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WATER VALLEY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2007

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

FINANCIAL AUDIT REPORT

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Dribben & Associates, Ltd.

CPA
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CERTIFIED PUBLIC ACCOUNTANT
AICPA/MSCPA

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

October 25, 2007

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, 2007, 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 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, 2007, 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 October 25, 2007, 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 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 17 and the Budgetary Comparison Schedule and corresponding notes on pages 45 through 47 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.

Al Dribben, CPA
P.O. Box 1411 113 North Broadway McComb MS 39649
601-684-4819 Phone 601-684-4818 Fax 1-888-299-4829 MS Toll Free email
dribbencpa@cableone.net

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

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Water Valley School District

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

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, 2007. 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.

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, decreased $373,611, which represents a 21% decrease from fiscal year 2006. This decrease in net assets is primarily due to the following: 1) an increase in salaries and benefits for instructional and non-instructional personnel, 2) a decrease in federal funding, and 3) the purchase of a new school bus during the fiscal year.

- General revenues accounted for $7,577,548 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $1,968,563, or 21% of total revenues.

- The District had $9,935,044 in expenses; only $1,968,563 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $7,577,548 and beginning net assets were adequate to provide for these programs.

- Among major funds, the General Fund had $7,379,421 in revenues and $7,653,267 in expenditures. After net other financing uses of $216,795, the net change in fund balance for the General Fund's fund was a decrease of $490,641 from the previous fiscal year. This decrease is due primarily to: 1) an increase in salaries and benefits for instructional and non-instructional personnel, 2) an increase in attorney fees, 3) an increase in private placements, textbook adoption and testing materials, and 4) a decrease in federal funding which resulted in the use of General Fund monies to cover expenditures.

- Capital assets, net of accumulated depreciation, decreased by $102,033.

- Long-term debt decreased by $232,663.

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 that 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 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

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds is also 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 $1,375,802 as of June 30, 2007.

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. $1,090,172 of the District's net assets (79%) 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. $282,214 of the District's net assets (20%) reflects its restricted net assets. The restricted net assets are expendable for school based activities, debt service and unemployment benefits. $3,416 of the District's net assets (1%) 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, 2007 and comparative data for the fiscal year ended June 30, 2006.

	Net Assets		Percentage
	June 30, 2007	June 30, 2006	Change
Current assets	$ 314,810	849,524	-62.9%
Other assets	85,102	76,299	11.5%
Capital assets, net	4,140,172	4,242,205	-2.4%
Total assets	4,540,084	5,168,028	-12.2%
Current liabilities	54,309	75,979	-28.5%
Long-tern debt outstanding	3,109,973	3,342,636	-7.0%
Total liabilities	3,164,282	3,418,615	-7.4%
Net assets:			
Invested in capital assets, net of related debt	1,090,172	967,205	12.7%
Restricted	282,214	295,814	-4.6%
Unrestricted	3,416	486,394	-99.3%
Total net assets	$ 1,375,802	1,749,413	-21.4%

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 cash and cash equivalents resulting from: 1) an increase in salaries and benefits for instructional personnel, 2) an increase in attorney fees, 3) an increase in private placements, textbook adoption and testing materials, and 4) a decrease in federal funding.

- 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 decrease in the fund balance of the General Fund resulting from: 1) an increase in salaries and benefits for instructional and non-instructional personnel, 2) an increase in attorney fees, 3) an increase in private placements, textbook adoption and testing materials, and 4) a decrease in federal funding which resulted in the use of General Fund monies to cover expenditures.

•

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were $9,546,111. The total cost of all programs and services was $9,935,044. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	Change in Net Assets		Percentage
Revenues:	June 30, 2007	June 30, 2006	Change
Program revenues:			
Charges for services	$ 261,692	317,397	-17.6%
Operating grants and contributions	1,706,871	1,785,286	-4.4%
General revenues:			
Property taxes	1,074,714	1,069,453	0.5%
Grants and contributions not restricted	6,435,233	5,940,525	8.3%
Other	67,601	69,121	-2.2%
Total revenues	9,546,111	9,181,782	4.0%
Expenses:			
Instruction	6,548,697	6,291,155	4.1%
Support services	2,689,134	2,705,789	-0.6%
Non-instructional	547,522	540,172	1.4%
Interest and other expenses on long-term liabilities	149,691	161,030	-7.0%
Total Expenses	9,935,044	9,698,146	2.4%
Increase (Decrease) in net assets	(388,933)	(516,364)	-24.7%
Net Assets, July 1	1,749,413	2,165,383	-19.2%
Prior Period Adjustments	15,322	100,394	-84.7%
Net Assets, Restated, July 1	1,764,735	2,265,777	-22.1%
Net Assets, June 30	$ 1,375,802	1,749,413	-21.4%

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 unrestricted state grants and contributions, specifically an increase in Mississippi Adequate Education Program (MAEP) funds.

- Instruction expenses increased from the previous fiscal year due primarily to an increase in instructional personnel, an increase in salaries and benefits, new textbook purchases, and an increase in expenditures for testing materials and private placement of students.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006, 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.

	2007		2006	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	$ 6,548,697	(5,469,740)	6,291,155	(5,118,074)
Support services	2,689,134	(2,310,968)	2,705,789	(2,279,309)
Non-instructional	547,522	(36,082)	540,172	(37,050)
Interest and other expenses on long-term liabilities	149,691	(149,691)	161,030	(161,030)
	$ 9,935,044	(7,966,481)	9,698,146	(7,595,463)

- The net cost of governmental activities for fiscal year 2007 in the amount of $7,966,481 was financed by general revenue, which is made up of primarily property taxes of $1,074,714 and state revenue of $6,357,663.

- Investment earnings accounted for $42,683 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, 2007, its governmental funds reported a combined fund balance of $389,421. The net change in fund balance for the fiscal year was a decrease of $519,246 due primarily to an increase in salaries and benefits for instructional and non-instructional personnel, an increase in attorney fees, an increase in private placements, textbook adoption and testing materials, the purchase of a new school bus, and a decrease in federal funding. $85,906, or 22%, 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 $303,515, or 78%, 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 $490,641 due primarily to: 1) an increase in salaries and benefits for instructional and non-instructional personnel, 2) an increase in attorney fees, 3) an increase in private placements, textbook adoption and testing materials, and 4) a decrease in federal funding which resulted in the use of General Fund monies to cover expenditures. The net change in fund balance for the WVSD GO Bond Retirement Fund for the fiscal year was an increase of $1,995. The net change in the fund balance for the MAEP Retirement Fund for the fiscal year was an increase of $8,803. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of $39,403 due to the deficiency of revenues over expenditures in various funds.

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.

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, 2007, the District's total capital assets, before depreciation, were $6,802,314, including land, buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of $49,493 from the previous year due primarily to the purchase of a new school bus. Total depreciation expense for the year was $160,860. Total accumulated depreciation as of June 30, 2007 was $2,662,142, resulting in total net assets of $4,140,172.

	Capital Assets, Net of Depreciation		Percentage
	2007	2006	Change
Land	$ 34,000	34,000	0.0%
Buildings	3,839,842	3,942,881	-2.6%
Moble equipment	230,925	219,013	5.4%
Furniture and equipment	35,405	46,311	-23.5%
Total	$ 4,140,172	4,242,205	-2.4%

Debt Administration. At June 30, 2007, the District had $3,109,973 in general and limited obligation bonds and other long-term debt outstanding, of which $239,550 is due within one year.

	Outstanding Debt		Percentage
	2007	2006	Change
General obligation bonds payable	$ 1,220,000	1,305,000	-6.5%
Limited obligation bonds payable	1,750,000	1,860,000	-5.9%
Three mill notes payable	80,000	110,000	-27.3%
Compensated absences payable	59,973	67,636	-11.3%
Total	$ 3,109,973	3,342,636	-7.0%

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. In addition, 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.

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.

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WATER VALLEY SCHOOL DISTRICT

FINANCIAL STATEMENTS

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Water Valley School District
Statement of Net Assets
For the Year Ended June 30, 2007

	Exhibit A
ASSETS	
Cash and cash equivalents	$ 82,530
Due from other governments	224,457
Inventories and prepaid items	7,823
Restricted assets	85,102
Capital assets, non-depreciable:	
Land	34,000
Capital assets, net of accumulated depreciation	
Buildings	3,839,842
Mobile equipment	230,925
Furniture and equipment	35,405
Total Assets	4,540,084
LIABILITIES	
Accounts payable and accrued liabilities	10,491
Interest payable on long-term liabilities	43,818
Long-term liabilities, due within one year	
Capital related liabilities	235,000
Non-capital related liabilities	4,550
Long-term liabilities, due beyond one year	
Capital related liabilities	2,815,000
Non-capital related liabilities	55,423
Total Liabilities	3,164,282
NET ASSETS	
Invested in capital assets, net of related debt	1,090,172
Restricted net assets	
Expendable:	
School-based activities	30,340
Debt service	227,661
Unemployment benefits	24,213
Unrestricted	3,416
Total Net Assets	$ 1,375,802

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, 2007

Exhibit B

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Assets: Primary Government: Governmental Activities
Governmental Activities:				
Instruction	$ 6,548,697	187,724	891,233	(5,469,740)
Support services	2,689,134	-	378,166	(2,310,968)
Non-instructional	547,522	73,968	437,472	(36,082)
Interest on long-term liabilities	149,691	-	-	(149,691)
Total Governmental Activities	$ 9,935,044	261,692	1,706,871	(7,966,481)

General Revenues:	
Taxes:	
General purpose levies	939,201
Debt purpose levies	135,513
Unrestricted grants and contributions:	
State	6,357,663
Federal	77,570
Unrestricted investment earnings	42,683
Other	24,918
Total General Revenues	7,577,548
Change in Net Assets	(388,933)
Net Assets - Beginning	1,749,413
Prior Period Adjustments:	15,322
Net Assets - Beginning - Restated	1,764,735
Net Assets - Ending	$ 1,375,802

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

WATER VALLEY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2007

Exhibit C

	Major Funds					
	General Fund	Title I-A Basic Fund	WVSD GO Bond Retirement Fund	MAEP Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	$ 19,625	-	17,402	-	45,503	82,530
Investments	-	-	-	85,102	-	85,102
Due from other governments	79,122	28,045	2,426	100,082	14,782	224,457
Due from other funds	33,014	-	35,966	-	25,000	93,980
Inventories and prepaid items	-	-	-	-	7,823	7,823
Total Assets	131,761	28,045	55,794	185,184	93,108	493,892
Liabilities & Fund Balances:						
Liabilities:						
Accounts payable and accrued liabilities	7,406	297	-	-	2,788	10,491
Due to other funds	60,966	27,748	-	-	5,266	93,980
Total liabilities	68,372	28,045	-	-	8,054	104,471
Fund balances:						
Reserved for:						
Inventory	-	-	-	-	7,823	7,823
Debt service	-	-	55,794	185,184	30,501	271,479
Unemployment benefits	-	-	-	-	24,213	24,213
Unreserved:						
Undesignated, reported in:						
General fund	63,389	-	-	-	-	63,389
Special revenue funds	-	-	-	-	22,517	22,517
Total fund balances	63,389	-	55,794	185,184	85,054	389,421
Total liabilities & fund balances	$ 131,761	28,045	55,794	185,184	93,108	493,892

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

WATER VALLEY SCHOOL DISTRICT

Exhibit C-1

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets
June 30, 2007

		Amount
Total Fund Balance - Governmental Funds		$ 389,421
1.	Capital assets are used in governmental activities and are not financial resources and therefore are not in the funds, net of accumulated depreciation of $2,662,142.	4,140,172
2.	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(3,109,973)
3.	Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Net Assets recognizes interest as it accrues.	(43,818)
Total Net Assets - Governmental Activities		$ 1,375,802

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

Water ValleySchool District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

Exhibit D

	Major Funds					
	General Fund	Title I-A Basic Fund	WVSD GO Bond Retirement Fund	MAEP Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Local sources	$ 1,186,900	-	105,650	2,354	109,103	1,404,007
State sources	6,111,709	-	-	200,164	350,924	6,662,797
Federal sources	80,812	423,753	-	-	974,742	1,479,307
Total Revenues	7,379,421	423,753	105,650	202,518	1,434,769	9,546,111
Expenditures:						
Instruction	5,311,883	276,734	-	-	871,834	6,460,451
Support services	2,305,156	135,897	-	-	241,747	2,682,800
Noninstructional services	33,448	11,122	-	-	498,581	543,151
Debt Services:						
Principal	-	-	41,574	110,000	73,426	225,000
Interest	-	-	62,081	83,158	5,379	150,618
Other	2,780	-	-	557	-	3,337
Total expenditures:	7,653,267	423,753	103,655	193,715	1,690,967	10,065,357
Excess (deficiency) of revenues over expenditures	(273,846)	-	1,995	8,803	(256,198)	(519,246)
Other financing sources (Uses)						
Operating transfers in	-	-	-	-	216,795	216,795
Operating transfers out	(216,795)	-	-	-	-	(216,795)
Total other financing sources (uses)	(216,795)	-	-	-	216,795	-
Net change in fund balances	(490,641)	-	1,995	8,803	(39,403)	(519,246)
Fund balances:						
July 1, 2006	554,030	-	53,799	176,381	113,716	897,926
Prior period adjustments	-	-	-	-	15,322	15,322
July 1, 2006, as restated	554,030	-	53,799	176,381	129,038	913,248
Increase (decrease) in reserve for inventory	-	-	-	-	(4,581)	(4,581)
June 30, 2007	$ 63,389	-	55,794	185,184	85,054	389,421

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

WATER VALLEY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2007

Exhibit D-1

Net Change in Fund Balance - Governmental Funds	$ (519,246)
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 $60,493 and the depreciation expense amounted to $160,860.	(100,367)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	225,000
3. Governmental funds recognize 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.	4,264
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.	(1,666)
5. Increase (decrease) 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.	(4,581)
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	7,663
Change in Net Assets of Governmental Activities	$ (388,933)

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

Water Valley School District
Statement of Fiduciary Assets and Liabilities
June 30, 2007

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents	$ 532,795
Total Assets	532,795
Liabilities	
Accounts payable and accrued liabilities	491,884
Due to student clubs	40,911
Total Liabilities	$ 532,795

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

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 nonexchange 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.

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. 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 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-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.

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 a portion of 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.

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, 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. 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 three 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.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than three 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 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.

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

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.

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 obligations are reported as liabilities in the governmental activities column. See Note 5 for details.

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 3 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 borrowing 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.

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 the portion of the fund balance for the Debt Service Fund resources which are 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.

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 retires.

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes 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 section permits the following types of investments: (a) certificates of deposit and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality of 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) and bond sinking funds (Debt Service 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 $82,530 and $532,795 respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents - $82,530 and restricted assets - $85,102, respectively. The bank balance was $916,963.

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, 2007, none of the district's bank balance of $916,963 was exposed to custodial credit risk.

Investments.

As of June 30, 2007, the district had the following investments.

Investment Type	Maturities (in years)	Fair Value	Rating
Hancock Horizon Treasury Securities Money Market Fund	Less than 1	$ 85,102	AAAm
Total Investments		$ 85,102	

The Hancock Horizon Treasury Securities Money Market Fund investments are not backed by the full faith and credit of the federal government but are FDIC insured up to $100,000.

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental funds:		
General Fund	$ 33,014	60,966
Title I-A Basic Fund		27,748
WVSD GO Fund	35,966	
Other governmental funds	25,000	5,266
Total Funds	$ 93,980	93,980

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.

B. Transfers In/Out:

	Transfers In	Transfers Out
Governmental funds:		
General fund	$ -	216,795
Other governmental funds:	216,795	
Total Funds	$ 216,795	216,795

The above transfers were made to transfer MAEP funds received into the District Maintenance fund to their proper fund.

(4) Capital Assets.

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

	Balance 7/1/2006	Additions	Deletions	Balance 6/30/2007
Non-depreciable capital assets:				
Land	$ 34,000			34,000
Total non-depreciable capital assets	34,000	-	-	34,000
Depreciable capital assets:				
Buildings	5,715,588			5,715,588
Mobile equipment	830,426	55,180		885,606
Furniture and equipment	172,807	5,313	(11,000)	167,120
Total depreciable capital assets	6,718,821	60,493	(11,000)	6,768,314
Less accumulated				
Buildings	(1,772,707)	(103,039)		(1,875,746)
Mobile equipment	(611,413)	(43,268)		(654,681)
Furniture and equipment	(126,496)	(14,553)	9,334	(131,715)
Total accumulated depreciation	(2,510,616)	(160,860)	9,334	(2,662,142)
Total depreciable capital assets, net	4,208,205	(100,367)	(1,666)	4,106,172
Governmental activities capital assets, net	$ 4,242,205	(100,367)	(1,666)	4,140,172

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 93,227
Support services	62,147
Non-instructional	5,486
Total	$ 160,860

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.

(5) Long-term liabilities.

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

	Balance 7/1/2006	Addition	Deletion	Balance 6/30/2007	Amount Due within one year
A. General obligation bonds payable	$1,305,000		(85,000)	1,220,000	90,000
B. Limited obligation bonds payable	1,860,000		(110,000)	1,750,000	115,000
C. Three-mill ten year notes payable	110,000		(30,000)	80,000	30,000
D. Compensated absences payable	67,636		(7,663)	59,973	4,550
Total	$3,342,636	-	(232,663)	3,109,973	239,550

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	1,220,000
Total				$ 1,900,000	1,220,000

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

Year Ending June 30	Principal	Interest	Total
2008	$ 90,000	58,256	148,256
2009	95,000	54,206	149,206
2010	100,000	49,813	149,813
2011	100,000	45,213	145,213
2012	110,000	40,512	150,512
2013-2017	630,000	118,193	748,193
2018-2020	95,000	4,631	99,631
Total	$ 1,220,000	370,824	1,590,824

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, 2007, the amount of outstanding bonded indebtedness was equal to 3.80% 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	1,750,000
Total				$ 2,335,000	1,750,000

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

Year Ending June 30	Principal	Interest	Total
2008	$ 115,000	76,829	191,829
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
2013-2017	795,000	166,010	961,010
2018-2019	325,000	13,838	338,838
Total	$ 1,750,000	506,482	2,256,482

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	80,000
Total				$ 925,000	80,000

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

Year Ending June 30		Principal	Interest	Total
2008	$	30,000	3,912	33,912
2009		30,000	2,445	32,445
2010		20,000	978	20,978
Total	$	80,000	7,335	87,335

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.

(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 current rate is 11.3% 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, 2007, 2006 and 2005 were $673,738, $572,782, and $509,698, respectively, which equaled the required contributions for each year.

(7) Prior period adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

Explanations	Amount
1. To correct an error in recording a prior year revenue.	$ 1,801.00
2. To correct an error in recording a prior year revenue.	13,826
3. To correct an error in recording a prior year expenditure.	(305)
Total	$ 15,322

Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances

Major funds:	Explanation	Amount
Other governmental funds	To correct an error in recording a prior year revenue or expenditure	$ 15,322
	Total	$ 15,322

(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 the will have a material adverse effect on the financial condition of the school district.

(9) 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 121 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 BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to $700,000. For a claim exceeding $700,000, MSBAWCT has insurance which will pay the excess 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.

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WATER VALLEY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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Water Valley School District
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2007

Schedule 1-A

	Budgeted Amounts			Variances	
	Original	Final	Actual (GAAP Basis)	Original to Final	Final to Actual
Revenues					
Local sources	$ 1,279,940	1,186,900	1,186,900	(93,040)	-
State sources	6,322,998	6,114,551	6,111,709	(208,447)	(2,842)
Federal sources	65,642	77,970	80,812	12,328	2,842
Total revenues	7,668,580	7,379,421	7,379,421	(289,159)	-
Expenditures					
Instruction	5,134,978	5,311,940	5,311,883	(176,962)	57
Support services	2,302,092	2,305,155	2,305,156	(3,063)	(1)
Noninstructional services	18,500	33,448	33,448	(14,948)	-
Debt service:					
Other	-	2,780	2,780	(2,780)	-
Total expenditures	7,455,570	7,653,323	7,653,267	(197,753)	56
Excess (deficiency) of revenues over expenditures	213,010	(273,902)	(273,846)	(91,406)	56
Other Financing Sources					
Transfers in	107,854	91,660	-	(16,194)	91,660
Transfers out	(320,439)	(308,455)	(216,795)	11,984	(91,660)
Total other financing sources and uses	(212,585)	(216,795)	(216,795)	(4,210)	-
Net change in fund balance	425	(490,697)	(490,641)	(95,616)	56
Fund balances:					
July 1, 2006	1,216,950	554,030	554,030	(662,920)	-
June 30, 2007	$ 1,217,375	63,333	63,389	(758,536)	56

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

Water Valley School District
Title I-A Basic Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2007

Schedule 1-B

	Budgeted Amounts			Variances	
	Original	Final	Actual (GAAP Basis)	Original to Final	Final to Actual
Revenues					
Federal sources	$438,078	423,753	423,753	(14,325)	-
Total revenues	438,078	423,753	423,753	(14,325)	-
Expenditures					
Instruction	283,112	276,734	276,734	6,378	
Support services	143,815	135,897	135,897	7,918	-
Noninstructional services	11,151	11,122	11,122	29	-
Total expenditures	438,078	423,753	423,753	14,325	-
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, 2006	-	-	-	-	-
June 30, 2007	$ -	-	-	-	-

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, 2007

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedules 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 15. 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.

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WATER VALLEY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

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Water Valley School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Schedule 1

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U. S. Department of Agriculture		
Passed-through Mississippi Department of Agriculture:		
Non-cash assistance:		
Food donation	10.550	$ 42,469
Child nutrition cluster:		
School breakfast program	10.553	127,184
National School lunch program	10.555	315,570
Summer food service program for children	10.559	15,935
Total child nutrition cluster		458,689
Total U. S. Department of Agriculture		501,158
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	31,051
U. S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	423,753
Vocational education-basic grants to states	84.048	17,109
Safe and drug-free schools and communities-state grants	84.186	11,809
Eisenhower professional development state grants	84.281	106,824
State grants for innovative programs	84.298	2,015
Rural education	84.358	37,993
Total		599,503
Special education cluster:		
Special education-grants to states	84.027	307,181
Special education-preschool grants	84.173	10,980
Total		318,161
Total passed-through Mississippi Department of Education		917,664
Total U. S. Department of Education		917,664
Total for All Federal Awards		$ 1,449,873

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, 2007

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	$ 8,083,957	6,640,275	424,551	264,986	754,145
Other	1,981,400	599,998	83,124	8,249	1,290,029
Total	10,065,357	7,240,273	507,675	273,235	2,044,174
Total number of students*	1,205				
Cost per student	$ 8,353	6,009	421	227	1,696

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 Adminstration (2400s); and Support Services - Business (2500s)

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

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

WATER VALLEY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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Dribben & Associates, Ltd.

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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*

October 25, 2007

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, 2007, which collectively comprise Water Valley School District's basic financial statements and have issued our report thereon dated October 25, 2007. 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 audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in the internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings as Finding 2007-01 to be a significant deficiency 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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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described 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 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 that we have reported to management of the school district in a separate letter dated October 25, 2007, 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,

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

Dribben & Associates, Ltd.

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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

October 25, 2007

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, 2007. 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, 2007.

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

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do not express an opinion on the effectiveness of the school district's internal control over compliance.

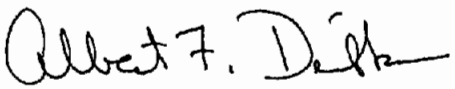
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of deficiencies, that results in more than a remote likelihood that noncompliance with a type of compliance requirement of federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of the internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the 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

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

October 25, 2007

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, 2007, which collectively comprise Water Valley School District's basic financial statements and have issued our report thereon dated October 25, 2007. 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 $13,988 of classroom supply funds carried over from previous years.

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

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

Per Section 71-5-359(2)(f) of the Miss. Code Ann. (1972), each school district may establish a revolving fund for payment of unemployment benefits and the balance in the bund 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 covered wages.

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Recommendation

We recommend that an additional $8,040 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 school district will maintain an adequate balance to cover unemployment claims.

2. Finding

Per Section 31-7-307 of the Miss. Code Ann. (1972), payments of invoices shall be made within 45 days of the receipt, inspection and approval of the goods and services. If not a penalty of one and one-half percent per month shall be paid on the unpaid balance from the expiration of the 45 days until paid. During our tests of activity fund expenditures, we noted one instance of an invoice being paid late.

Recommendation

We recommend that invoices be paid within the 45 days after receipt, inspection and approval of the goods and services.

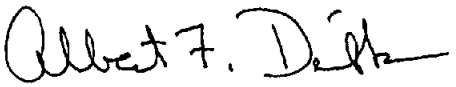
Response

The school district will pay all invoices in a timely manner.

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

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WATER VALLEY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

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 identifed?	No
	b. Significant deficiencies identifed 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 identifed?	No
	b. Significant deficiency identifed that is not considered to be material weakness?	None Reported
6	Any audit finding reported as required by Section ___.510(a) of Circular A-133?	No
7	Federal programs identified as major programs:	
	a. Child nutrition cluster:	
	School breakfast program 10.553	
	National school lunch program 10.555	
	Summer food service program for children 10.559	
	b. 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?	No
10	Prior fiscal year audit findings 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?	Yes

WATER VALLEY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section 2: Financial Statement Findings

2007-01 Finding

Criteria: Policies and procedures should be in place to provide adequate internal control over the purchasing function of the school district.

Condition: During our tests of both general and activity fund expenditures, we noted the following internal control weaknesses:

a. Two instances of a purchase order dated after the invoice date.
b. One instance of an invoice exceeding the purchase order amount.
c. Four instances of paying without an invoice.
d. One instance of paperwork being misfiled and documentation of purchase not being found.
e. Two instances of registration or meeting costs being paid without documentation.
f. One instance of a purchase requisition and a purchase order without dates.
g. Four instances of no purchase requisitions and three instances of no purchase orders.

Cause: Weak internal controls over purchasing.

Effect: Unauthorized payments of invoices and possible deficit budget or cash amounts which would be state law violations.

Recommendation: We recommend that the following steps be taken to tighten internal control over purchasing:

a. Purchase requisitions must be submitted and approved prior to a purchase order being issued. Prior to approval of the purchase requisition, a determination must be made as to whether there is adequate cash as well as budgeted funds to pay the invoice. This is necessary to prevent overspending cash or overspending the budget, both of which are state law violations.
b. Prices of items being requisitioned must be determined prior to submitting the requisitioned or purchase orders issued. Only in this way can adequate cash balances and budget balances be maintained to prevent violations of state law.
c. Payment should not be allowed without a proper invoice. If the invoice has been lost, a certified copy of a lost invoice should be requested by the individual who placed the order.

d. We recommend that adequate documentation of each purchase be maintained and properly filed.
e. The hosting agency of any seminar or meeting should be able to provide documentation of the cost of registration. We recommend that this be secured and attached to any request for registration payment.
f. We recommend that purchase requisitions and purchase orders be timely dated.
g. We recommend that purchases not be allowed without the proper approved purchase requisition and purchase order. Only in this way can the cash balances and budget balances be monitored to prevent overspending and violations of state law.

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.

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WATER VALLEY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR AUDIT FINDINGS

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Jerry Holt, Asst. Supt. / Federal Program Dir.
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Water Valley School District

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

February 15, 2008

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, 2007:

Finding

07- 01 All expenditures will be paid for only after all proper documentation is complete and be filed properly after payment is made. Expenditures will only be paid for only after completed purchase requisition and purchase order issued with invoice amounts not exceeding purchased order amounts.

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

Sincerely,

Sammy Higdon
Superintendent

WATER VALLEY SCHOOL DISTRICT

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Water Valley School District

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ended June 30, 2006

Office of the State Auditor
P.O. Box 956
Jackson, MS 39205

Gentlemen:

Water Valley School District respectfully submits the following summary schedule of prior audit findings relative to federal adwards.

2006 – Finding Number 3: Child Nutrition cluster; Passed-through the Mississippi Department of Education, CFDA #s 10.553, 10.555, and 10.559

Condition: Eligibility

Recommendation: The district should implement controls and procedures to insure only children meeting the eligibility requirements are participating in the child nutrition cluster program.

Current Status: The Superintendent reviewed the finding with the Food Service Supervisor. The corrective action plan was taken and all documentation is complete before a child can participate in the Child Nutrition cluster.

2006 – Finding Number 4: Child nutrition cluster; Passed-through the Mississippi Department of Education, CFDA #s 10.553, 10.555 and 10.559

Condition: Activities allowed or unallowed

Recommendation: The district should implement stronger internal controls to insure that all expenditures are paid in a timely manner, are paid only from an invoice and only made after a purchase order has been issued.

Current Status: The Superintendent reviewed the finding with the Food Service Supervisor. The corrective action was taken to assure all expenditures would be paid timely with complete documentation.

Sincerely,

Sammy Higdon
Superintendent of Education