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CITY OF RICHLAND
AUDITED FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2005

CITY OF RICHLAND

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Richland, Mississippi
Management's Discussion and Analysis
for the Fiscal Year Ended September 30, 2005

This Discussion and Analysis of the City of Richland, Mississippi, financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

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

Financial Highlights

The City of Richland's assets exceeded its liabilities by \$12,537,720 (net assets) for the fiscal year reported.

Total net assets are comprised of the following:

- (1) Capital assets, net of related debt, of \$9,252,374 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
- (2) Net assets of \$212,322 are restricted by constraints imposed from outside the city such as debt covenants, grantors, laws or regulations.
- (3) Unrestricted net assets of \$3,073,024 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

The City's governmental funds on a budgetary basis reported total ending fund balances of \$1,859,955 this year. This compares to the prior year ending fund balance of \$1,509,665 showing an increase of \$350,290 during the year.

At the end of the current fiscal year, unreserved fund balance on a budgetary basis for the General Fund was \$1,660,738 or 25% of total General Fund expenditures including transfers and 24% of total General Fund revenues including transfers.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statement. The basic financial statements include: 1) government-wide financial statements; 2) fund financial statement; and 3) notes to the basic financial statement. The report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Richland's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Richland'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 City of Richland is improving or deteriorating.

The *statement of activities* presents information showing how the government'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 periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Richland that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Richland include general government, public safety, public services, culture and recreation. The business-type activities include water and sewer utilities and solid waste management.

The government-wide financial statements include the funds of the City (primary government) and organizations for which the City is accountable (component units).

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 City of Richland uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Richland can be divided into two categories: governmental funds and proprietary 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 *near-term inflows and outflows of 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 a government's near-term financing requirements. Governmental funds include the general fund.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Richland maintains individual governmental funds in accordance with the *Municipal Audit and Accounting Guide* issued by the Mississippi Office of the State Auditor. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds 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.

The basic governmental fund financial statements can be found on pages 6 - 9 of this report.

Proprietary funds are reported in the fund financial statements and generally report services for which the City of Richland charges customers a fee. There are two kinds of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for the Water and Sewer Department. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Richland's various functions. The City used an internal service fund to account for the employee benefits program. This fund is a self-insured and self-funded health insurance program provided to the employees of the City. Fund financial statements for the proprietary fund provide

the same type of information as the government-wide financial statements, only in more detail.

The proprietary funds financial statements can be found on pages 10 - 14 of this report.

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

The notes to the financial statements can be found on pages 15 - 32 of this report.

Government-wide Financial Analysis

Net Assets: Net assets may serve over time as a useful indicator of the government's financial position. The City of Richland's net assets at fiscal year-end are \$12,537,720. The following table provides a summary of the City's net assets for the fiscal year ended September 30, 2005:

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 4,815,351	\$ 1,690,135	\$ 6,505,486
Capital assets	<u>10,428,004</u>	<u>7,064,915</u>	<u>17,492,919</u>
Total assets	<u>15,243,355</u>	<u>8,755,050</u>	<u>23,998,405</u>
Long-term liabilities	7,251,062	386,696	7,637,758
Other liabilities	<u>3,435,982</u>	<u>386,945</u>	<u>3,822,927</u>
Total liabilities	<u>10,687,044</u>	<u>773,641</u>	<u>11,460,685</u>
Net Assets:			
Invested in capital assets net of related debt	2,654,507	6,597,867	9,252,374
Debt restricted for debt service	199,217	13,105	212,322
Unrestricted	<u>1,702,587</u>	<u>1,370,437</u>	<u>3,073,024</u>
Total net assets	<u>\$ 4,556,311</u>	<u>\$ 7,981,409</u>	<u>\$ 12,537,720</u>

The following table provides a summary of the City's changes in net assets:

Summary of Changes in Net Assets

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Revenues			
Program revenues			
Charge for service	\$ 442,201	\$ 1,801,830	\$ 2,244,031
General revenues			
Advalorem taxes	1,810,386	-	1,810,386
Sales tax	4,114,885	-	4,114,885
Licenses and permits	121,357	-	121,357
Intergovernmental revenues	227,554	-	227,554
Garbage fees	275,080	-	275,080
Fines and forfeits	364,697	-	364,697
Franchise tax	224,584	-	224,584
Interest	124,256	17,541	141,797
Grand Gulf	137,399	-	137,399
Miscellaneous	266,675	-	266,675
Assessments	159,826	-	159,826
Transfers	<u>(64,000)</u>	<u>(60,000)</u>	<u>(124,000)</u>
Total revenues	<u>\$ 8,204,900</u>	<u>\$ 1,759,371</u>	<u>9,964,271</u>
Expenses:			
General government	693,704	-	693,704
Police Department	1,933,300	-	1,933,300
Court Services	260,464	-	260,464
EOC Department	54,348	-	54,348
Fire Department	1,364,075	-	1,364,075
Street Department	1,206,962	-	1,206,962
Sanitation Department	245,628	-	245,628
Parks and Recreation	687,004	-	687,004
Library	19,847	-	19,847
Urban Programs	66,949	-	66,949
Internal service fund	467,481	-	467,481
Depreciation and transfer	790,555	-	790,555
Water and sewer	-	1,515,347	1,515,347
Total expenses	<u>\$ 7,790,317</u>	<u>\$ 1,515,347</u>	<u>\$ 9,305,664</u>
Change in net assets	414,583	244,024	658,607
Beginning net assets	<u>4,141,728</u>	<u>7,737,385</u>	<u>11,879,113</u>
Ending net assets	<u>\$ 4,556,311</u>	<u>\$ 7,981,409</u>	<u>\$ 12,537,720</u>

Financial Analysis of the City's Funds

Governmental funds: The focus of the City of Richland's governmental funds is to provide information on near-term inflows, outflow, and balances of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$1,859,955. Of this year-end total \$1,660,738 is unreserved indicating availability for continuing City service requirements. Reserved fund balances include \$181,319 committed to debt service.

The total ending fund balances of governmental funds show an increase of \$350,290 over the prior year.

The general fund is the chief operating fund of the City of Richland. The fund balance of the City's general fund increased by \$314,588 during the fiscal year ended September 30, 2005. Key factors in this growth are as follows:

An increase in the local sales tax revenue of \$243,192. New businesses and increased sales at existing businesses have resulted in this increase.

An increase in the advalorem tax millage. The millage rate of 20.0 mills resulting in an increase of \$55,386 in advalorem tax revenue.

The debt service fund has a total fund balance of \$181,319, all of which is reserved for the payment of debt service.

Proprietary funds: At the close of the fiscal year, the City of Richland's proprietary fund reported total net assets of \$7,926,375 which includes \$55,034 deficit in the internal service fund to account for the employee insurance benefit program. Operating revenues totaled \$2,244,031 and operating expenses totaled \$1,962,646 resulting in operating income of \$281,385. After non-operating expenses of \$2,022, transfers out of \$60,000, and contributed capital of \$0.00 the change in net assets in the proprietary fund was an increase of \$219,363.

General Fund Budgetary Highlights

The General Fund budget for fiscal year ended September 30, 2005 was \$7,243,425.

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

The difference between the original budget and the final amended budget was a net increase of \$335,655. This increase can be briefly summarized as follows:

\$11,010 increase to the Financial/Administrative Department allocated for personnel services
\$2,000 increase to the Financial/Administrative Department allocated for consumable supplies
\$139,225 increase to the Police Department allocated for personnel services
\$2,500 increase to the Police Department allocated for consumable supplies
\$35,000 increase to the Police Department allocated for contractual services
\$15,500 decrease to the Police Department allocated for capital outlay
\$15,505 increase to the Court Services Department allocated for personnel services
\$60,015 increase to the Park Department allocated for personnel services
\$2,500 increase to the Park Department allocated for consumable supplies
\$10,000 increase to the Park Department allocated for contractual services
\$5,000 increase to Urban Programs allocated for contractual services
\$47,710 increase to the Fire Department allocated for personnel services
\$25,690 increase to the Public Works Department allocated for personnel services

Of this net increase, \$55,000 was to be funded out of additional revenue for general property tax, \$3,100 for interest income, \$5,611 for court administration fees, \$170,655 for sales tax, \$10,000 for drug seizure. The remaining \$96,289 was budgeted from available beginning fund balance based on amounts reported in the City's audit for September 30, 2004.

Capital Assets and Debt Administration

Capital Assets: The City of Richland's investment in capital assets for the governmental and business-type activities as of September 30, 2005 was \$15,062,715 and \$13,374,596 respectively, resulting in the total capital assets of \$28,437,311. This includes land, infrastructure, buildings, furniture and equipment, and mobile equipment.

Total accumulated depreciation as of September 30, 2005 was \$10,950,642. (\$4,634,711 for government-type activities and \$6,315,931 for business-type activities) The balance in total net capital assets was \$17,486,669.

Debt Administration: At September 30, 2005, the City of Richland had \$8,240,545 in long-term debt outstanding. This includes general obligation bonds, revenue bonds, special assessment debt, capital improvement revolving loans and loans/leases.

General Fund revenue funded the Tax Increment Limited Obligation Bonds and Notes/Leases for \$297,495 this fiscal year reported. Since the Tax Increment Limited Obligation Bonds were issued in 2000, the General Fund revenues have increased 30% from \$5,271,691 to \$6,832,956. The General Obligation Special Improvement Bonds are funded from assessments levied against the property owners benefited by this construction. A 2% Community Development Tax levied by Mississippi Legislature House Bill 1717 on April 16, 1998, generated 99.7% of the funds required for the debt service of the Mississippi Development Bank Special Obligation Bonds.

Enterprise Fund revenue provided funding of the Capital Improvements Revolving Loan and Notes/Leases for \$66,611 this fiscal year reported.

The City of Richland maintains an “A-” bond rating from Standard & Poor’s. The State of Mississippi limits the amount of debt a city can issue to 15% of the assessed value of the taxable property within the City. The City’s outstanding debt is significantly below its current limit of 11 million dollars.

Additional information on the City’s long-term debt can be found on page 25 and page 26 of this report.

Economic Factors and Next Year’s Budget and Rates

When creating the budget, the City of Richland leadership’s primary objective was to provide quality city services while at the same time attempting to keep property rates low. We expect an increase in sales taxes revenue due to our healthy economy.

The City of Richland is a distribution center for the southeastern United States. Our economic base is dependent on retail sales and industrial development. The City, however, is not dependent on a particular business to maintain its tax base. It has been able to see a growing tax base and to experience a stable economy from business development and employment growth.

The City of Richland has the following projects underway that will be of benefit to the municipality:

1. *Drainage:* This year we will be building a retention pond as part of the Southgate Drainage Improvement and continuing the rip rapping of Squirrel Branch.
2. *Beautification and Litter Control:* We will continue to use prison labor for the pickup of litter and trash in our city on the major byways. We will begin additional beautification measures throughout the city and amend/add ordinances that will enhance our city and its environment.
3. *Library Expansion:* We are aware that there is a definite need for more space due to the thriving children’s programs. We will look at different options to help alleviate this problem.
4. *Police Department Expansion:* Plans have been developed to expand and improve our police department facilities. Engineering Services has done the site survey. We hope to hire an architect soon so work can begin.
5. *Parks and Recreation:* Plans for improvement to our Parks and Recreation facilities include: re-roofing the Pavilion at East Side Park, dismantling and

rebuilding a concession stand located at West Side Park, and to add lighting on Field 8 and 9 (T-ball fields) located at West Side Park.

6. *Senior Citizens:* As our Senior Citizen Program continues to grow, we are planning more activities and programs in the future. Our seniors are very important to the City and we certainly want them to enjoy their golden years here in Richland.

Requests for Information

This financial report is designed to provide a general overview of the City of Richland's finances and to demonstrate the City's commitment to public accountability for the funds it receives. If you have any questions about this report or would like to request additional information, please contact the City of Richland, City Clerk's Office, P. O. Box 180609, Richland, Mississippi 39218-0609.

INDEPENDENT AUDITORS' REPORT

Lyle, Walker & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

David L. Lyle, CPA
Gary L. Walker, CPA
Jessica Lea Minter, CPA, PFS, CFP

MEMBERS
American Institute of
Certified Public Accountants
Mississippi Society of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**The Honorable Mayor and Board of Alderman
City of Richland
Richland, Mississippi**

We have audited the accompanying general purpose financial statements and the combining, individual fund and account group statements and schedules of the City of Richland, Mississippi, as of and for the year ended September 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the City of Richland's management. Our responsibility is to express an opinion 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Richland, Mississippi as of September 30, 2005, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining, individual fund and account group statements and schedules referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the City of Richland, Mississippi as of September 30, 2005, and the results of operations of such funds and the cash flows of the proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable Mayor and Board of Aldermen
City of Richland
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2005, on our consideration of the City of Richland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose statements taken as a whole and on the combining, individual fund and account group financial statements and schedules. The financial information listed as other supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

Lyle Walker & Co., P.A.

December 7, 2005

BASIC FINANCIAL STATEMENTS

CITY OF RICHLAND
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

<u>ASSETS</u>	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 1,740,172	\$ 1,340,752	\$ 3,080,924
Receivables (net of uncollectible amounts)	2,959,648	175,249	3,134,897
Restricted cash and cash equivalents	115,531	168,079	283,610
Other	-	6,055	6,055
Capital assets:			
Land and buildings	6,979,741	6,250	6,985,991
Improvements	4,062,936	12,818,685	16,881,621
Machinery and equipment	4,020,038	555,911	4,575,949
Accumulated depreciation	(4,634,711)	(6,315,931)	(10,950,642)
 Total assets	 15,243,355	 8,755,050	 23,998,405
 <u>LIABILITIES</u>			
Accounts payable	303,628	124,111	427,739
Customer deposits	-	163,325	163,325
Accrued salaries	23,035	1,872	24,907
Accrued vacation pay	174,370	17,285	191,655
Deferred revenue	2,412,514	-	2,412,514
Noncurrent liabilities:			
Due within one year	522,435	80,352	602,787
Due within more than one year	7,251,062	386,696	7,637,758
 Total liabilities	 10,687,044	 773,641	 11,460,685
 <u>NET ASSETS</u>			
Invested in capital assets net of debt	2,654,507	6,597,867	9,252,374
Restricted for debt service	199,217	13,105	212,322
Unrestricted	1,702,587	1,370,437	3,073,024
 Total net assets	 \$ 4,556,311	 \$ 7,981,409	 \$ 12,537,720

See accompanying notes to the financial statements.

CITY OF RICHLAND

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2005

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES		Net (Expense) Revenue
		Charges for Services	Grants and contributions Operating Capital	
Governmental activities:				
General government	\$ 693,704	\$ -	\$ -	\$ (693,704)
Police Department	1,933,300	-	-	(1,933,300)
Court Services	260,464	-	-	(260,464)
EOC Department	54,348	-	-	(54,348)
Fire Department	1,364,075	-	-	(1,364,075)
Street Department	1,206,962	-	-	(1,206,962)
Sanitation Department	245,628	-	-	(245,628)
Parks and Recreation	687,004	-	-	(687,004)
Library	19,847	-	-	(19,847)
Urban Programs	66,949	-	-	(66,949)
Internal service fund	467,481	442,201	-	(25,280)
Depreciation and transfer	790,555	-	-	(790,555)
Total governmental activities	<u>7,790,317</u>	<u>442,201</u>	<u>-</u>	<u>(7,348,116)</u>
Business-type activities:				
Water and sewer	<u>1,515,347</u>	<u>1,801,830</u>	<u>-</u>	<u>286,483</u>
Total primary government	<u>\$ 9,305,664</u>	<u>\$ 2,244,031</u>	<u>\$ -</u>	<u>\$ (7,061,633)</u>

Continued

See accompanying notes to the financial statements.

CITY OF RICHLAND

STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2005

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Change in Net Assets:			
Net (expense) revenue	\$ (7,348,116)	\$ 286,483	\$ (7,061,633)
GENERAL REVENUES			
Advalorem taxes	1,810,386	-	1,810,386
Sales tax	4,114,885	-	4,114,885
Licenses and permits	121,357	-	121,357
Intergovernmental revenues	227,554	-	227,554
Garbage fees	275,080	-	275,080
Fines and forfeits	364,697	-	364,697
Franchise tax	224,584	-	224,584
Interest	124,256	17,541	141,797
Grand Gulf	137,399	-	137,399
Miscellaneous	266,675	-	266,675
Assessments	159,826	-	159,826
Total revenue	7,826,699	17,541	7,844,240
TRANSFERS:			
Operating in	60,000	-	60,000
Operating out	(124,000)	(60,000)	(184,000)
Total general revenues and transfers	7,762,699	(42,459)	7,720,240
Change in Net Assets	414,583	244,024	658,607
Net assets - beginning	4,141,728	7,737,385	11,879,113
Net assets - ending	\$ 4,556,311	\$ 7,981,409	\$ 12,537,720

See accompanying notes to the financial statements.

CITY OF RICHLAND

BALANCE SHEET

GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash				
Cash on hand	\$ 18,552	\$ -	\$ -	\$ 18,552
Cash on deposit	1,653,483	115,531	60,580	1,829,594
	<u>1,672,035</u>	<u>115,531</u>	<u>60,580</u>	<u>1,848,146</u>
Receivables				
Other	173,610	2,442,602	-	2,616,212
Due from other governments				
	<u>306,294</u>	<u>-</u>	<u>23,106</u>	<u>329,400</u>
Total assets	<u>\$ 2,151,939</u>	<u>\$ 2,558,133</u>	<u>\$ 83,686</u>	<u>\$ 4,793,758</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES				
Accounts payable	\$ 215,930	\$ -	\$ 65,788	\$ 281,718
Accrued salaries	112,303	-	-	112,303
Accrued vacation pay	127,268	-	-	127,268
Deferred revenue	35,700	2,376,814	-	2,412,514
Total liabilities	<u>491,201</u>	<u>2,376,814</u>	<u>65,788</u>	<u>2,933,803</u>
 FUND BALANCES				
Reserved for debt service	-	181,319	17,898	199,217
Reserved for capital outlay	-	-	-	-
Unrestricted, undesignated	1,660,738	-	-	1,660,738
Total fund balances	<u>1,660,738</u>	<u>181,319</u>	<u>17,898</u>	<u>1,859,955</u>
Total liabilities and fund balances	<u>\$ 2,151,939</u>	<u>\$ 2,558,133</u>	<u>\$ 83,686</u>	<u>\$ 4,793,758</u>

See accompanying notes to the financial statements.

CITY OF RICHLAND

RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2005

Total fund balance - total governmental funds	\$ 1,859,955
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$15,062,715, net of accumulated depreciation of \$4,634,711, are not financial resources and, therefore are not reported in the funds	10,428,004
GAAP to Budgetary conversion	96,883
Internal service fund is used to account for employee benefits. The assets and liabilities of the internal service fund is included in the governmental activities in the statement of net assets	(55,034)
Notes and bonds payable are not included in the funds	<u>(7,773,497)</u>
	\$ <u><u>4,556,311</u></u>

See accompanying notes to the financial statements.

CITY OF RICHLAND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Advalorem taxes	\$ 1,810,386	\$ -	\$ -	\$ 1,810,386
Sales tax	3,813,847	-	261,623	4,075,470
Licenses and permits	121,357	-	-	121,357
Inter-governmental revenues	227,554	-	-	227,554
Garbage fees	275,080	-	-	275,080
Fines and forfeits	364,697	-	-	364,697
Franchise tax	224,584	-	-	224,584
Interest	22,759	100,221	657	123,637
Grand Gulf	137,399	-	-	137,399
Miscellaneous	266,675	159,826	-	426,501
Total revenue	<u>7,264,338</u>	<u>260,047</u>	<u>262,280</u>	<u>7,786,665</u>
EXPENDITURES				
General Government	699,131	-	-	699,131
Police Department	1,951,208	-	-	1,951,208
Court Services	257,156	-	-	257,156
EOC Department	54,348	-	-	54,348
Fire Department	1,382,717	-	-	1,382,717
Public Works	1,218,668	-	-	1,218,668
Sanitation Department	245,628	-	-	245,628
Parks and Recreation	694,098	-	-	694,098
Library	19,847	-	-	19,847
Urban Programs	66,949	-	-	66,949
Debt service - Principal	-	250,000	115,000	365,000
Debt service - Interest	-	274,611	139,855	414,466
Other	-	2,139	1,020	3,159
Total expenditures	<u>6,589,750</u>	<u>526,750</u>	<u>255,875</u>	<u>7,372,375</u>
Excess of revenues/expenditures	674,588	(266,703)	6,405	414,290
Operating transfers out	(420,000)	(124,000)	-	(544,000)
Operating transfers in	60,000	420,000	-	480,000
Net change in Fund Balance	<u>314,588</u>	<u>29,297</u>	<u>6,405</u>	<u>350,290</u>
Fund balance - Beginning	<u>1,346,150</u>	<u>152,022</u>	<u>11,493</u>	<u>1,509,665</u>
Fund balance - Ending	<u>\$ 1,660,738</u>	<u>\$ 181,319</u>	<u>\$ 17,898</u>	<u>\$ 1,859,955</u>

See accompanying notes to the financial statements.

CITY OF RICHLAND

RECONCILIATION OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO
STATEMENT OF ACTIVITIES

SEPTEMBER 30, 2005

Net change in fund balances - total government funds	\$	350,290
Amounts reported for governmental activities in the statement of activities are different because:		
Revenue and expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported as revenue and expenditures in governmental funds.		96,883
The net income (loss) of activities of the internal service fund is reported with governmental activities.		(24,661)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense for the period.		(792,361)
The net effect of various miscellaneous transactions involving capital asset (i.e., sales, trade-ins) is the following amount.		1,807
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the long-term debt consumes the current financial resources of governmental funds. This amount is the total debt payments (\$650,750) less payments from other funds (\$124,000).		526,750
Other governmental funds provide debt service in the following amount.		255,875
Change in net assets of governmental activities	\$	<u>414,583</u>

CITY OF RICHLAND
 STATEMENT OF FUND NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2005

	<u>Business-type Activities - Enterprise Funds Water & Sewer</u>	<u>Governmental Activities - Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,340,752	\$ 7,557
Accounts receivable (net of uncollectible allowance)	175,249	40,409
Other	6,055	-
Total current assets	<u>1,522,056</u>	<u>47,966</u>
Noncurrent assets:		
Restricted cash and cash equivalents:		
Customer deposits	<u>168,079</u>	<u>-</u>
Total restricted assets	<u>168,079</u>	<u>-</u>
Capital assets:		
Land and buildings	6,250	-
Improvements	12,818,685	-
Machinery and equipment	555,911	-
Accumulated depreciation	<u>(6,315,931)</u>	<u>-</u>
Total capital assets	<u>7,064,915</u>	<u>-</u>
Total noncurrent assets	<u>7,232,994</u>	<u>-</u>
Total assets	<u>8,755,050</u>	<u>47,966</u>

See accompanying notes to the financial statements.

<u>LIABILITIES</u>	<u>Business-type Activities - Enterprise Funds Water & Sewer</u>	<u>Governmental Activities - Internal Service Fund</u>
Current liabilities:		
Accounts payable	\$ 124,111	\$ 103,000
Customer deposits	163,325	-
Accrued salaries	1,872	-
Accrued vacation pay	17,285	-
Current portion of long term debt	80,352	-
Total current liabilities	<u>386,945</u>	<u>103,000</u>
Noncurrent liabilities:		
Revenue bonds payable	-	-
Notes payable	386,696	-
Total noncurrent liabilities	<u>386,696</u>	<u>-</u>
Total liabilities	<u>773,641</u>	<u>103,000</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	6,597,867	-
Restricted for debt service	13,105	-
Unrestricted	1,370,437	(55,034)
Total net assets	<u>\$ 7,981,409</u>	<u>\$ (55,034)</u>

CITY OF RICHLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS - PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2005

	Business-type Activities - Enterprise Funds Water & Sewer	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 1,318,252	\$ -
Service charges and other	483,578	-
Contribution for employee benefits	-	442,201
Total operating revenue	<u>1,801,830</u>	<u>442,201</u>
OPERATING EXPENSES		
Personnel services	325,673	-
Supplies and materials	85,197	-
Sewer treatment	487,818	-
Depreciation	418,168	-
Other	178,309	467,481
Total operating expenses	<u>1,495,165</u>	<u>467,481</u>
Operating income	<u>306,665</u>	<u>(25,280)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	17,541	619
Interest expense	(20,182)	-
Total nonoperating revenues (expenses)	<u>(2,641)</u>	<u>619</u>
INCOME BEFORE OPERATING TRANSFERS	304,024	(24,661)
Transfer to general fund	(60,000)	-
Contributed capital used to acquire fixed assets	-	-
NET INCOME (LOSS)	244,024	(24,661)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>7,737,385</u>	<u>(30,373)</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 7,981,409</u>	<u>\$ (55,034)</u>

See accompanying notes to the financial statements.

CITY OF RICHLAND
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2005

	Business-type Activities - Enterprise Funds Water & Sewer	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,789,313	\$ 619
Cash received from employer	-	343,644
Cash payments for goods and services	(720,384)	(500,890)
Cash payments (to) from employees	(331,795)	98,557
Net cash provided by operating activities	<u>737,134</u>	<u>(58,070)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Appropriations (to) from restricted cash	(79,441)	-
Purchase of equipment from unrestricted cash	(314,333)	-
Net cash used in capital and related financing activities:	<u>(393,774)</u>	<u>-</u>
 NET INCREASE IN CASH	 343,360	 (58,070)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>997,392</u>	 <u>65,627</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 1,340,752</u>	 <u>\$ 7,557</u>
 SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 17,541</u>	<u>\$ -</u>

- Continued -

See accompanying notes to the financial statements.

CITY OF RICHLAND
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2005

PAGE TWO

	<u>Business-type Activities - Enterprise Funds Water & Sewer</u>	<u>Governmental Activities - Internal Service Fund</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	\$ 244,024	\$ (24,661)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	418,168	-
Changes in:		
Receivables	(12,517)	(40,409)
Payables and accrued liabilities	<u>87,459</u>	<u>7,000</u>
Net cash provided by operating activities	<u>\$ 737,134</u>	<u>\$ (58,070)</u>

See accompanying notes to the financial statements.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The City of Richland was incorporated November 3, 1975. The City operates under an Alderman-Mayor form of government and provides all of the rights and privileges provided by statute for municipalities. On September 18, 1986, the Board of Alderman of the City of Richland approved the merger and dissolution of the Richland Water and Sewer District of Rankin County, Mississippi into the City of Richland to be effective October 1, 1986. Services provided by the City include: public safety - police and fire, street, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services. A public school system is available to residents of the City of Richland but is not under the jurisdictions of the City government.

Blended component unit. The Water and Sewer Fund serves all the residents and is governed by the board of Aldermen of the City. The rates for users charges and bond issuance authorizations are approved by the aldermen and the legal liability for the bond and lease obligations of the Fund's debt remains with the government. The water and sewer fund is reported as an enterprise fund. The City has no discretely presented component units.

The financial statements of the City have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The effect of interfund activity, within the governmental and business type activities, has been removed from these statements. The primary government is presented separately within the financial statements with the focus on the primary government. These statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The city reports the following major government fund:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for the payment of general long-term debt not being financed by proprietary funds.

The City reports as non-major funds:

Capital Projects Fund

The Capital Projects Fund accounts for the proceeds from bond issues and other revenues to be used for the authorized construction of fixed assets. This fund is currently being used to account for expenditures for street improvements.

Community Development Fund

The Community Development Fund accounts for the proceeds collected in accordance with the Mississippi Legislature House Bill No. 1717 which authorizes the collection of 2% tax on sales of bars and restaurants. The expenditures are for payment of debt.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Crime Prevention Fund

The Crime Prevention Fund accounts for the proceeds from state grants and the disbursements for authorized expenditures under the municipalities Crime Prevention Program.

The City reports the following as an enterprise fund:

Water and Sewer Fund

The Water and Sewer Fund is used to account for the operations of the Water and Sewer Utility Enterprise Fund. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund

The City reports the internal service fund which is used to account for the employee benefits program. This fund is a self-insured and self-funded health insurance program provided to the employees of the City.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING,
AND FINANCIAL STATEMENT PRESENTATION

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements report using the current financial resources measurement focus and are accounted for using the modified accrual basis accounting. Fines, penalties and interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Franchise taxes, sales taxes, intergovernmental revenue, and interest income are accrued, when their receipt occurs soon enough after the end of the accounting period so as to be both measurable and available. Gross sales taxes are considered “measurable” when in the hands of intermediary collecting governments and are recognized as revenue at that time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

Proprietary fund financial statements report operating income as revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenue for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash

The City deposits funds in financial institutions selected by the board of aldermen in accordance with state statutes. Various restrictions on deposits are imposed by statutes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

All deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) must be collateralized in the amount equal to 105% of the uninsured deposit.

Receivables

Enterprise receivables

Enterprise fund receivable include amounts due from customers primarily for water and sewer services. There is an allowance for uncollectible accounts.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes receivable

Taxes are levied annually on December 1 and are due for payment without penalty and interest by February 1. Major tax payments are received January through April. Taxes receivable represent delinquent taxes that are received within thirty days. Over time substantially all property taxes are collected.

Sales tax receivable

Sales tax receivable represents taxes that are received within thirty days from the State Tax Commission.

Restricted Assets

Restricted assets are monies or other resources which are restricted by legal or contractual requirements. These amounts represent appropriations for debt retirement and capital expenditures and monies received as utility deposits.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vehicles	5
Office equipment	5
Computer equipment	5

Estimates

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

Property Taxes

Restrictions associated with property tax levies are established by state law which provides that the state levy for general purposes shall produce no more than 110% of the amount which results from those levies, assessments of the previous year. The City of Richland was in compliance with state law.

Contributions in Aid of Construction

Proceeds from grants from governmental agencies, assessments to customers and interlocal agreements are not reflected as revenues but rather are recorded as a contribution of assets.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. Vested or accumulated vacation leave in proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulated rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

BUDGET BASIS OF ACCOUNTING

The City prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund to provide a meaningful comparison of actual results with the budget.

The City uses the following procedures in establishing the budgetary data reflected in the financial statements:

- 1) The department heads submit proposed expenditure budgets to the Mayor.
- 2) The Mayor prepares estimates of available revenue.
- 3) Expenditure budgets are reviewed by the Mayor, the Board of Aldermen and the City Clerk and necessary revisions are communicated to department heads.
- 4) Budgeted revenues and expenditures are balanced and a summary budget is prepared.
- 5) The Mayor and Board of Aldermen approve the final budget and it is published in a local newspaper before September 30.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mississippi law requires that municipalities budget on a modified-cash-basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for using the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principle.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is used in governmental funds. Encumbrances outstanding at year end are recorded as reservations of fund balances and do not constitute expenditures or liabilities of the present year, because the commitment will be honored in the subsequent year.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005, was as follows:

	General Fixed Assets 10-01-04	Additions	Deductions	General Fixed Assets 9-30-05
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ 642,540	\$ -	\$ -	\$ 642,540
Other capital assets				
General	2,006,728	8,341	20,139	1,994,930
Police protection	1,868,130	89,339	84,613	1,872,856
Fire protection	1,869,833	7,969	10,785	1,867,017
Public Works	4,527,795	97,027	17,292	4,607,530
Emergency Operations Center	27,980	12,389	-	40,369
Parks	3,481,587	61,336	10,497	3,532,426
Library	512,325	-	7,278	505,047
Total other capital assets	<u>14,294,378</u>	<u>276,401</u>	<u>150,604</u>	<u>14,420,175</u>
Total other capital assets at historical cost	<u>14,936,918</u>	<u>276,401</u>	<u>150,604</u>	<u>15,062,715</u>
Less accumulated depreciation for:				
General	(332,480)	(77,817)	19,237	(391,060)
Police protection	(1,000,441)	(172,566)	84,387	(1,088,620)
Fire protection	(745,439)	(108,362)	10,491	(843,310)
Public Works	(1,251,267)	(264,384)	17,263	(1,498,388)
Emergency Operations Center	(514)	(5,633)	-	(6,147)
Parks	(572,791)	(147,909)	10,485	(710,215)
Library	(88,541)	(15,690)	7,260	(96,971)
Total accumulated depreciation	<u>(3,991,473)</u>	<u>(792,361)</u>	<u>149,123</u>	<u>(4,634,711)</u>
Governmental activities capital assets, net	<u>\$ 10,945,445</u>	<u>\$ (515,960)</u>	<u>\$ 299,727</u>	<u>\$ 10,428,004</u>

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CAPITAL ASSETS (CONTINUED)

	General Fixed Assets 10-01-04	Additions	Deductions	General Fixed Assets 9-30-05
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 6,250	\$ -	\$ -	\$ 6,250
Other capital assets				
Improvements	12,552,930	109,017	-	12,661,947
Machinery and equipment	507,333	205,316	-	712,649
Total other capital assets at historical cost	<u>13,060,263</u>	<u>314,333</u>	<u>-</u>	<u>13,374,596</u>
Less accumulated depreciation for:				
Improvements	(5,586,757)	(335,259)	-	(5,922,016)
Machinery and equipment	(311,006)	(82,909)	-	(393,915)
Total accumulated depreciation	<u>(5,897,763)</u>	<u>(418,168)</u>	<u>-</u>	<u>(6,315,931)</u>
Business-Type activities capital assets, net	<u>\$ 7,162,500</u>	<u>\$ (103,835)</u>	<u>\$ -</u>	<u>\$ 7,058,665</u>

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental activities

General	\$ 77,817
Police protection	172,566
Fire protection	108,362
Public Works	264,384
Emergency Operations Center	5,633
Parks	147,909
Library	15,690

\$ 792,361

Business- type activities

Improvements	\$ 335,259
Machinery and equipment	82,909

\$ 418,168

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM DEBT

Bonds and notes payable at September 30, 2005, are comprised of:

GOVERNMENTAL ACTIVITIES

BONDS:

Mississippi Development Bank Special Obligation Bonds

\$3,000,000 series 1999 Special Obligation Bonds, bearing interest payable semi-annually at rates varying from 5.1 to 6.25 percent. Funded by 2% Community Development Tax levied by Mississippi Legislature House Bill 1717, April 16, 1998, 2% levy expiring at time of debt repayment. Revenue generated by 2% tax provided 99.7% of debt service on bonds.

\$ 2,390,000

General Obligation:

\$2,750,000 series 2000 Tax Increment Limited Obligation Bonds, bearing interest payable annually at rates varying from 5.25 to 7.00 percent. Debt serviced by General Fund revenue. Since bonds were issued in 2000, General Fund revenues have increased from \$5,271,691 to \$6,832,956, a 30% increase.

\$ 2,180,000

\$2,800,000 series 2000 General Obligation Special Improvement Bonds bearing interest payable semi-annually at rates varying from 5.20 to 6.50 percent. The City issued this special assessment debt in 2000 to provide funds for the construction of an industrial park and related infrastructure. These bonds will be repaid from assessments levied against the property owners benefited by this construction.

2,375,000

\$ 4,555,000

NOTES/LEASES PAYABLE:

Trustmark National Bank, 3.40 percent lease, dated 04-22-03, payable over three years. The proceeds were used to purchase a vehicles.

\$ 8,084

Trustmark National Bank, 3.94 percent lease, dated 12-30-02, payable over ten years. The proceeds were used to purchase a fire truck.

365,063

MS Department of Economic & Community Development, 4.65% lease, dated 8-1-00, payable over 20 years. Fire station project

388,588

Trustmark National Bank, 3.60 percent lease, dated 12-19-02, payable over four years. The proceeds were used to purchase a vehicle.

4,671

Trustmark National Bank, 4.95 percent lease, dated 01-03-03, payable over three years. The proceeds were used to purchase vehicles.

8,900

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM DEBT (CONTINUED)

Trustmark National Bank, 5.00 percent lease, dated 4-02-01, payable over five years. Police console.	\$ 15,366
Trustmark National Bank, 2.90 percent lease, dated 2-03-04, payable over three years. City vehicle.	8,784
Trustmark National Bank, 2.90 percent lease, dated 2-03-04, payable over three years. City vehicle.	8,784
Trustmark National Bank, 2.90 percent lease, dated 2-03-04, payable over three years. City vehicle.	9,471
Trustmark National Bank, 2.90 percent lease, dated 2-03-04, payable over three years. City tractor.	<u>10,786</u>
	<u>\$ 828,497</u>

BUSINESS-TYPE ACTIVITIES

REVENUE BONDS:

\$255,000 Water and Sewer Revenue Bond Issue of 1971, interest at the rate of 7 percent payable semi-annually; annual principal payments begin in year 1991 and continue through the year 2006	\$ <u>30,000</u>
--	------------------

NOTES/LEASES PAYABLE:

\$753,375 Capital Improvements Revolving Loan for water improvements, interest at the rate of 3.7 percent, principal and interest payments of \$5,460 payable monthly through the year 2013. Water and sewer department generates funds to cover operating costs and debt service by customer charges. If charges are insufficient to cover costs, charges are increased to cover such costs.	\$ <u>437,048</u>
	<u>\$ 437,048</u>

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all bonded debt outstanding as of September 30, 2005 follows:

GOVERNMENTAL ACTIVITIES

<u>Year Ended September 30,</u>	<u>Special Obligation Principal</u>	<u>General Obligation Principal</u>	<u>Notes Payable</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 120,000	\$ 280,000	\$ 122,435	\$ 424,164	\$ 946,599
2007	125,000	290,000	71,257	394,036	880,293
2008	135,000	300,000	63,190	365,136	863,326
2009	140,000	315,000	65,817	337,573	858,390
2010	145,000	340,000	68,608	309,457	863,065
Years Thereafter	<u>1,725,000</u>	<u>3,030,000</u>	<u>437,190</u>	<u>1,532,011</u>	<u>6,724,201</u>
	<u>\$ 2,390,000</u>	<u>\$ 4,555,000</u>	<u>\$ 828,497</u>	<u>\$ 3,362,377</u>	<u>\$ 11,135,874</u>

BUSINESS-TYPE ACTIVITIES

<u>Year Ended September 30,</u>	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Notes Payable</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 30,000	\$ 50,352	\$ 17,268	\$ 97,620
2007	-	-	52,247	13,273	65,520
2008	-	-	54,214	11,306	65,520
2009	-	-	56,254	9,266	65,520
2010	-	-	58,371	7,149	65,520
Years Thereafter	<u>-</u>	<u>-</u>	<u>165,610</u>	<u>8,098</u>	<u>173,708</u>
	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 437,048</u>	<u>\$ 66,360</u>	<u>\$ 533,408</u>

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM DEBT (CONTINUED)

At September 30, 2005, the City of Richland had industrial development revenue bonds as follows:

\$6,500,000 Series 1991 at 9.7 percent interest
\$3,000,000 Series 1995 at 6.74 percent interest

Long-term debt does not include amounts for industrial revenue bonds issued to provide funds for direct financing leases to aid industries. Industrial revenue bonds issued under provision of state law do not constitute an indebtedness to the municipality.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM DEBT (CONTINUED)

LIMITATION OF INDEBTEDNESS

No municipality shall hereafter issue bonds for the purposes authorized by the law in an amount which, when added to the then outstanding bonded indebtedness of such municipality, shall exceed fifteen percent until September 30, 1995 and ten percent thereafter, of the assessed value of the taxable property within such municipality, accordingly to the then last completed assessment for taxation. In computing such indebtedness there may be deducted all bonds or other evidence of indebtedness, heretofore or hereafter issued, for school, water, sewer systems, gas and light and power purposes and for the construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying the municipality's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case shall any municipality contract any indebtedness which, when added to all of the outstanding indebtedness, both bonded and floating, shall exceed fifteen percent of the assessed value of all taxable property within such municipality. Nothing herein contained shall be construed to apply to bonds heretofore or hereafter issued by any municipality which are payable exclusively from revenues of any municipality-owned utility, or to bonds issued by any municipality under the provisions of Section 57-1-1 to 57-1-51, or to any special assessment improvement bonds issued by any municipality under the provisions of Section 21-41-1 through 21-41-53.

The following is a schedule of limitations on the indebtedness of the City at September 30, 2005:

Authorized Debt Limit:	<u>15 Percent</u>
Assessed valuation for fiscal year then ended September 30, 2005 (\$74,299,073)	\$11,144,861
Present debt subject to 15 percent limitation	<u>3,655,545</u>
Margin for further indebtedness (under 15 percent limitation)	<u>\$ 7,489,316</u>

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PENSION PLAN

Plan Description

The City of Richland 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 information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444 PERS.

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and City of Richland is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Richland's contribution to PERS for the year ending September 30, 2005, was \$332,703, equal to the required contributions for the year.

NOTE 5 - LITIGATION

According to the attorneys engaged by the City on a regular basis, the City is not a defendant in any suits with any material contingent losses.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

On April 5, 1977, the Mayor and Board of Aldermen executed on behalf of the City, a contract with Richland Creek Watershed Drainage District providing for payment by the City of Richland of \$10,000 per year for 50 years on the District's \$550,000 Farmers Home Administration loan for the purchase of land for the construction of retention dams, all to be in lieu of the District assessing separately approximately 4,000 acres of land within the City.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - DEPOSITS

At year-end, the City had unrestricted and restricted cash on deposit with local banks totaling \$3,138,994. This balance was covered by the bank's federal depository insurance and collateral held by the pledging bank in the City's name.

NOTE 8 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represents, in the General Fund the amount due from the Mississippi State Tax Commission for sales tax.

NOTE 9 - INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. The Enterprise Fund records charges provided by the City as operating expenses and remits all garbage fees collected to the General Fund on a monthly basis. These operations have generated interfund receivable and payable balances representing amounts from September activity as well as transactions that occurred during the year. Transfers into the Debt Service Fund from the General Fund amounting to \$420,000 were recorded as transfers in the General Fund.

NOTE 10 - PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied as of January 1 and payable on or before February 1. The county bills and collects property, personal auto and house trailer taxes and remits these funds to the City. The millage rate for the City for January through December, 2005 was 20.0 mills, all of which went to the General Fund.

NOTE 11 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2005, expenditures exceeded appropriations in the funds by various amounts as noted on schedules comparing actual expenditures to budget. These overexpenditures were funded by available fund balance.

CITY OF RICHLAND

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLES

GASB No. 34 was implemented by the City in 2004. The City's infrastructure and the related debt as well as the accrual basis accounting are reflected in the Government-wide financial statements. This new application of accounting principles was not consistent with prior years. Account groups no longer appear in the financial statements but are reflected in the Government-wide financial statements.

NOTE 13 - UNEMPLOYMENT COMPENSATION FUND

The City has elected to establish a revolving fund for unemployment compensation which is to be maintained in the amount of 2% of the first \$6,000 of employee wages paid in the preceding calendar year. The Unemployment Compensation Fund had a fully funded balance of \$12,958 at September 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RICHLAND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET TO ACTUAL
YEAR ENDED SEPTEMBER 30, 2005

	Original Budget	Revisions	Final Budget	Total Actual	Variance
REVENUES					
Advalorem taxes	\$ 1,700,000	\$ 55,000	\$ 1,755,000	\$ 1,810,386	\$ 55,386
Sales tax	3,400,000	170,655	3,570,655	3,813,847	243,192
Licenses and permits	150,000	-	150,000	121,357	(28,643)
Inter-governmental	175,000	-	175,000	227,554	52,554
Garbage fees	275,000	-	275,000	275,080	80
Fines and forfeits	375,000	-	375,000	364,697	(10,303)
Franchise tax	250,000	-	250,000	224,584	(25,416)
Interest	15,000	3,100	18,100	22,759	4,659
Grand Gulf	140,000	-	140,000	137,399	(2,601)
Miscellaneous	310,800	15,611	326,411	266,675	(59,736)
Total revenue	<u>6,790,800</u>	<u>244,366</u>	<u>7,035,166</u>	<u>7,264,338</u>	<u>229,172</u>
EXPENDITURES					
General Government	709,500	13,010	722,510	699,131	23,379
Police Department	1,849,900	161,225	2,011,125	1,951,208	59,917
Court Services	267,000	15,505	282,505	257,156	25,349
EOC Department	44,500	-	44,500	54,348	(9,848)
Fire Department	1,395,160	47,710	1,442,870	1,382,717	60,153
Public Works	1,507,000	25,690	1,532,690	1,218,668	314,022
Sanitation Department	260,000	-	260,000	245,628	14,372
Parks and Recreation	768,210	72,515	840,725	694,098	146,627
Library	35,500	-	35,500	19,847	15,653
Urban Programs	71,000	-	71,000	66,949	4,051
Total expenditures	<u>6,907,770</u>	<u>335,655</u>	<u>7,243,425</u>	<u>6,589,750</u>	<u>653,675</u>
Excess of revenues over (under) expenditures	(116,970)	(91,289)	(208,259)	674,588	882,847
Other financing sources (uses):					
Operating transfers out	(420,000)	-	(420,000)	(420,000)	-
Operating transfers in	60,000	-	60,000	60,000	-
Net change in Balance	<u>-(476,970)</u>	<u>(91,289)</u>	<u>(568,259)</u>	<u>314,588</u>	<u>882,847</u>
Fund balance - Beginning	<u>1,374,241</u>	<u>96,289</u>	<u>1,470,530</u>	<u>1,346,150</u>	<u>-</u>
Fund balance - Ending	<u>\$ 897,271</u>	<u>\$ 5,000</u>	<u>\$ 902,271</u>	<u>\$ 1,660,738</u>	<u>\$ 882,847</u>

See accountants' report.

SUPPLEMENTARY INFORMATION

CITY OF RICHLAND

**SCHEDULE RECONCILING ORIGINAL ADVALOREM
TAX ROLLS TO FUND COLLECTIONS
YEAR ENDED SEPTEMBER 30, 2005**

Adjusted Assessed Valuation:

City:

Realty	\$ 38,963,812		
Personal-other than auto	19,582,969		
Public utilities	2,193,570		
Personal-auto (remitted by county)	13,113,965		
Mobile homes	444,757		
Total city @ 20.0 mills	74,299,073	\$ 1,485,981	
Less: Homestead exemption allowed	(2,259,764)	(45,195)	\$ 1,440,786
Add: Actual homestead reimbursed		18,644	
Prior year tax collection		1,627	
Penalties & interest on delinquent taxes		6,159	
Road, truck and rail taxes		379,743	406,173
Deduct: County tax collector's commissions			(16,070)
Total to be accounted for			\$ 1,830,889

Credits:

Collections allocated for General Fund			\$ 1,810,386
Clean up fees			(3,669)
Landsale			30,217
Balance represented by:			
Unpaid property taxes	\$ 1,270		
Unaccounted for	(7,315)	(6,045)	
Total to be accounted for			\$ 1,830,889

See accountants' report.

CITY OF RICHLAND

SCHEDULE OF CHANGES IN LONG-TERM DEBT
SEPTEMBER 30, 2005

General Obligation Bonds	Balance 10-01-04	Transactions During Fiscal Year		Balance 09-30-05
		Issued	Redeemed	
1999 \$3,000,000 special obligation bonds	\$ 2,505,000	\$ -	\$ 115,000	\$ 2,390,000
2000 \$2,750,000 tax increment limited obligation bonds	2,335,000	-	155,000	2,180,000
2000 \$2,800,000 general obligation special improvement bonds	2,470,000	-	95,000	2,375,000
<u>Revenue Bonds</u>				
\$255,000 water and sewer revenue bonds	56,000	-	26,000	30,000
Total bonds payable	7,366,000	-	391,000	6,975,000
<u>Loan/Lease Payable</u>				
Trustmark National Bank - 3.40% vehicle leases dated 04-22-03	19,872	-	11,788	8,084
Trustmark National Bank - 3.94% firetruck lease dated 12-30-02	403,224	-	38,161	365,063
Trustmark National Bank - 2.90% vehicle lease dated 02-03-04	15,675	-	6,891	8,784
Trustmark National Bank - 2.90% vehicle lease dated 02-03-04	15,675	-	6,891	8,784
Trustmark National Bank - 2.90% vehicle lease dated 02-03-04	16,901	-	7,430	9,471
Trustmark National Bank - 2.90% tractor lease dated 02-03-04	19,248	-	8,462	10,786

See accountants' report.

CITY OF RICHLAND

SCHEDULE OF CHANGES IN LONG-TERM DEBT - PAGE 2
SEPTEMBER 30, 2005

Loan/Lease Payable - Con't	Balance 10-01-04	Transactions During Fiscal Year		Balance 09-30-05
		Issued	Redeemed	
1996 \$753,375 water improvements loan	\$ 485,216	\$ -	\$ 48,168	\$ 437,048
MS Department of Economic & Community Development - 4.65% capital improvement loan 8-1-00	406,244	-	17,656	388,588
Trustmark National Bank - 3.60% vehicle lease dated 12-19-02	8,260	-	3,589	4,671
Trustmark National Bank - 4.95% vehicle leases dated 01-03-03	35,015	-	26,115	8,900
Trustmark National Bank - 5.15% vehicle lease dated 1-28-00	882	-	882	-
Trustmark National Bank - 5.05% vehicle lease dated 12-22-99	1,082	-	1,082	-
Trustmark National Bank - 4.99% vehicle lease dated 3-21-00	2,034	-	2,034	-
Trustmark National Bank - 5.00% console lease dated 3-21-00	29,983	-	14,617	15,366
Total loan/lease payable	1,459,311	-	193,766	1,265,545
Total long-term debt	\$ 8,825,311	\$ -	\$ 584,766	\$ 8,240,545

See accountants' report.

CITY OF RICHLAND

SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICERS
SEPTEMBER 30, 2005

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Mark S. Scarborough	Mayor	Brierfield Insurance Company	\$ 50,000
Ronnie Bridges	Alderman	Western Surety	50,000
Robert Craft	Alderman	Western Surety	50,000
Pat Sullivan	Alderman	Brierfield Insurance Company	50,000
Bob Wedgeworth	Alderman	Brierfield Insurance Company	50,000
Cathey Wynne	Alderman	Brierfield Insurance Company	50,000
Melinda Quick	City Clerk	Western Surety	50,000
Virginia Sanford	Deputy clerk	Western Surety	25,000
Lindsey Barron	Deputy clerk	Western Surety	25,000
Glen Thomas	Water Dept. Manager	Union Standard	50,000
Russel James	Chief of Police	Western Surety	50,000
Blanket bonds	Police Officers	State Auto Insurance Companies	25,000
Blanket bonds	All other city employees	State Auto Insurance Companies	25,000

See accountants' report.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

David L. Lyle, CPA
Gary L. Walker, CPA
Jessica Lea Minter, CPA, PFS, CFP

MEMBERS
American Institute of
Certified Public Accountants
Mississippi Society of
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Board of Aldermen
City of Richland
Richland, Mississippi

We have audited the general purpose financial statements of the City of Richland, Mississippi, for the year ended September 30, 2005 and have issued our report thereon dated December 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Richland, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Honorable Mayor, Board of Aldermen, and federal awarding agencies 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.

Lyle Walker + Co., P.A.

December 7, 2005

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

Lyle, Walker & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

David L. Lyle, CPA
Gary L. Walker, CPA
Jessica Lea Minter, CPA, PFS, CFP

MEMBERS
American Institute of
Certified Public Accountants
Mississippi Society of
Certified Public Accountants

**INDEPENDENT AUDITORS'
REPORT ON COMPLIANCE WITH STATE LAWS
AND REGULATIONS**

**The Honorable Mayor and
Board of Aldermen
City of Richland
Richland, Mississippi**

We have audited the general purpose financial statements of the City of Richland, Mississippi, as of and for the year ended September 30, 2005, and have issued our report dated December 7, 2005. We have 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*.

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

The results of those procedures and our audit of the general purpose financial statements disclosed no material instances of noncompliance with state laws and regulations.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Richland, Mississippi had not complied with the requirements of the Office of the State Auditor, as set forth in the Municipal Compliance Questionnaire.

This report is intended solely for the information of the City's management, the Honorable Mayor and Board of Aldermen and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Lyle Walker & Co., P.A.

December 7, 2005

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