	-	238,108	2,690,996
Noninstructional services	21,666	-	-	-	-	481,782	503,448
Debt service:							
Principal	-	-	30,000	46,574	115,000	43,426	235,000
Interest	-	-	3,912	58,256	76,829	-	138,997
Other	2,775	-	-	-	550	-	3,325
Total Expenditures	<u>7,965,070</u>	<u>355,469</u>	<u>33,912</u>	<u>104,830</u>	<u>192,379</u>	<u>1,562,795</u>	<u>10,214,455</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(280,408)</u>	<u>-</u>	<u>11,978</u>	<u>12,350</u>	<u>9,403</u>	<u>(23,357)</u>	<u>(270,034)</u>
Other Financing Sources (Uses):							
Operating transfers in		-	-	-	-	-	-
Operating transfers out		-	-	-	-	-	-
Total Other Financing Sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(280,408)</u>	<u>-</u>	<u>11,978</u>	<u>12,350</u>	<u>9,403</u>	<u>(23,357)</u>	<u>(270,034)</u>
Fund Balances:							
July 1, 2007, as previously reported	63,389	-	30,501	55,794	185,184	54,553	389,421
Prior period adjustments	(57)	-	-	-	-	57	-
July 1, 2007, as restated	<u>63,332</u>	<u>-</u>	<u>30,501</u>	<u>55,794</u>	<u>185,184</u>	<u>54,610</u>	<u>389,421</u>
Increase (Decrease) in reserve for inventory	-	-	-	-	-	(717)	(717)
June 30, 2008	<u>\$ (217,076)</u>	<u>-</u>	<u>42,479</u>	<u>68,144</u>	<u>194,587</u>	<u>30,536</u>	<u>118,670</u>

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

WATER VALLEY SCHOOL DISTRICT
 Reconciliation of Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2008

Exhibit D-1

	<u>Amount</u>
Net Change in fund balances - governmental funds	\$ (270,034)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$0 and the depreciation expense amounted to \$149,766.	(149,766)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities governmental activities.	235,000
3. Governmental funds recognized interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	4,409
4. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(78)
5. Increases (decreases) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	(717)
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds.	
Compensated absences	(8,621)
Change in Net Assets of Governmental Activities	<u>\$ (189,807)</u>

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

WATER VALLEY SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 573,225</u>
Total Assets	<u><u>573,225</u></u>
Liabilities	
Accounts payable and accrued liabilities	531,817
Due to student clubs	<u>41,408</u>
Total Liabilities	<u><u>\$ 573,225</u></u>

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

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2008

Notes to Financial Statements

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board, to which each member was elected by the citizens of each defined county district.

For financial reporting purposes, Water Valley School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use either externally imposed or imposed by law through constitutional provisions or enabling legislation.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2008

3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Fund financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund – This is the school district’s primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

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

Three Mill Retirement Notes – This is a debt service fund that accounts for the three mills of ad valorem revenues that are collected to retire the district’s three mill retirement note.

Water Valley School District General Obligation (WVSD GO) Bond Retirement Fund – This is a debt service fund that accounts for the ad valorem revenues that are collected to retire the district’s general obligation bonds.

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

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

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2008

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

FIDUCIARY FUNDS

Agency Funds – Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

D. Account Classifications.

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

E. Encumbrances.

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

F. Assets, liabilities, and net assets or equity.

1. Cash and Cash equivalents and Investments

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and Payables.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments.

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

5. Restricted Assets.

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

7. **Compensated Absences.**

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

8. **Long-term liabilities.**

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2008

premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The government fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 5 for details.

9. Fund Equity.

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

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

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

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

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

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

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

(2) Cash and Cash Equivalents and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorized the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss Code Ann. (1972). This sections permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$(224,192) and \$573,225 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$(224,192). The bank balance was \$572,041.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$572,041 was exposed to custodial credit risk.

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title I-A Basic Fund	\$ 31,720
General Fund	Other governmental funds	27,305
3-Mill Retirement Note Fund	General Fund	40,000
WVSD GO Bond retirement Fund	General Fund	62,000
Other governmental funds	General Fund	17,000
		<u>\$ 178,025</u>

During the course of the school year, federal programs are paid on a reimbursement basis causing the district to borrow monies from other funds to cover expenditures at year end and not create a deficit. The above Interfund loans were made to cover year end expenditures.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

(4) Capital Assets.

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

	Balance 7/1/2007	Additions	Deletions	Balance 6/30/2008
<u>Non-depreciable capital assets:</u>				
Land	\$ 34,000			34,000
Construction in Progress				-
Total non-depreciable capital assets	<u>34,000</u>	<u>-</u>	<u>-</u>	<u>34,000</u>
<u>Depreciable capital assets:</u>				
Buildings	5,715,588			5,715,588
Building improvement				-
Improvements other				-
Mobile equipment	885,606			885,606
Furniture and equipment	167,120		(7,800)	159,320
Obligation under capital leases				-
Total depreciable capital assets	<u>6,768,314</u>	<u>-</u>	<u>(7,800)</u>	<u>6,760,514</u>
<u>Less accumulated depreciation</u>				
Buildings	(1,875,746)	(103,040)		(1,978,786)
Building improvement				-
Improvements other				-
Mobile equipment	(654,681)	(35,782)		(690,463)
Furniture and equipment	(131,715)	(10,944)	7,722	(134,937)
Obligation under capital leases				-
Total accumulated depreciation	<u>(2,662,142)</u>	<u>(149,766)</u>	<u>7,722</u>	<u>(2,804,186)</u>
Total depreciable capital assets, net	<u>4,106,172</u>	<u>(149,766)</u>	<u>(78)</u>	<u>3,956,328</u>
Governmental activities capital assets, net	<u>\$ 4,140,172</u>	<u>(149,766)</u>	<u>(78)</u>	<u>3,990,328</u>

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 93,227
Support services	52,220
Non-instructional	4,319
Total depreciation expense	\$ 149,766

(5) Long-term liabilities.

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

	Balance 7/1/2007	Additions	Retirements	Balance 6/30/2008	Amount Due within one year
A. General obligation bonds payable	\$ 1,220,000	-	(90,000)	1,130,000	95,000
B. Limited obligation bonds payable	1,750,000		(115,000)	1,635,000	120,000
C. Three mill notes payable	80,000		(30,000)	50,000	30,000
D. Compensated absences payable	59,973	8,621		68,594	1,500
Total	\$ 3,109,973	8,621	(235,000)	2,883,594	246,500

A. General obligation bonds payable.

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 1998	4.88- 6.00%	05/15/98	05/15/18	\$ 1,900,000	1,130,000
Total				\$ 1,900,000	1,130,000

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

Details of the district's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30	Principal	Interest	Total
2009	95,000	54,206	149,206
2010	100,000	49,813	149,813
2011	100,000	45,213	145,213
2012	110,000	40,513	150,513
2013	115,000	35,287	150,287
2014-2018	610,000	87,536	697,536
Total	<u>\$ 1,130,000</u>	<u>312,568</u>	<u>1,442,568</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-9-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to 3.08% of property assessments as of October 1, 2007. This debt will be retired from the Water Valley G. O. Bond Retirement and Educational Enhancement Building Funds.

B. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvements Series 1998	6.25- 4.5%	01/01/98	08/01/18	\$ 2,335,000	1,635,000
Total				<u>\$ 2,335,000</u>	<u>1,635,000</u>

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

Details of the district's June 30, 2008 limited obligation bonds indebtedness are as follows:

Year Ending June 30	Principal	Interest	Total
2009	120,000	70,895	190,895
2010	125,000	65,445	190,445
2011	130,000	59,770	189,770
2012	140,000	53,695	193,695
2013	145,000	47,210	192,210
2014-2018	830,000	129,375	959,375
2019	145,000	3,262	148,262
Total	\$ 1,635,000	429,652	2,064,652

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the Mississippi Adequate Education Retirement Fund.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill ten year notes payable	5.24%	01/03/00	01/03/10	\$ 925,000	50,000
Total				\$ 925,000	50,000

Details of the district's June 30, 2008, three mill notes payable are as follows:

Year Ending June 30	Principal	Interest	Total
2009	30,000	2,245	32,245
2010	20,000	978	20,978
Total	\$ 50,000	3,223	53,223

The debt will be retired from the Three Mill Note Retirement Fund.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2008

D. Compensated absences payable.

As more fully explained in Note 1(F)(7), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(6) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2008, was 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007 and 2006 were \$731,121, \$673,738, and \$572,782, respectively, which equaled the required contributions for each year.

(7) Deficit Fund Balance of Individual Funds

A generic fund type listing of the individual funds that have a deficit fund balance, including the amounts of the deficit, is as follows:

Individual Fund	Fund Balance
District Maintenance	\$ 218,511
Food Service Fund	2,732
Total	\$ 221,243

The deficit fund balance of the District Maintenance Fund is in violation of Section 37-61-19, Miss. Code Ann. (1972). Section 37-61-19, Miss. Code Ann. (1972), imposes personal liability on any school official who knowingly enters into any contract, incurs any liability, or makes any expenditure in excess of the resources available for the fiscal year under certain circumstances.

(8) Contingencies.

Federal Grants. – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2008

Litigation

The school is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to various proceedings. However, the school district's legal counsel believes that there are no lawsuits or threatened proceedings at the present that will have a material adverse effect on the financial condition of the school district.

(9) Subsequent Events.

In view of the school district's fund balance, the board has approved a reduction in staff.

On September 29, 2008, the board approved the establishment of a line of credit with Mechanics Bank in the amount of \$250,000 in lieu of taxes (Tax Anticipation Loan).

(10) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool.

The school district was a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 school districts and one community college and covers risks of loss arising from injuries to the school district'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. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

WATER VALLEY SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,441,228	1,288,761	1,309,769	(152,467)	21,008
State sources	6,341,810	6,303,309	6,308,129	(38,501)	4,820
Federal sources	69,510	66,764	66,764	(2,746)	-
Total Revenues	<u>7,852,548</u>	<u>7,658,834</u>	<u>7,684,662</u>	<u>(193,714)</u>	<u>25,828</u>
Expenditures:					
Instruction	5,433,747	5,620,368	5,620,368	(186,621)	-
Support services	2,312,887	2,283,870	2,320,261	29,017	(36,391)
Noninstructional services	19,000	21,666	21,666	(2,666)	-
Debt service:					
Other	-	2,775	2,775	(2,775)	-
Total Expenditures	<u>7,765,634</u>	<u>7,928,679</u>	<u>7,965,070</u>	<u>(163,045)</u>	<u>(36,391)</u>
Excess (Deficiency) of Revenues Over Expenditures	86,914	(269,845)	(280,408)	(356,759)	(10,563)
Other Financing Sources (Uses):					
Operating transfers in				-	-
Operating transfers out				-	-
Total Other Financing Sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	86,914	(269,845)	(280,408)	(356,759)	(10,563)
Fund Balances:					
July 1, 2007, as previously reported			63,389		
Prior period adj. & reclassification			<u>(57)</u>		
July 1, 2007, as restated			<u>63,332</u>		
June 30, 2008			<u>\$ (217,076)</u>		

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

Water Valley School District
 Budgetary Comparison - Title I-A Basic Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 376,212	355,469	355,469	(20,743)	-
Total Revenues	<u>376,212</u>	<u>355,469</u>	<u>355,469</u>	<u>(20,743)</u>	<u>-</u>
Expenditures:					
Instruction	235,481	222,842	222,842	12,639	-
Support services	140,731	132,627	132,627	8,104	-
Total Expenditures	<u>376,212</u>	<u>355,469</u>	<u>355,469</u>	<u>20,743</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-	-
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances			<u>-</u>		
Fund Balances:					
July 1, 2007			<u>-</u>		
June 30, 2008			<u>\$ -</u>		

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

WATER VALLEY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2008

(1) Basis of Presentation.

The Budgetary Comparison Schedule present the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15th of each year. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT
Schedule of Expenditure of Federal Awards
For the Year Ending June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 33,033
Child nutrition cluster:		
School breakfast program	10.553	127,915
National school lunch program	10.555	331,665
Total child nutrition cluster		<u>459,580</u>
Total U. S. Department of Agriculture		<u>492,613</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
Communications information and assistance and investigation of complaints	32.001	19,519
Total		<u>19,519</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	355,469
Vocational education-basic grants to states	84.048	16,904
Safe and drug-free schools and communities-state grants	84.186	10,460
Eisenhower professional development state grants	84.281	76
State grants for innovative programs	84.298	1,982
Education technology state grants	84.318	5,077
Rural education achievement program	84.358	35,618
Improving teacher quality state grants	84.367	92,025
Total		<u>517,611</u>
Special education cluster:		
Special education-grants to states	84.027	284,810
Special education-preschool grants	84.173	23,163
Total		<u>307,973</u>
Total passed-through Mississippi Department of Education		<u>825,584</u>
Total U.S. Department of Education		<u>825,584</u>
Total for All Federal Awards		<u>\$ 1,337,716</u>

NOTES TO SCHEDULE:

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

The expenditure amounts include transfers out.

The pass-through entities did not assign identifying numbers to the school district.

WATER VALLEY SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds
 For the Year Ended June 30, 2008

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 8,459,281	6,944,895	471,311	275,387	767,688
Other	1,755,174	505,384	53,467	5,863	1,190,460
Total	\$ 10,214,455	7,450,279	524,778	281,250	1,958,148
Total number of students *		1,206			
Cost per student	\$ 8,470	6,178	435	233	1,624

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction and Other Student Instructional Expenditures - includes the activities dealing with the interaction between teachers and students. Included here are the activities of teachers, teacher's aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes)

General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services - Business (2500s)

School Administration - includes expenditures for the following function :Support Services - School Administration (2400s)

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

* Includes the number of students reported on the ADA report for month 9, which is the final submission for the fiscal year.

WATER VALLEY SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

"UNAUDITED"

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Revenues:				
Local sources	\$ 1,309,769	1,186,900	1,231,738	1,270,255
State sources	6,308,129	6,111,709	5,656,686	5,197,623
Federal sources	66,764	80,812	53,302	63,255
Total Revenues	<u>7,684,662</u>	<u>7,379,421</u>	<u>6,941,726</u>	<u>6,531,133</u>
Expenditures:				
Instruction	5,620,368	5,311,883	5,036,190	4,494,438
Support services	2,320,261	2,305,156	2,219,668	2,125,550
Noninstructional services	21,666	33,448	21,018	34,047
Facilities acquisition and construction	-	-	27,927	-
Debt service:				
Other	2,775	2,780	2,951	2,761
Total Expenditures	<u>7,965,070</u>	<u>7,653,267</u>	<u>7,307,754</u>	<u>6,656,796</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(280,408)</u>	<u>(273,846)</u>	<u>(366,028)</u>	<u>(125,663)</u>
Other Financing Sources (Uses):				
Operating transfers in		-	-	2,317
Operating transfers out		(216,795)	(171,930)	(3,500)
Total Other Financing Sources and uses	<u>-</u>	<u>(216,795)</u>	<u>(171,930)</u>	<u>(1,183)</u>
Net Change in Fund Balances	<u>(280,408)</u>	<u>(490,641)</u>	<u>(537,958)</u>	<u>(126,846)</u>
Fund Balances:				
Beginning of year	63,389	554,030	1,091,988	1,218,834
Prior period adjustments	(57)	-	-	-
Beginning of year, as restated	<u>63,332</u>	<u>554,030</u>	<u>1,091,988</u>	<u>1,218,834</u>
Increase (Decrease) in reserve for inventory	-	-	-	-
End of year	<u>\$ (217,076)</u>	<u>63,389</u>	<u>554,030</u>	<u>1,091,988</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

WATER VALLEY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

"UNAUDITED"

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Revenues:				
Local sources	\$ 1,544,753	1,404,007	1,455,971	1,507,547
State sources	7,040,646	6,662,797	6,210,082	5,871,700
Federal sources	1,359,022	1,479,307	1,515,729	1,401,146
Total Revenues	<u>9,944,421</u>	<u>9,546,111</u>	<u>9,181,782</u>	<u>8,780,393</u>
Expenditures:				
Instruction	6,642,689	6,460,451	6,190,094	5,542,308
Support services	2,690,996	2,682,800	2,623,673	2,472,682
Noninstructional services	503,448	543,151	550,813	525,636
Facilities acquisition and construction	-	-	27,927	-
Debt service:				
Principal	235,000	225,000	210,000	205,000
Interest	138,997	150,618	161,407	173,158
Other	3,325	3,337	3,528	3,347
Total Expenditures	<u>10,214,455</u>	<u>10,065,357</u>	<u>9,767,442</u>	<u>8,922,131</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(270,034)</u>	<u>(519,246)</u>	<u>(585,660)</u>	<u>(141,738)</u>
Other Financing Sources (Uses):				
Operating transfers in	-	216,795	171,930	5,817
Operating transfers out	-	(216,795)	(171,930)	(5,817)
Total Other Financing Sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(270,034)</u>	<u>(519,246)</u>	<u>(585,660)</u>	<u>(141,738)</u>
Fund Balances:				
Beginning of year	389,421	897,926	1,380,795	1,521,213
Prior period adjustments	-	15,322	100,081	-
Beginning of year, as restated	<u>389,421</u>	<u>913,248</u>	<u>1,480,876</u>	<u>1,521,213</u>
Increase (Decrease) in reserve for inventory	<u>(717)</u>	<u>(4,581)</u>	<u>2,710</u>	<u>1,320</u>
End of year	<u>\$ 118,670</u>	<u>389,421</u>	<u>897,926</u>	<u>1,380,795</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

WATER VALLEY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

WATER VALLEY SCHOOL DISTRICT

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CERTIFIED PUBLIC ACCOUNTANT

AICPA/MSCPA

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

April 9, 2009

Superintendent and School Board
Water Valley School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Water Valley School District as of and for the year ended June 30, 2008, which collectively comprise Water Valley School District's basic financial statements and have issued our report thereon dated April 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Finding and Questioned Costs as Findings 2008-01 and 2008-02 to be significant deficiencies in internal control over financial reporting.

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

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Al Dribben, CPA

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

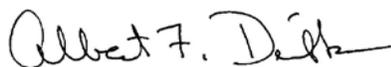
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we have reported to the management of the school district in a separate letter dated April 9, 2009, which is included in this report.

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

CERTIFIED PUBLIC ACCOUNTANT

AICPA/MSCPA

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

April 9, 2009

Superintendent and School Board
Water Valley School District

Compliance

We have audited the compliance of the Water Valley School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Water Valley School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-03.

Internal Control Over Compliance

The management of the Water Valley School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

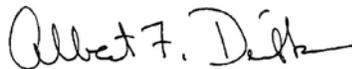
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-03 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-03 to be a material weakness.

Water Valley School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. We did not audit Water Valley School District's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the school board and management, others within the entity, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

WATER VALLEY SCHOOL DISTRICT

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

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

April 9, 2009

Superintendent and School Board
Water Valley School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Water Valley School District as of and for the year ended June 30, 2008, which collectively comprise Water Valley School District's basic financial statements and have issued our report thereon dated April 9, 2009. 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 Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$529 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirement of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

As previously reported in the prior audit report, per section 71-5-359(2)(f) of the Miss. Code Ann. (1972), each district may establish a revolving fund for payment of unemployment benefits and the balance in the fund shall be maintained at an amount not less than two percent of the covered wages. During our test of the unemployment fund balance, we determined that the balance was insufficient to cover the required two percent of wages.

Recommendation

We recommend that an additional \$19,468 be deposited in the unemployment fund to cover unemployment claims and that this fund be monitored so that an adequate balance is maintained each year.

Response

The district will maintain an adequate balance in the unemployment fund.

2. Finding

Per section 31-7-13 of the Miss. Code Ann. (1972), In connection with the purchase of noncompetitive items only available from one source, a certification of the conditions and circumstances requiring the purchase shall be filed by the governing authority with the board of the governing authority. Upon receipt of that certification, the board of the governing authority may, in writing, authorize the purchase, which authority shall be noted on the minutes of the board at the next regular meeting thereafter.

Recommendation

We recommend that the school district comply with Section 31-7-13 of the Miss. Code Ann. (1972), and obtain board authorization of sole source purchases in a timely manner

Response

The district will comply with Section 31-7-13 of the Miss. Code Ann. (1972) in regard to sole source purchases.

3. Finding

Per Section 37-6-15 of the Miss. Code Ann. (1972), before entering upon the discharge of the duties of his office, each member of the school board shall give a surety bond in the penal sum of \$50,000 with sufficient surety, to be payable, conditioned and approved in the manner provided by law. Upon our review of surety bonds, there was one board member that did not have a surety bond until two months after assuming his office.

Recommendation

We recommend that the school district comply with Section 37-6-15 of the Miss. Code Ann. (1972) and ensure that all board members have a surety bond before entering office.

Response

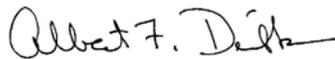
The district will ensure all board members have a surety bond before entering office.

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

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements

- | | | |
|---|---|-------------|
| 1 | Type of Auditor's report issued on the financial statements: | Unqualified |
| 2 | Material noncompliance relating to the financial statements? | No |
| 3 | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | | |
|----|--|---------------|
| 4 | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5 | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified that is not considered to be material weakness? | Yes |
| 6 | Any audit finding reported as required by Section ____.510(a) of Circular A-133? | Yes |
| 7 | Federal programs identified as major programs: | |
| | a. Special Education cluster: | |
| | Special education - grants to states | CFDA#: 84.027 |
| | Special education - preschool grants | CFDA#: 84.173 |
| | b. Title I grants to local educational agencies | CFDA#: 84.010 |
| 8 | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9 | Auditee qualified as low-risk auditee? | Yes |
| 10 | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | No |

WATER VALLEY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section 2: Financial Statement Findings:

Significant Deficiencies Not Considered to be Material Weaknesses

2008-01 Finding

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

During the test of activity and club fund revenues, we noted the following weaknesses:

Receipts from the high school did not indicate a payee's name.

This was caused by inadequate internal controls surrounding revenue collections.

Inadequate internal controls related to activity and club fund revenue collection and proper receipting could result in a loss of assets and improper revenue recognition.

We recommend that the district implement policies and procedures to insure that assets are adequately safeguarded and revenue is properly recognized and recorded.

2008-02 Finding

Management is responsible for establishing proper internal control procedures to ensure proper financial accountability.

During our test of both general and activity fund expenditures, we noted the following:

- a. One invoice was paid without receiving documentation.
- b. Payment of one invoice exceeded the purchase order amount by \$563.34.

This was caused by weak internal controls over purchasing.

Unauthorized payments of invoices and possible deficit budget or cash amounts are in violation of state law.

We recommend that policies and procedures be implemented to correct the above noted weaknesses. At a minimum, the district should implement the following procedures:

- a. Expenditures should be supported by proper documentation of receipt of goods and/or services invoices.
- b. Prices of items being requisitioned must be determined prior to submitting the requisition and before the purchase orders are issued. Only in this way can adequate cash balances and budget balances be maintained to prevent violations of state law. The public body will be liable to the vendor, in addition to the amount of the invoice, interest at a rate of one and one-half percent per month or portion thereof on the unpaid balance from the expiration of the 45-day period.

WATER VALLEY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section 3: Federal Award Findings and Questioned Costs

Significant Deficiencies Not Considered to be Material Weaknesses

Program: Child Nutrition Cluster; 10.553/10.555; U. S. Department of Agriculture; passed-through the Mississippi Department of Education

2008-03 Finding

Management is responsible for establishing proper internal controls over cash management requirements for federal program funds.

During our test of general expenditures, we noted the following:

Twenty-four invoices totaling \$5,582.15 did not have the Program Director's approval before payment. The program director was out on maternity leave and should have designated someone to approve all purchases and payments in her absence.

This was caused by internal controls not being implemented by the district to ensure compliance with the cash management requirements of this federal program.

Expenses were paid without management's assurance of meeting allowable costs criteria.

We recommend the district implement policies and procedures that will ensure compliance with the cash management requirement for federal program funds, which requires the program director to approve of all purchases and payments.

WATER VALLEY SCHOOL DISTRICT

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WATER VALLEY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

WATER VALLEY SCHOOL DISTRICT

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Jerry Holt, Asst. Supt. / Federal Program Dir.
Telephone (662) 473-1260

Water Valley School District

SAMMY HIGDON, SUPERINTENDENT

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544 Markette Street
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Dutch Stevens, Spec. Ed. Director
Telephone (662) 473-1768

June 25, 2009

Dribben & Associates, Ltd.
P.O. Box 1411
McComb, MS 39649

To Whom It May Concern:

The Water Valley School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2008:

Finding

- 08-01 All receipts of revenue will have a payee's name to ensure the safeguard of the monies received.
- 08-02 All expenditures will only be paid with proper documentation that does not exceed the requisitioned amount to ensure there is adequate cash flow.
- 08-03 The district will implement policy to ensure compliance with the cash management requirement for federal program funds, which requires the program director to approve all purchases and payments even in the event of health issues.

The above corrections will be implemented immediately. The superintendent and business manager will be responsible for the corrective action plan.

Sincerely,



Sammy Higdon
Superintendent