

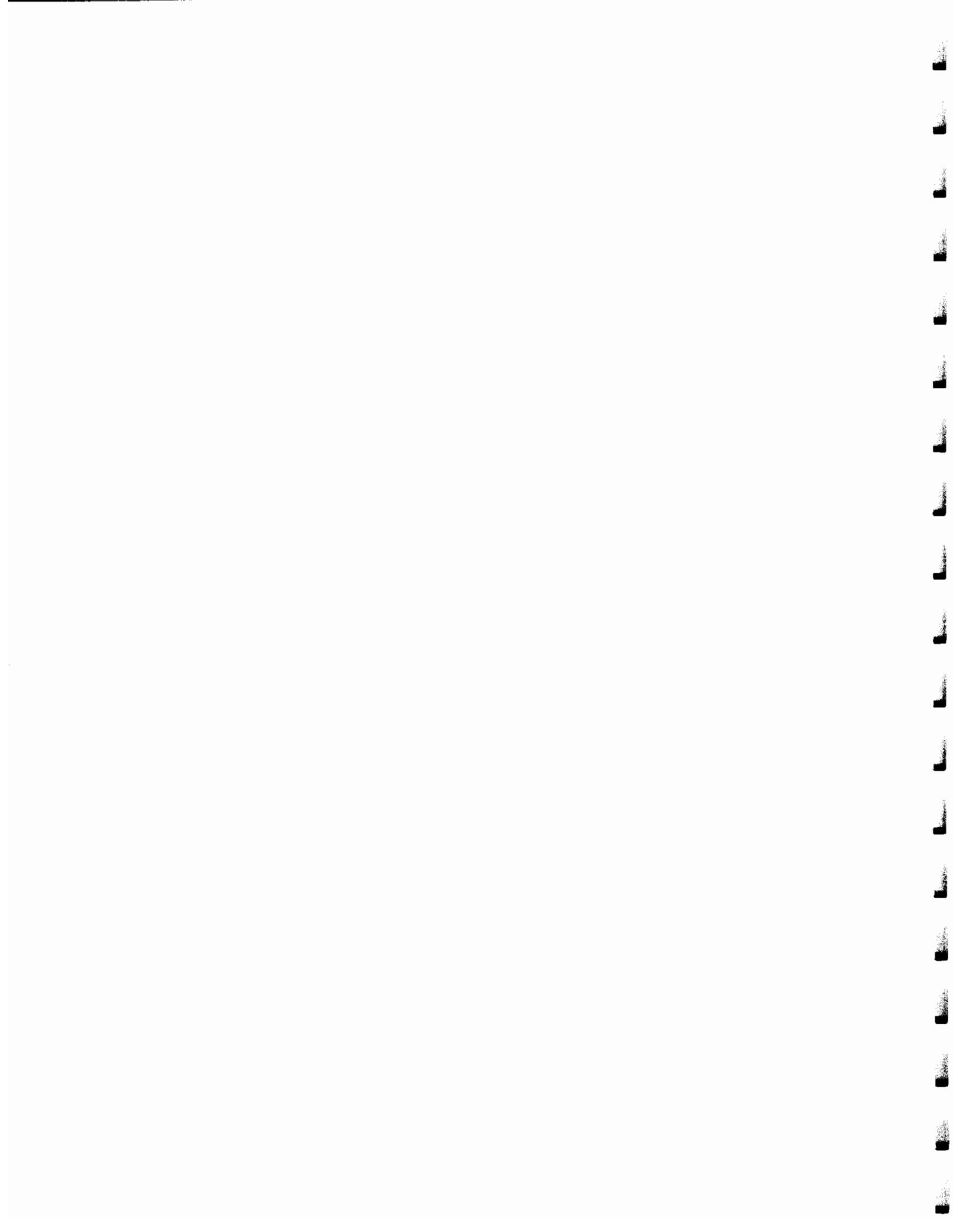


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WATER VALLEY SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2005**

**Presented by:
Dribben & Associates, Ltd.
P. O. Box 1411
113 North Broadway Avenue
McComb, MS 39649-1411**



WATER VALLEY SCHOOL DISTRICT

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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

January 12, 2006

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, 2005, 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 for 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 opinion.

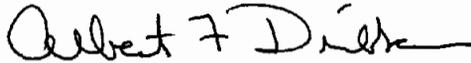
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Water Valley School District, as of June 30, 2005, and the respective 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 January 12, 2006, 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 grants 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 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 11 through 17 and the Budgetary Comparison Schedule and corresponding notes on pages 42 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

Sincerely,



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

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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, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the 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.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented and is included in this discussion and analysis.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$82,110, which represents a 4% decrease from fiscal year 2004.
- General revenues accounted for \$6,889,495 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,890,898, or 22% of total revenues.
- The District had \$8,862,503 in expenses; only \$1,890,898 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$6,889,495 were adequate to provide for these programs.
- Among major funds, the General Fund had \$6,531,133 in revenues and \$6,656,796 in expenditures. The General Fund's fund balance decreased \$126,846 from the prior year. This decrease was a result of the cost of operations during the fiscal year exceeding anticipated revenue for the year.
- Capital assets, net of accumulated depreciation, decreased by \$144,664 due primarily to current year depreciation of capital assets.
- Long-term debt decreased by \$200,634 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* issued by the Mississippi Office of the State Auditor. 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 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 statement has been provided for the General Fund and each additional major special revenue fund and is included in this report as required supplementary information.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is included in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$2,165,383 as of June 30, 2005.

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. \$865,145 of the District's net assets (40%) 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. \$263,835 of the District's net assets (12%) reflects its restricted net assets. The restricted net assets are expendable for school based activities, debt service and unemployment benefits. \$1,036,403 of the District's net assets (48%) reflects its unrestricted net assets.

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, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 1,327,669	1,534,744
Other assets	69,517	-
Capital assets, net	<u>4,350,145</u>	<u>4,494,809</u>
Total assets	<u>5,747,331</u>	<u>6,029,553</u>
Current liabilities	41,363	40,841
Long-term debt outstanding	<u>3,540,585</u>	<u>3,741,219</u>
Total liabilities	<u>3,581,948</u>	<u>3,782,060</u>
Net assets:		
Invested in capital assets, net of related debt	865,145	804,809
Restricted	263,835	275,069
Unrestricted	<u>1,036,403</u>	<u>1,167,615</u>
Total net assets	<u>\$ 2,165,383</u>	<u>2,247,493</u>

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 the decrease in amounts due from other governments and the reporting of cash with fiscal agent in the State Aid Capital Improvement Fund as restricted assets (or other assets) in fiscal year 2005. The cash with fiscal agent was reported as current assets in fiscal year 2004.
- Capital assets decreased from the previous fiscal year due primarily to the current year depreciation of capital assets.
- 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.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$8,780,393. The total cost of all programs and services was \$8,862,503. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

Revenues:	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Program revenues	\$ 1,890,898	1,953,018
General revenues	6,889,495	6,555,298
Total revenues	<u>8,780,393</u>	<u>8,508,316</u>
Expenses:		
Instruction	5,638,373	5,252,650
Support services	2,524,043	2,349,666
Non-instructional	525,920	516,218
Interest and other expenses on long-term liabilities	174,167	142,397
Total Expenses	<u>8,862,503</u>	<u>8,260,931</u>
Increase in net assets	<u>\$ (82,110)</u>	<u>247,385</u>

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

- General revenues increased from the previous fiscal year due primarily to an increase in taxes and unrestricted state grants and contributions.
- Instruction and support services expenses increased from the previous fiscal year due primarily to the 8% teacher pay raise.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2005, 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>2005</u>		<u>2004</u>	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	\$ 5,638,373	(4,607,279)	5,252,650	(4,076,399)
Support services	2,524,043	(2,161,427)	2,349,666	(2,022,195)
Non-instructional	525,920	(28,732)	516,218	(66,922)
Interest on long-term liabilities	174,167	(174,167)	142,397	(142,397)
	<u>\$ 8,862,503</u>	<u>(6,971,605)</u>	<u>8,260,931</u>	<u>(6,307,913)</u>

- The net cost of governmental activities for fiscal year 2005 in the amount of \$6,971,605 was financed by general revenue, which is made up of primarily property taxes of \$1,162,177 and state revenue of \$5,603,860.
- Investment earnings accounted for \$33,881 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, 2005, its governmental funds reported a combined fund balance of \$1,380,795. The net change in fund balance for the fiscal year was a decrease of \$141,738 due primarily to the deficiency of revenues over expenditures in the General Fund. The cost of operations of the district exceeded the revenues received for the fiscal year. \$1,192,667, or 86%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$188,128, or 14%, 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 \$126,846. The cost of operations of the district exceeded the revenues received for the fiscal year. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$14,892.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were decreased to reflect the decrease in activity fund revenue and tax collections.
- Budgeted amounts for revenue from state sources in the General Fund were decreased to reflect the decrease in preliminary allocations from the State Department of Education.
- Budgeted amounts for transfers out of the General Fund were decreased to reflect actual transfers during the fiscal year. The amount originally budgeted for transfers included transfers for special education, vocational education, transportation, etc.

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, 2005, the District's total capital assets, before depreciation, were \$6,711,946, including land, buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$6,852 from the previous year. Total depreciation expense for the year was \$151,516. Total accumulated depreciation as of June 30, 2005 was \$2,361,801, resulting in total net assets of \$4,350,145.

Debt Administration. At June 30, 2005, the District had \$3,540,585 in general and limited obligation bonds and other long-term debt outstanding, of which \$211,668 is due within one year. During the fiscal year, the district made principal payments in the amount of \$205,000 on existing long-term debt.

CURRENT ISSUES

The Water Valley School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage has not increased or decreased significantly over the past several years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly over the past several years.

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

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WATER VALLEY SCHOOL DISTRICT

FINANCIAL STATEMENTS

WATER VALLEY SCHOOL DISTRICT

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Water Valley School District
Statement of Net Assets
For the Year Ended June 30, 2005

Exhibit A

ASSETS

Cash and Cash Equivalents	\$ 1,164,350
Due from other governments	153,625
Inventories	9,694
Restricted Assets	69,517
Capital Assets, net	<u>4,350,145</u>

Total Assets

5,747,331

LIABILITIES

Accounts payable and accrued liabilities	16,391
Interest Payable on Long Term Debt	24,972
Long Term Liabilities (due within one year)	
Capital Related liabilities	210,000
Non-capital liabilities	1,668
Long Term Liabilities (due beyond one year)	
Capital Related liabilities	3,275,000
Non-capital liabilities	<u>53,917</u>

Total Liabilities

3,581,948

NET ASSETS

Invested in capital assets, net or related debt	865,145
Restricted Net Assets	
Expendable:	
School Based Activities	110,373
Debt Services	128,207
Unemployment Benefits	25,255
Unrestricted	<u>1,036,403</u>

Total Net Assets

2,165,383

Total Liabilities and Net Assets

\$ 5,747,331

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

Water Valley School District
Statement of Activities
For the Year Ending June 30, 2005

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total</u>
Governmental Activities:				
Instruction	\$ 5,638,373	186,048	845,046	(4,607,279)
Support Services	2,524,043	-	362,616	(2,161,427)
Noninstructional services	525,920	96,237	400,951	(28,732)
Interest and other expenses on long-term liabilities	174,167	-	-	(174,167)
Total Governmental Activities:	8,862,503	282,285	1,608,613	(6,971,605)

General Revenues:

Taxes:		
Property taxes - general purposes		1,023,182
Property taxes - debt services		138,995
Unrestricted grants and contributions:		
State		5,603,860
Federal		60,375
Unrestricted investment earnings		33,881
Other		29,202
Total General Revenues		6,889,495
Change in Net Assets		(82,110)
Net Assets - Beginning		2,247,493
Net Assets - Ending		\$ 2,165,383

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

Water Valley School District
 Balance Sheet - Governmental Funds
 For the Year Ended June 30, 2005

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title I-A Basic Fund	Title II-A Fund	EHA Part B Fund	Other Governmental Funds	
Assets:						
Cash and cash equivalents	\$ 949,889	-	-	-	214,461	1,164,350
Cash with fiscal agent	-	-	-	-	69,517	69,517
Due from other governments	32,353	51,108	19,438	39,271	11,455	153,625
Due from other funds	120,679	-	-	-	-	120,679
Inventories and prepaid items	-	-	-	-	9,694	9,694
Total Assets	1,102,921	51,108	19,438	39,271	305,127	1,517,865
Liabilities & Fund Balances:						
Liabilities:						
Accounts payable and accrued liabilities	10,933	-	-	-	5,458	16,391
Due to other funds	-	51,108	19,438	39,271	10,862	120,679
Total liabilities	10,933	51,108	19,438	39,271	16,320	137,070
Fund balances:						
Reserved for:						
Inventory	-	-	-	-	9,694	9,694
Unemployment benefits	-	-	-	-	25,255	25,255
Debt service purposes	-	-	-	-	153,179	153,179
Unreserved:						
Undesignated, reported in:						
General fund	1,091,988	-	-	-	-	1,091,988
Special revenue funds	-	-	-	-	100,679	100,679
Total fund balances	1,091,988	-	-	-	288,807	1,380,795
Total liabilities & fund balances	\$ 1,102,921	51,108	19,438	39,271	305,127	1,517,865

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

Water Valley School District
 Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets
 For the Year Ended June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,380,795
Amounts reported for net assets in the Statement of Net Assets (Exhibit A) are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital Assets	6,711,946
Less Accumulated Depreciation	<u>(2,361,801)</u>
	4,350,145
Liabilities not due and payable in the current period are not reported in the funds, as follows:	
Long-term liabilities	(3,540,585)
Accrued interest on debt	<u>(24,972)</u>
	(3,565,557)
Total Net Assets	<u>\$ 2,165,383</u>

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

Water Valley School District

Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds

For the Year Ended June 30, 2005

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Title I-A Basic Fund	Title II-A Fund	EHA Part B Fund	Other Governmental Funds	
Revenues:						
Local revenues	\$ 1,270,255	-	-	-	237,292	1,507,547
State sources	5,197,623	-	-	-	674,077	5,871,700
Federal sources	63,255	389,119	115,844	271,978	560,950	1,401,146
Total Revenues	6,531,133	389,119	115,844	271,978	1,472,319	8,780,393
Expenditures:						
Instruction	4,494,438	229,418	115,844	158,794	543,814	5,542,308
Support services	2,125,550	141,576	-	113,184	92,372	2,472,682
Noninstructional services	34,047	18,125	-	-	473,464	525,636
Debt Services:						
Principal	-	-	-	-	205,000	205,000
Interest	-	-	-	-	173,158	173,158
Other	2,761	-	-	-	586	3,347
Total expenditures:	6,656,796	389,119	115,844	271,978	1,488,394	8,922,131
Excess (deficiency) of revenues over expenditures	(125,663)	-	-	-	(16,075)	(141,738)
Other financing sources (Uses)						
Transfers in	2,317	-	-	-	3,500	5,817
Transfers out	(3,500)	-	-	-	(2,317)	(5,817)
Total other financing sources and uses	(1,183)	-	-	-	1,183	-
Net change in fund balances	(126,846)	-	-	-	(14,892)	(141,738)
Fund balances:						
July 1, 2004, as previously reported	1,218,834	-	-	-	302,379	1,521,213
Increase (decrease) in reserve for inventory	-	-	-	-	1,320	1,320
June 30, 2005	\$ 1,091,988	-	-	-	288,807	1,380,795

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
 to Statement of Activities
 For the Year Ended June 30, 2005

Exhibit D-1

Net change in fund balance \$ (141,738)

Amounts reported in the Statement of Activities (Exhibit B) are different because:

Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the Statement of Activities. Instead, costs associated with capital assets are capitalized in the Statement of Net Assets. 6,852

Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their useful lives in the Statement of Activities. (151,516)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 205,000

Under the modified accrual basis accounting used governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:

Compensated absences decreases (4,366)
 Accrued interest on debt increases 2,338

A decrease in the reserve for inventory is reported as a direct decrease to the fund balance in the governmental funds but is an increase in noninstructional service expense in the Statement of Activities. 1,320

Change in Net Assets of Governmental Activities (82,110)

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

Water Valley School District
Statement of Fiduciary Obligations - Agency Funds
For the Year Ended June 30, 2005

Exhibit E

Assets

Agency
Funds

Cash and cash equivalents

\$ 423,888

Total Assets

423,888

Liabilities

Accounts payable and accrued liabilities

400,776

Due to student clubs

23,112

Total Liabilities

\$ 423,888

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

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2005

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 which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

The school district's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2005

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

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 Funds financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Title I-A Basic, EHA, Part B, and Title II - A Educational Technology Funds- These are 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.

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, 2005

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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 the 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.

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 Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* 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. Cash and Cash Equivalents.

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.

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. 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 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.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

Investments are reported at fair value

H. 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. Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. 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 5 for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term liabilities are reported as liabilities in the governmental activities column. See Note 6 for details.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made. Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2005

Reserved for unemployment benefits – An account that represents the fund balance of the unemployment compensation revolving fund which is legally restricted for the payment of unemployment benefits.

Debt service purposes – An account that represents the portion of the fund balance for the Debt Service Fund resources which are legally restricted for the payment of general long-term debt principal and interest amounts maturing in future years.

M. Property Taxes.

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 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.

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the state of Mississippi.

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. 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 resigns or retires.

(2) Changes in Accounting Standards

As required, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents and Cash with Fiscal Agents.

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$1,164,350 and \$423,888 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$1,164,350. The bank balance was \$1,652,609.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$69,517.

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.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General Fund	\$ 120,679	
Title I-A Basic Fund		51,108
Title II-A Fund		19,438
EHA Part B Fund		39,271
Non-major Funds:		10,862
Total Funds	<u>\$ 120,679</u>	<u>120,679</u>

During the course of the school year, federal programs are paid on a reimbursement basis causing the district to borrow moneys 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, 2005

B. Transfers In/Out:

	Transfers In	Transfers Out
Major funds:		
General fund	\$ 2,317	3,500
Other governmental funds:		
Non-major Funds	3,500	2,317
Total Funds	\$ 5,817	5,817

The above transfers were made to close funds.

(5) Capital Assets.

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

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005
<u>Non-depreciable capital assets:</u>				
Land	\$ 34,000			34,000
Total non-depreciable capital assets	34,000	-	-	34,000
<u>Depreciable capital assets:</u>				
Buildings	5,715,588			5,715,588
Mobile equipment	793,574	6,852		800,426
Furniture and equipment	161,932			161,932
Total depreciable capital assets	6,671,094	6,852	-	6,677,946
<u>Less accumulated</u>				
Buildings	(1,566,628)	(103,039)		(1,669,667)
Mobile equipment	(534,822)	(35,602)		(570,424)
Furniture and equipment	(108,835)	(12,875)		(121,710)
Total accumulated depreciation	(2,210,285)	(151,516)	-	(2,361,801)
Total depreciable capital assets, net	4,460,809	(144,664)	-	4,316,145
Governmental activities capital assets, net	\$ 4,494,809	(144,664)	-	4,350,145

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 93,227
Support services	57,122
Non-instructional	1,167
Total	\$ 151,516

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

The capital assets above include significant amounts of buildings, which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

Adjustments were made to correct the mobile equipment and furniture and equipment to actual. Adjustments were also made to accumulated depreciation due to those changes.

(6) Long-term liabilities.

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

	Balance 7/1/2004	Addition	Deletion	Balance 6/30/2005	Amount Due within one year
A. General obligation bonds payable	\$ 1,465,000		(80,000)	1,385,000	80,000
B. Limited obligation bonds payable	2,065,000		(100,000)	1,965,000	105,000
C. Three-mill ten year notes payable	160,000		(25,000)	135,000	25,000
D. Compensated absences payable	51,219	4,366		55,585	1,668
Total	<u>\$ 3,741,219</u>	<u>4,366</u>	<u>(205,000)</u>	<u>3,540,585</u>	<u>211,668</u>

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	1,465,000
Total				<u>\$ 1,900,000</u>	<u>1,465,000</u>

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	\$ 80,000	65,601	145,601
2007	85,000	62,081	147,081
2008	90,000	58,256	148,256
2009	95,000	54,206	149,206
2010	100,000	49,813	149,813
2011-2015	570,000	174,668	744,668
2016-2020	365,000	33,881	398,881
 Total	 <u>\$1,385,000</u>	 <u>498,506</u>	 <u>1,883,506</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. 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 state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 5.07% of property assessments as of October 1, 2002. 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 are 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	01/01/18	\$ 2,335,000	1,965,000
Total				<u>\$ 2,335,000</u>	<u>1,965,000</u>

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	\$ 105,000	89,204	194,204
2007	110,000	83,158	193,158
2008	115,000	76,829	191,829
2009	120,000	70,895	190,895
2010	125,000	65,445	190,445
2011-2015	725,000	234,700	959,700
2016-2020	665,000	58,613	723,613
Total	\$ 1,965,000	678,844	2,643,844

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 Program 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 note payable	5.24%	01/03/00	01/03/10	\$ 925,000	135,000
Total				\$ 925,000	135,000

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	\$ 25,000	6,602	31,602
2007	30,000	5,379	35,379
2008	30,000	3,912	33,912
2009	30,000	2,445	32,445
2010	20,000	978	20,978
Total	<u>\$ 135,000</u>	<u>19,316</u>	<u>154,316</u>

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

E. Compensated absences payable.

As more fully explained in Note 1(O), 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.

(7) 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 current rate is 9.75% 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, 2005, 2004 and 2003 were \$509,698, \$456,470, and \$441,350, respectively, which equaled the required contributions for each year.

(8) Litigation.

The school district 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 ultimate 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 time that will have a material adverse effect on the financial condition of the school district.

WATER VALLEY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2005

(9) Subsequent Events.

Water Valley School District is in the process of constructing an alternative school classroom facility after the lease on a city owned building was ended by the city. A bid was accepted in January, 2006 for just over \$27,000 for a steel shell. The school district management expects to complete the building with school district personnel. It is estimated that to complete the building, with furnishings and parking lot will cost the district approximately \$100,000. No financing is expected to complete this project.

(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 is 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 127 school districts 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 BancorpSouth in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. 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 SUPPLEMENTARY INFORMATION

WATER VALLEY SCHOOL DISTRICT

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Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	1,398,613	1,270,255	1,270,255	(128,358)	-
State sources	5,438,448	5,197,623	5,197,623	(240,825)	-
Federal sources	60,000	63,255	63,255	3,255	-
Total revenues	6,897,061	6,531,133	6,531,133	(365,928)	-
Expenditures					
Instruction	4,424,925	4,494,438	4,494,438	(69,513)	-
Support services	2,170,791	2,125,550	2,125,550	45,241	-
Noninstructional services	36,000	34,047	34,047	1,953	-
Debt service:					
Other	-	2,761	2,761	(2,761)	-
Total expenditures	6,631,716	6,656,796	6,656,796	(25,080)	-
Excess (deficiency) of revenues over expenditures	265,345	(125,663)	(125,663)	(391,008)	-
Other Financing Sources					
Transfers in	6,010	2,317	2,317	(3,693)	-
Transfers out	(75,323)	(3,500)	(3,500)	71,823	-
Total other financing sources and uses	(69,313)	(1,183)	(1,183)	68,130	-
Net change in fund balance	196,032	(126,846)	(126,846)	(322,878)	-
Fund balances:					
July 1, 2004, as previously reported			1,218,834		
June 30, 2005			<u>\$ 1,091,988</u>		

Title I-A Basic Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues					
Federal sources	416,376	389,119	389,119	(27,257)	-
Total revenues	416,376	389,119	389,119	(27,257)	-
Expenditures					
Instruction	254,526	229,418	229,418	25,108	
Support services	143,601	141,576	141,576	2,025	-
Noninstructional services	18,249	18,125	18,125	124	-
Total expenditures	416,376	389,119	389,119	27,257	-
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
Other Financing Sources					
Transfers in				-	-
Total other financing sources and uses	-	-	-	-	-
Net change in fund balance	-	-	-	-	-
Fund balances:					
July 1, 2004			-		
June 30, 2005			\$ -		

Title II-A Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues					
Federal sources	<u>115,871</u>	<u>115,844</u>	<u>115,844</u>	<u>(27)</u>	
Total revenues	<u>115,871</u>	<u>115,844</u>	<u>115,844</u>	<u>(27)</u>	<u>-</u>
Expenditures					
Instruction	<u>115,871</u>	<u>115,844</u>	<u>115,844</u>	<u>27</u>	<u>-</u>
Total expenditures	<u>115,871</u>	<u>115,844</u>	<u>115,844</u>	<u>27</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources					
Transfers in					<u>-</u>
Transfers out					<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
July 1, 2004			<u> </u>		
June 30, 2005			<u>\$ -</u>		

EHA Part B Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues					
Federal sources	327,000	271,978	271,978	(55,022)	
Total revenues	327,000	271,978	271,978	(55,022)	-
Expenditures					
Instruction	176,656	158,794	158,794	17,862	
Support Services	150,344	113,184	113,184	37,160	-
Total expenditures	327,000	271,978	271,978	55,022	-
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
Other Financing Sources					
Transfers in					-
Transfers out					-
Total other financing sources and uses	-	-	-	-	-
Net change in fund balance	-	-	-	-	-
Fund balances:					
July 1, 2004					
June 30, 2005			\$ -		

WATER VALLEY SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Year Ended June 30, 2005

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents 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 the date established by the Mississippi Department of Education. 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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Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Schedule I

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 Agriculture:		
Non-cash assistance:		
Food donation	10.550	\$ 32,458
Child nutrition cluster:		
School breakfast program	10.553	117,324
National School lunch program	10.555	324,805
Total child nutrition cluster		<u>442,129</u>
Total U. S. Department of Agriculture		<u>474,587</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	389,119
Vocational education-basic grants to states	84.048	17,372
Safe and drug-free schools and communities-state grants	84.186	12,962
Innovative education program strategies	84.298	5,858
Education technology state grants	84.318	12,960
Rural education achievement program	84.358	53,545
Improving teacher quality-state grants	84.367	115,844
Total		<u>607,660</u>
Special education cluster:		
Special education-grants to states	84.027	271,978
Special education-preschool grants	84.173	17,391
Total		<u>289,369</u>
Total passed-through Mississippi Department of Education		<u>897,029</u>
Total U. S. Department of Education		<u>897,029</u>
Total for All Federal Awards		<u>\$ 1,371,616</u>

NOTES TO SCHEDULE

This schedule was prepared using the same basis of accounting and the same basis 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, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	6,991,289	5,037,884	660,272	1,293,133
Other	1,930,842	504,424	101,761	1,324,657
Total	8,922,131	5,542,308	762,033	2,617,790
 Total number of students	 <u>1,224</u>			
 Cost per student	 <u>\$ 7,289</u>	 <u>4,528</u>	 <u>623</u>	 <u>2,139</u>

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

Instruction - includes that activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000 functional codes)

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); and Support Services - Business (2500s)

Other - includes all expenditure functions not included in Instruction or Administrative

WATER VALLEY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

WATER VALLEY SCHOOL DISTRICT

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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*

January 12, 2006

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, 2005, and have issued our report thereon dated January 12, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 05-01, 05-02 and 05-03.

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

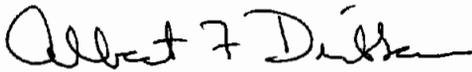
Compliance and Other Matters

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing*

Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated January 12, 2006, which is included in this report.

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,

A handwritten signature in cursive script that reads "Albert F. Dribben".

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

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

January 12, 2006

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, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the 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, 2005.

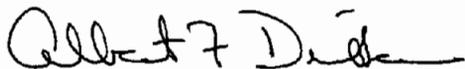
Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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,

A handwritten signature in cursive script, appearing to read "Albert F. Dribben".

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

WATER VALLEY SCHOOL DISTRICT

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

WATER VALLEY SCHOOL DISTRICT

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

January 12, 2006

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, 2005, which collectively comprise Water Valley School District's basic financial statements and have issued our report thereon dated January 12, 2006. 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.

Section 37-9-18(3), 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 \$14,933 of classroom supply funds carried over from previous years.

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:

Finding

As reported in the prior years' audit report, during our test of expenditures, we noted two instances on an invoice not being timely paid. Per Section 31-7-305, Mississippi Code Ann. (1972), payment should be made on invoices no later than forty-five days after receipt of the invoice and receipt, inspection and approval of the goods and services.

Recommendation

We recommend that the school district pay all invoices in a timely manner after receipt, inspection and approval of the goods and services. If there is a delay (such as equipment not having been completely installed), this should be noted on the invoice or a memo attached.

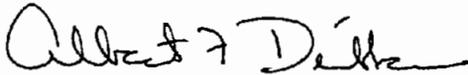
Response

Water Valley School District will pay all invoices timely after inspection, receipt, and approval of goods and services noting any reason for delay.

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.

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
President
Dribben & Associates, Ltd.
McComb, Mississippi

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, 2005

Section 1: Summary of Auditor's Results

Financial Statements

1	Type of Auditor's report issued on the financial	Unqualified
2	Material noncompliance relating to the financial	No
3	Internal control over financial reporting:	
a.	Material weaknesses identified?	No
b.	Reportable conditions 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.	Reportable condition identified that are not considered to be material weaknesses?	No
6	Any audit finding reported as required by Section ____,510(a) of Circular A-133?	No
7	Federal programs identified as major programs:	
	Title I-grants to local educational agencies	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, 2005

Section 2: Financial Statement Findings

Reportable conditions not considered to be material weaknesses

05-01 Finding

In our test of general expenditures, we noted the following weaknesses in internal control:

Several instances of the receipt of goods in good condition not being documented by a receiving report or by signatures and dates.

Recommendation

We recommend that the school district implement policies and procedures to correct the above weaknesses. Guidance can be found in the *Financial Accounting Manual for Mississippi Public School Districts*. At a minimum, the district should:

Require a supervisor, administrator, or program director to sign off on a receiving report, or if the receiving report is absent, then to sign the invoice and date it to show the goods or services have been received and that the invoice is ready for payment. If there were delays in shipments, installation, etc., these should be noted so as to document any delay over 45 days in payment of invoices.

05-02 Finding

The following internal control weaknesses were noted during test work performed on general and agency activity and club fund receipts. Transactions were selected for testing from one month's activity from each school of the district.

- a. As reported in the prior year's audit report, the receipts at one school did not indicate the type of payment being submitted—whether cash, checks or money orders.
- b. A number of instances of receipts not being signed or dated.
- c. The originals of the receipts were not given to the payee.

Recommendation

We recommend that the district implement policies and procedures to correct the above noted weaknesses. Guidance can be found in the *Financial Accounting Manual for Mississippi Public School Districts*. At a minimum, the district should implement the following procedures:

- a. All receipts should be completed to include the type of payment received. This constitutes an important internal control for comparisons with deposits made.

WATER VALLEY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2005

- b. Receipts should be written contemporaneously or at the actual time the monies are received and should be dated and signed or initialed by the person receiving the funds.
- c. One copy of the receipt should remain in the receipt book at all times. The original of the receipt should be given to the person remitting the funds at the time the funds are received.

05-03 Finding

The following internal control weaknesses were noted during tests work performed on general and agency activity and club fund expenditures. Transactions were selected for testing from one month's activity from each school of the district.

Recommendation

We recommend that the district implement policies and procedures to correct the above noted weaknesses. Guidance can be found in the *Financial Accounting Manual for Mississippi Public School Districts*. At a minimum, the district should implement the following procedures:

- a. All activity fund purchases should follow the purchase law and use a purchase order prior to the actual purchase.
- b. Prior to requesting a purchase with a purchase order, the cost of items should be verified. When a purchase order is approved, the purchasing agent is verifying that the needed funds are available for the amount of the purchase. When an invoice exceeds a purchase order, there is a danger of exceeding both the budget for a fund and the cash balance – both of which are against the law.
- c. Purchase orders must be complete. This is to ensure that the purchase agent can verify that funds are available and that the district is remaining within its proposed budget.
- d. Purchase orders should be required prior to any purchases for activity funds. This is the only way to ensure that the activity fund remains within its budget.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

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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Water Valley School District

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

SAMMY HIGDON, SUPERINTENDENT

Burch Stevens, Spec. Ed. Director
Telephone (662) 473-1768

Telephone (662) 473-1203
544 Markette Street
P.O. Box 788

Water Valley, Mississippi 38965-0788

January 17, 2006

Dribben & Associates, Ltd.
P.O. Box 1411
McComb, Mississippi 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 Findings and Questioned Costs for the year ended June 30, 2004

Finding

- 2005- 1 An administrator's signature will be required before payment is made noting any circumstances that may delay payment. No payments will be paid without proper signatures and dates.
- 2005- 2 We will monitor and make sure all monies received will be receipted indicating the type of payment with proper signatures and dates on the receipts. Originals of the receipts will be given to the person turning the monies in to the bookkeeper's office.
- 2005- 3 We will monitor and make sure all purchases follow the purchasing law. All purchase orders will be complete with cost verified by the vendor. No purchases will be made without a purchase order, and invoices will not exceed the purchase order amount.

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

Sincerely,



Sammy Higdon
Superintendent

