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CITY OF FLORENCE, MISSISSIPPI
REPORT ON AUDIT
OF
BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

BARLOW, WALKER & HILL, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
BRANDON, MISSISSIPPI

CITY OF FLORENCE
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For the Year Ended September 30, 2006

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FINANCIAL AUDIT REPORT

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Independent Auditors' Report

To the Mayor and Board of Alderpersons
Of the City of Florence, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Florence, Mississippi as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Florence, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, the business-type activities and each major fund of the City of Florence, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Florence, Mississippi, basic financial statements. The information listed as other supplemental information in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The information listed as other supplemental information in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barlow, Walker & Hill, P.A.

Brandon, Mississippi

May 8, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF FLORENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

The Discussion and Analysis of The City of Florence financial performance provides an overall review of the City's financial activities for the year ended September 30, 2006. 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 presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 were as follows:

Total net assets for 2006 increased \$794,176 or 24.2% from fiscal year 2005.

General revenues accounted for \$1,420,501 in revenue, or 44% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,796,069 or 56% of total revenues.

Long-term debt decreased by \$319,083 or 10.8% from fiscal year 2005.

Overall, the book value of capital assets decreased by \$246,809

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City'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 City'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 is improving or deteriorating.

The statement of activities presents information showing how the City'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 City that are principally supported by property taxes and intergovernmental revenues (governmental activities) and water, sewer, and sanitation charges (proprietary activities). The governmental activities of the City include general government, public safety, public works, and interest on long-term debt.

The government-wide financial statements can be found on pages 11-13 of this report.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 reconciliations are on pages 15 and 17, respectively.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary funds. The City of Florence maintains one type of proprietary fund, the enterprise fund. The Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its Water and Sewer operations as well as sanitation.

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

The basic proprietary fund financial statements can be found on pages 18-22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-35 of this report.

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

The City adopts an annual operating budget for all governmental funds and proprietary funds. A budgetary comparison statement has been provided for the General Fund. This required supplementary information could be found on page 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

One of the most important questions to ask about the City of Florence's finances is, "Has the City's net assets increased or decreased as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all of the city's assets and liabilities resulting from the use of the accrual basis of accounting and economic resources focus of measurement.

Net assets. The City's combined net assets, on the accrual basis of accounting and economic resources measurement focus, increased from \$3,276,989 to \$4,071,165 between fiscal years 2005 and 2006. The following table reflects condensed information on the City's net assets:

Table 1
Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets:						
Current and other assets	829,424	458,238	1,781,014	1,424,106	2,610,438	1,882,344
Capital assets, net	2,512,571	2,545,821	1,808,617	2,022,176	4,321,188	4,567,997
Total Assets	3,341,995	3,004,059	3,589,631	3,446,282	6,931,626	6,450,341
Liabilities:						
Current and other liabilities	129,818	145,850	394,769	369,189	524,587	515,039
Long-term liabilities	847,968	906,155	1,487,906	1,752,158	2,335,874	2,658,313
Total Liabilities	977,786	1,052,005	1,882,675	2,121,347	2,860,461	3,173,352
Net Assets						
Invested in capital assets, net of related debt	1,645,647	1,620,613	71,475	223,279	1,717,122	1,843,892
Restricted	0	0	0	0	0	0
Unrestricted	718,562	331,441	1,635,481	1,101,656	2,354,043	1,433,097
Total Net Assets	2,364,209	1,952,054	1,706,956	1,324,935	4,071,165	3,276,989

The largest portion (70%) of the City's net assets in governmental activities are invested in capital assets (e.g., land, infrastructure, building, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding). The City uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending.

In the business-type activities (4.2%) of the net assets are invested in capital assets. The City uses these assets to provide services to the citizens.

Changes in Net Assets. The City's total revenues and expenses for governmental and business-type activities are reflected in the following table:

**Table 2
Changes in Net Assets**

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	576,968	500,760	1,101,502	784,066	1,678,470	1,284,826
Operating grants	117,599	168,825	0	0	117,599	168,825
General revenues	1,329,037	1,298,760	91,464	19,137	1,420,501	1,317,897
Total Revenues	2,023,604	1,968,345	1,192,966	803,203	3,216,570	2,771,548
Program Expenses:						
General government	423,073	469,628	0	0	423,073	469,628
Public safety	737,401	714,848	0	0	737,401	714,848
Public services	165,448	209,199	0	0	165,448	209,199
Culture and recreation	226,142	286,428	0	0	226,142	286,428
Water and sewer			810,945	726,356	810,945	726,356
Interest	59,385	62,621	0	0	59,385	62,621
Total Expenses	1,611,449	1,742,724	810,945	726,356	2,422,394	2,469,080
Increase in Net Assets	412,155	225,621	382,021	76,847	794,176	302,468

Governmental Activities. Revenues for the City's governmental activities for the year ended September 30, 2006 were \$2,023,604 compared to \$1,968,345 in 2005. Program revenues increased \$24,982 primarily as a result of an increase in contributions. Revenues are, for the most part, comprised of sales and use taxes and property taxes (65%).

The cost of providing all governmental activities this year was \$1,611,449 a decrease of \$131,275 from the prior year. Of this amount, general government expenses decreased \$46,555; public safety expenses increased \$22,553; public services expenses decreased \$43,751; culture and recreation expenses decreased \$60,286; and interest on long-term debt expenses decreased \$3,236.

Business-type Activities. Revenues for business-type activities are, for the most part, comprised of charges for services (92%). Charges for services for the City's business-type activities were \$1,101,502 for 2006, an increase of \$317,436 from 2005.

The costs of these business-type activities were \$810,945 for 2006, an increase of \$84,589 from 2005 primarily due to increased water and sewer expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$750,374 an increase of \$379,909. The entire fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion.

BUDGETARY HIGHLIGHTS

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

Over the course of the year, the City did not revised the annual operating budget. Schedules 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. As of September 30, 2006, the City's total capital assets were \$8,606,953 including land, city buildings, infrastructure, vehicles and furniture and equipment. This amount represents an increase of \$73,434 from the previous year. The accumulated depreciation as of September 30, 2006 was \$4,285,765 and total depreciation expense for the year was \$320,243, resulting in total net assets of \$4,321,188.

Table 3
Capital Assets at September 30, 2006
(Net of Depreciation)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	241,456	241,456	0	0	241,456	241,456
Construction in Progress	0	121,895	0	0	0	121,895
Buildings & improvements	2,058,573	1,977,097	1,742,832	1,931,307	3,801,405	3,908,404
Machinery, equipment, vehicles	212,542	205,373	65,785	90,869	278,327	296,242
Total	2,512,571	2,545,821	1,808,617	2,022,176	4,321,188	4,567,997

Additional information of the City's capital assets can be found in Note 4 on page 29 of this report.

Debt Administration. At September 30, 2006, the City had \$2,648,318 in general obligation bonds and other long-term debt outstanding as shown in the following table.

Table 4
Outstanding Notes and Long-Term Obligations

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation bonds	274,500	285,000	640,500	665,000	915,000	950,000
Revenue bonds	0	0	323,468	504,649	323,468	504,649
Lease obligations	537,910	583,175	13,637	25,719	551,547	608,894
Capital loans	54,514	57,033	759,537	795,041	814,051	852,074
Compensated absences	31,812	39,024	12,440	12,760	44,252	51,784
Total	898,736	964,232	1,749,582	2,003,169	2,648,318	2,967,401

Additional information of the City's long-term debt can be found in Notes 5 and 6 on pages 30-33 of this report.

CURRENT ISSUES

The City of Florence is currently pursuing negotiations for the sale of city owned property located off U. S. Highway 49 South and Crosspark Drive, and for the acquisition of property off Williams road for the construction of Water Well #5 and a Water Storage Tank Facility.

Public Works and Street Improvements. Projects that were in progress during 2005 including extending waterworks, establishing sanitary storm drainage, and improving/repairing the sewer systems have been completed.

Grants. The City of Florence continues to participate in the Mississippi Department of Transportation Grant Program for Litter Control and Beautification. The City also received a Homeland Security Grant to purchase equipment (radios) for the Police Department. In addition the City received grant funds for damages caused by Hurricane Katrina.

Future Development. The City began design engineering for improvements, repairs and extensions to the combined water and sewer system consisting primarily of improvements, repairs and extensions to the waterworks and water supply facilities of the City. Federal money for the Erlich Road Bypass Project has been earmarked and preliminary work on this project is in the early stages of development.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City of Florence's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Linda Wigley, City Clerk at (601) 845-8856 or email cityhall2@alltel.net.

BASIC FINANCIAL STATEMENTS

**CITY OF FLORENCE
STATEMENT OF NET ASSETS**

September 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 664,352	\$ 1,003,649	\$ 1,668,001
Investments	0	295,758	295,758
Receivables			
Accounts receivable	0	106,888	106,888
Allowance for bad debts	0	(4,500)	(4,500)
Ad valorem	23,975	0	23,975
Franchise tax	45,106	0	45,106
Current sales tax	129,536	0	129,536
Due from other funds	(191,118)	191,118	0
Total current assets	<u>671,851</u>	<u>1,592,913</u>	<u>2,264,764</u>
Noncurrent assets			
Restricted cash and cash equivalents	95,405	177,000	272,405
Restricted investments	62,168	0	62,168
Debt issuance cost, net of amortization	0	11,101	11,101
Capital assets			
Land and construction in progress	241,456	0	241,456
Building and improvements	2,328,213	5,346,199	7,674,412
Machinery, equipment and vehicles	424,384	266,701	691,085
Less accumulated depreciation	(481,482)	(3,804,283)	(4,285,765)
Capital assets, net	<u>2,512,571</u>	<u>1,808,617</u>	<u>4,321,188</u>
Total noncurrent assets	<u>2,670,144</u>	<u>1,996,718</u>	<u>4,666,862</u>
Total Assets	<u>\$ 3,341,995</u>	<u>\$ 3,589,631</u>	<u>\$ 6,931,626</u>

See accompanying notes to financial statements.

**CITY OF FLORENCE
STATEMENT OF NET ASSETS**

September 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
LIABILITIES			
Current liabilities			
Accounts payable	\$ 64,777	\$ 49,577	\$ 114,354
Accrued interest payable	11,046	1,808	12,854
Deposits payable	0	80,237	80,237
Sales tax payable	0	1,471	1,471
Current portion of capital improvement loan	2,358	33,846	36,204
Current portion of capital lease payable	37,910	12,568	50,478
Current portion of bonds payable	10,500	215,262	225,762
Due to other governments	3,227	0	3,227
Total current liabilities	<u>129,818</u>	<u>394,769</u>	<u>524,587</u>
Noncurrent liabilities			
Compensated absences	31,812	12,440	44,252
Capital improvement loan	52,156	725,691	777,847
Obligation under capital lease	500,000	1,069	501,069
Bonds payable	264,000	748,706	1,012,706
Total noncurrent liabilities	<u>847,968</u>	<u>1,487,906</u>	<u>2,335,874</u>
Total Liabilities	<u>977,786</u>	<u>1,882,675</u>	<u>2,860,461</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,645,647	71,475	1,717,122
Unrestricted	718,562	1,635,481	2,354,043
Total Net Assets	<u>\$ 2,364,209</u>	<u>\$ 1,706,956</u>	<u>\$ 4,071,165</u>

See accompanying notes to financial statements.

**CITY OF FLORENCE
STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2006

Function / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental activities							
General government	\$ 423,073	\$ 134,256	\$ 12,185	\$ 0	\$ (276,632)	\$ 0	(276,632)
Public safety	737,401	291,085	0	0	(446,316)	0	(446,316)
Public services	165,448	43,044	105,414	0	(16,990)	0	(16,990)
Culture and recreation	226,142	108,583	0	0	(117,559)	0	(117,559)
Interest on long-term debt	59,385	0	0	0	(59,385)	0	(59,385)
Total governmental activities	<u>1,611,449</u>	<u>576,968</u>	<u>117,599</u>	<u>0</u>	<u>(916,882)</u>	<u>0</u>	<u>(916,882)</u>
Business-type activities							
Water and sewer	810,945	1,101,502	0	0	0	290,557	290,557
Total business-type activities	<u>810,945</u>	<u>1,101,502</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>290,557</u>	<u>290,557</u>
Total primary governmental	<u>\$ 2,422,394</u>	<u>\$ 1,678,470</u>	<u>\$ 117,599</u>	<u>\$ 0</u>	<u>(916,882)</u>	<u>290,557</u>	<u>(626,325)</u>
General revenues							
Taxes							
Sales and use taxes					775,668	0	775,668
Property taxes					536,274	0	536,274
Donated assets					10,500	0	10,500
Investment income					5,279	17,564	22,843
Other					1,316	73,900	75,216
Total general revenues and transfers					<u>1,329,037</u>	<u>91,464</u>	<u>1,420,501</u>
Change in net assets					412,155	382,021	794,176
Net assets, October 1, 2005					1,952,054	1,324,935	3,276,989
Net assets, September 30, 2006					<u>\$ 2,364,209</u>	<u>\$ 1,706,956</u>	<u>\$ 4,071,165</u>

See accompanying notes to financial statements.

**CITY OF FLORENCE
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2006**

	<u>General Fund</u>	<u>Park Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 602,483	\$ 61,869	\$ 664,352
Receivables			
Ad valorem	23,975	0	23,975
Current sales tax	104,637	24,899	129,536
Franchise tax	45,106	0	45,106
Due from other funds	11,493	0	11,493
Restricted assets:			
Cash and cash equivalents	95,405	0	95,405
Investments	62,168	0	62,168
 Total Assets	 <u>\$ 945,267</u>	 <u>\$ 86,768</u>	 <u>\$ 1,032,035</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 49,636	\$ 15,141	\$ 64,777
Accrued interest payable	11,046	0	11,046
Due to other governments	3,227	0	3,227
Due to other funds	202,611	0	202,611
 Total Liabilities	 <u>266,520</u>	 <u>15,141</u>	 <u>281,661</u>
 Fund Balance			
Reserved for			
Encumbrances	0	0	0
Debt service	0	0	0
Capital outlay	0	0	0
Unreserved	678,747	71,627	750,374
 Total Fund Balance	 <u>678,747</u>	 <u>71,627</u>	 <u>750,374</u>
 Total Liabilities and Fund Balance	 <u>\$ 945,267</u>	 <u>\$ 86,768</u>	 <u>\$ 1,032,035</u>

See accompanying notes to financial statements.

CITY OF FLORENCE
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
September 30, 2006

Fund Balances - total governmental funds	\$	750,374
Amounts reported for governmental activities in Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	\$ 2,994,053	
Less accumulated depreciation	<u>(481,482)</u>	2,512,571
Liabilities are not due and payable and therefore are not reported in the governmental funds		<u>(898,736)</u>
Net Assets of Governmental Activities	\$	<u><u>2,364,209</u></u>

See accompanying notes to financial statements.

CITY OF FLORENCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

	General Fund	Park Fund	Total Governmental Funds
Revenues			
Taxes	\$ 536,274	\$ 0	\$ 536,274
Licenses and permits	177,300	0	177,300
State shared revenues	751,002	142,265	893,267
Fines and forfeits	291,085	0	291,085
Charges for services	0	108,583	108,583
Other	6,514	81	6,595
	<u>1,762,175</u>	<u>250,929</u>	<u>2,013,104</u>
Expenditures			
Current (operating)			
General government	391,224	0	391,224
Public safety	705,497	0	705,497
Public services	146,090	0	146,090
Culture and recreation	4,000	207,162	211,162
Capital outlay	48,875	12,678	61,553
Debt service			
Principal	50,136	8,148	58,284
Interest and fiscal charges	59,029	356	59,385
Total Expenditures	<u>1,404,851</u>	<u>228,344</u>	<u>1,633,195</u>
Excess of revenues over (under) expenditures	<u>357,324</u>	<u>22,585</u>	<u>379,909</u>
Other financing sources and uses, including transfers			
Transfers out	(15,000)	15,000	0
Total other financing sources and (uses)	<u>(15,000)</u>	<u>15,000</u>	<u>0</u>
Net change in fund balances	342,324	37,585	379,909
Fund balances, October 1, 2005	336,423	34,042	370,465
Fund balances, September 30, 2006	<u>\$ 678,747</u>	<u>\$ 71,627</u>	<u>\$ 750,374</u>

See accompanying notes to financial statements.

CITY OF FLORENCE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

Net Change in Fund Balances - total governmental funds \$ 379,909

Amounts reported for governmental activities in Statement of Net Assets
are different because:

Governmental funds report capital outlays as expenditures and do not
report donated assets. However, in the Statement of Activities,
the cost of those assets are depreciated over their estimated useful lives:

Expenditures for capital assets	\$	61,553	
Donated assets		10,500	
Less current year depreciation		<u>(105,303)</u>	(33,250)

Compensated absences not payable from current year resources are
not reported as expenditures of the current year. In the Statement
of Activities, these cost represent expenses or reduction of
expenses of the current year. 7,212

Bond and capital loan proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term liabilities
in the Statement of Net Assets. Repayment of bond and capital
loans and lease principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the
Statement of Net Assets.

Debt proceeds	\$	0	
Repayment of debt		<u>58,284</u>	<u>58,284</u>

Change in Net Assets of Governmental Activities \$ 412,155

See accompanying notes to financial statements.

CITY OF FLORENCE
STATEMENT OF NET ASSETS
PROPRIETY FUND
September 30, 2006

	Business-Type Activities Enterprise Fund <u>Water & Sewer Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,003,649
Investments	295,758
Receivables	
Accounts receivable	106,888
Allowance for bad debts	(4,500)
Due from other funds	202,611
Total current assets	<u>1,604,406</u>
Noncurrent assets	
Restricted cash and cash equivalents	177,000
Debt issuance cost, net of amortization	11,101
Capital assets	
Land and construction in progress	0
Building and improvements	5,346,199
Machinery, equipment and vehicles	266,701
Less accumulated depreciation	<u>(3,804,283)</u>
Capital assets, net	<u>1,808,617</u>
Total noncurrent assets	<u>1,996,718</u>
Total Assets	<u>\$ 3,601,124</u>

See accompanying notes to financial statements.

CITY OF FLORENCE
STATEMENT OF NET ASSETS
PROPRIETY FUND
September 30, 2006

		<u>Business-Type Activities</u> <u>Enterprise Fund</u> Water & Sewer Fund
LIABILITIES		
Current liabilities		
Accounts payable	\$	49,577
Accrued interest payable		1,808
Deposits payable		80,237
Sales tax payable		1,471
Current portion of capital improvement loan		33,846
Current portion of capital lease payable		12,568
Current portion of bonds payable		215,262
Due to other funds		11,493
Total current liabilities		<u>406,262</u>
Noncurrent liabilities		
Compensated absences		12,440
Capital improvement loan		725,691
Obligation under capital lease		1,069
Bonds payable		748,706
Total noncurrent liabilities		<u>1,487,906</u>
Total Liabilities		<u>1,894,168</u>
NET ASSETS		
Invested in capital assets, net of related debt		71,475
Unrestricted		1,635,481
Total Net Assets	\$	<u><u>1,706,956</u></u>

See accompanying notes to financial statements.

CITY OF FLORENCE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETY FUND
For the Year Ended September 30, 2006

	Business-Type Activities Enterprise Fund <u>Water & Sewer Fund</u>
Operating Revenues	
Charges for services	\$ <u>1,101,502</u>
Total operating revenues	<u>1,101,502</u>
Operating Expenses	
Personal services	235,038
Supplies, services and other charges	291,093
Depreciation and amortization	<u>218,160</u>
Total operating expenses	<u>744,291</u>
Operating income (loss)	<u>357,211</u>
Nonoperating revenues (expenses)	
Interest income	17,564
Miscellaneous income	73,900
Interest expense and bond fees	<u>(66,654)</u>
Total nonoperating revenues (expenses)	<u>24,810</u>
Income (loss) before transfers	<u>382,021</u>
Transfers in	0
Transfers out	<u>0</u>
Change in net assets	382,021
Total net assets, October 1, 2005	<u>1,324,935</u>
Total net assets, September 30, 2006	\$ <u><u>1,706,956</u></u>

See accompanying notes to financial statements.

CITY OF FLORENCE
STATEMENT OF CASH FLOWS
PROPRIETY FUND
For the Year Ended September 30, 2006

	Business-Type Activities Enterprise Fund <u>Water & Sewer Fund</u>
Cash flows from operating activities	
Cash received from customers	\$ 1,079,793
Cash payments for goods and services	(280,082)
Cash payments to employees	<u>(235,038)</u>
Net cash provided (used) by operating activities	<u>564,673</u>
Cash flows from non-capital financing activities	
Operating transfers to other funds	<u>0</u>
Net cash provided (used) by non-capital financing activities	<u>0</u>
Cash flows from capital and related financing activities	
Principal paid on revenue bonds	(181,181)
Principal paid on G. O. bonds	(24,500)
Principal paid on notes payable and capital leases	(12,082)
Principal paid on capital loans	(35,504)
Interest paid on notes, capital leases, and loans	(70,342)
Acquisition and construction of capital assets	(1,381)
Decrease (increase) in due from other funds	(191,205)
(Decrease) increase in due to other funds	(35)
(Decrease) increase in compensated absences	<u>(320)</u>
Net cash used for capital and related financing activities	<u>(516,550)</u>
Cash flows from investing activities	
Purchase of investments	(8,677)
Interest on investments	17,564
Other	<u>73,900</u>
Net cash provided (used) by investing activities	<u>82,787</u>

See accompanying notes to financial statements.

CITY OF FLORENCE
STATEMENT OF CASH FLOWS
PROPRIETY FUND
For the Year Ended September 30, 2006

	Business-Type Activities Enterprise Fund <u>Water & Sewer Fund</u>
Net increase (decrease) in cash and cash equivalents	130,910
Cash and cash equivalents October 1, 2005	<u>1,049,740</u>
Cash and cash equivalents September 30, 2006	<u><u>1,180,650</u></u>
Cash and cash equivalents consists of the following balance sheet amounts	
Cash and cash equivalents	1,003,649
Restricted cash and cash equivalents	<u>177,000</u>
	<u><u>1,180,649</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating Income (Loss)	357,211
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	214,940
Amortization	3,220
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(29,301)
Increase (decrease) in vouchers payable	10,633
Increase in customer meter deposits	7,592
Increase (decrease) in other payables	<u>378</u>
Net cash provided (used) by operating activities	\$ <u><u>564,673</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

In June 1999, GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports. The City began using the GASB 34 financial reporting model for the year ended September 30, 2004.

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

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes current assets and liabilities as well as capital assets and long-term liabilities. Accrual accounting also reports all the revenues and cost of providing services each year, not just those received or paid that year.

Statement of Net Assets - The statement of Net Assets is designed to display the financial position of the primary government (governmental and business-type activities) and its component units. Governments will report all capital assets, including infrastructure, in the government-wide statement of net assets and will report depreciation expense in the statement of activities.

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions.

Fund financial statements - Fund financial statements display the financial transactions and accounts of the City based on funds. The operation of each fund is considered to be an independent accounting entity. The fund financial statements also include a reconciliation to the government-wide statements.

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

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

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

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

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

Based on the application of the criteria above, no component units of the City of Florence were identified.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from services or privileges provided and grants and contributions that are restricted to meeting certain operational or capital needs of a function. Taxes and other items not included in program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and propriety funds Major individual governmental and propriety funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The governmental-wide financial statements and propriety fund financial statements are reported using the economic resources measurement and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Taxpayer assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenues when they are measurable and their validity seems certain. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable, except for principal and interest payments on general long-term debt, which are recognized when due.

Major Governmental Funds

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.

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

The Park Fund is used to account for proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Major Proprietary Fund

The Water and Sewer Fund and Sanitation Fund is used to account for the operations of the City's water and wastewater systems and waste disposal respectively, (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges: or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The City defines capital assets as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight line method over the following useful lives:

Computer Equipment and Peripherals	3 years
Vehicles and Equipment	5 years
Heavy Equipment	10 years
Furniture and Fixtures	7 years
Improvements other than Buildings	20 years
Infrastructure	20-50 years

E. 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.

F. Budget and Budgetary Accounting

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

1. Prior to September 1, the Mayor submits to the Board of Alderpersons a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

2. During September, the budget must be published in a newspaper published in the city (or the county if none is published by the city).
3. Prior to the adoption of the budget, at least one public hearing is held by the Board of Alderpersons to provide the general public with an opportunity to comment on the taxing and spending plan incorporated in the proposed budget. The public hearing must be held at least one week prior to the adoption of the budget with advance notice and held outside normal working hours.
4. Prior to September 15, the budget is legally enacted through passage of an ordinance.
5. Routine budget revisions may be made by the Board as often as necessary. However, when a department's total budget has been revised up or down by ten percent (10%) or more, public notice must be given of the change. Also, during the first three months of office, while operating under the prior Board's budget, the new Board is limited to one revision if a deficit is evident.
6. It is the City's policy for the Board to approve all budget transfers between departments and/or funds.
7. Formal budgetary integration is employed as a management control device during the year for the various funds. Budgeting data presented is as originally adopted or amended by the Board of Aldermen.
8. Budgets for the various funds are not adopted on a basis consistent with generally accepted accounting principles (GAAP) but rather on a modified cash basis as required by State statutes.

G. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized throughout the year as a management tool, but is not used for financial reporting purposes.

H. Inventory

No inventories are maintained in the General Fund or Proprietary Fund. Supplies are recorded as an expenditure when purchased.

I. Due From Other Funds

Short-term amounts owed between funds are classified as "due to/from other funds" and are considered "available spendable resources". These amounts are eliminated in the government-wide financial statements.

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

J. Compensated Absences

The City records the vested portion of accumulated unused compensated absences at year-end based on each employee's accumulated unused hours and rate of pay. All compensated absences are accrued when incurred in the governmental-wide and proprietary fund financial statements. Compensated absences 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.

K. Comparative Data

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

L. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Enterprise Fund consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

M. Debt Issue Cost

Debt issue cost represent the difference between the proceeds received and the face amount of the related debt and the legal, printing and other expenses incurred in issuance of the debt instruments. Such cost are deducted directly from the related liability in the proprietary fund's statement of net assets and are being amortized by a method which approximates the interest method. Amortization of debt issuance cost is classified as depreciation and amortization in the propriety fund's statement of revenues, expenses and changes in fund net assets. Amortization for the year ended September 30, 2006 was \$3,220 and unamortized debt issue cost amounted to \$11,100.

N. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund-balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and the change in net assets of governmental activities as reported in the government-wide statement of activities.

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

O. Restricted Assets

Under the terms of the bond resolution for the revenue bonds, the utility is required to, at September 30, 2006, maintain the following reserve accounts which are restricted as to their use. The City has a CD restricted for capital improvements. The City also has various amounts restricted in the general fund.

Below is a reconciliation of various restricted cash and investments:

	Governmental Activities	Business-type Activities
City Hall Savings	\$ 58,631	\$ 0
Grand Gulf Savings	36,774	0
CD for Fire Truck	62,168	0
Contingent Funds	0	40,000
Capital Improvements	0	120,000
Bond and Interest	0	17,000
CD for Capital Improvements	0	0
Total	\$ 157,573	\$ 177,000

(2) Cash Deposits

Mississippi Code Section 21-33-323 allows municipalities to maintain deposits in banks and savings and loan associations insured by the Federal Deposit Insurance Corporation. Municipalities may also invest in obligations of the United States of America or the State of Mississippi, or of any county, school district or municipal bonds that have been approved by a reputable bond attorney or have been validated by decree of the chancery court, or in obligations issued or guaranteed in full as to principal and interest by the United States of America which are subject to a repurchase agreement with a qualified depository.

State statute requires that all deposits in financial institutions be collateralized in an amount at least equal to 105% of the amount not insured by the Federal Deposit Insurance Corporation (FDIC). The City participates in the State Treasurer's collateral pool. The City's deposits were fully insured or collateralized with securities held by this pool at September 30, 2006.

At September 30, 2006, the carrying amount of the City's deposits was \$2,298,332 and the bank balance was \$2,318,172. All investments by the City of Florence during the year were in bank certificates of deposits.

(3) Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied October 1 and are payable on or before February 1 (or in installments, plus interest, payable as follows: 50% due February 1; 25% due by May 1; and 25% due by August 1). All property taxes are collected and remitted to the city by the county tax collector.

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

(4) Capital Assets

A summary of changes in Capital Assets at September 30, 2006 follows:

	Balance 10/01/05	Increases	Decrease	Complete CIP	Balance 09/30/06
<u>Governmental Activities</u>					
Non-depreciable					
Land	\$ 241,456	\$ 0	\$ 0	\$ 0	\$ 241,456
Construction in progress	121,895	11,372	0	(133,267)	0
Total	<u>363,351</u>	<u>11,372</u>	<u>0</u>	<u>(133,267)</u>	<u>241,456</u>
Depreciable					
Buildings & improvements	2,194,946	0	0	133,267	2,328,213
Machinery, equip. & vehicles	363,703	60,681	0	0	424,384
Total	<u>2,558,649</u>	<u>60,681</u>	<u>0</u>	<u>133,267</u>	<u>2,752,597</u>
Less accum. depreciation					
Buildings & improvements	217,849	51,791	0	0	269,640
Machinery, equip. & vehicles	158,330	53,512	0	0	211,842
Total	<u>376,179</u>	<u>105,303</u>	<u>0</u>	<u>0</u>	<u>481,482</u>
Net book value	<u>2,182,470</u>	<u>(44,622)</u>	<u>0</u>	<u>133,267</u>	<u>2,271,115</u>
Governmental Activities, net	<u>\$ 2,545,821</u>	<u>\$ (33,250)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,512,571</u>
<u>Business-type Activities</u>					
Non-depreciable					
Land	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Construction in progress	0	0	0	0	0
Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Depreciable					
Buildings & improvements	5,345,613	586	0	0	5,346,199
Machinery, equip. & vehicles	265,906	795	0	0	266,701
Total	<u>5,611,519</u>	<u>1,381</u>	<u>0</u>	<u>0</u>	<u>5,612,900</u>
Less accum. depreciation					
Buildings & improvements	3,414,306	189,061	0	0	3,603,367
Machinery, equip. & vehicles	175,037	25,879	0	0	200,916
Total	<u>3,589,343</u>	<u>214,940</u>	<u>0</u>	<u>0</u>	<u>3,804,283</u>
Business-type Activities, net	<u>\$ 2,022,176</u>	<u>\$ (213,559)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,808,617</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 34,229
Public safety	34,212
Public service	20,800
Culture and recreation	16,062
Total depreciation expense	<u>\$ 105,303</u>

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

(5) Obligations under capital lease:

The City has entered into five lease agreements as of September 30, 2006, which qualify as capital leases for accounting purposes. These are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
\$650,000 lease dated May 2000, through the Florence Improvement Company, Inc., for the acquisition of the City Hall Complex. Lease terms are 20 annual payments ranging from \$53,983 to \$58,675.	\$ 525,000	\$ 0
\$57,089 lease dated May 2002, through Motorola, Inc., for the acquisition of a siren warning system. Lease terms are 5 annual payments of \$13,756.	12,910	0
\$58,354 lease dated October 2002, through Trustmark National Bank, for the acquisition of a backhoe. Lease terms are 60 monthly payments of \$1,073.	<u>0</u>	<u>13,637</u>
Total Obligations Under Capital Lease	\$ <u>537,910</u>	\$ <u>13,637</u>

As of September 30, 2005, the City had future minimum payments under capital leases as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>
2007	\$ 69,993	\$ 12,881
2008	54,750	1,073
2009	58,263	0
2010	56,478	0
2011-2015	283,532	0
2016-2020	<u>279,032</u>	<u>0</u>
Total	802,048	13,954
Less amount representing interest	<u>264,138</u>	<u>317</u>
Present value of future minimum lease payments	\$ <u>537,910</u>	\$ <u>13,637</u>
Cost of capital asset	\$ <u>707,089</u>	\$ <u>58,354</u>
Accumulated depreciation	\$ <u>115,860</u>	\$ <u>32,303</u>

In April 2000, the City set up a non-profit organization, Florence Improvement Company, Inc., designed to borrow money and acquire leasehold interest in unimproved and improved property with funds it borrows and lease the property to the City of Florence for the amount of money to cover the loans. The directors of Florence Improvement Company, Inc. are elected officials of the City of Florence.

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

(6) Long-Term Debt

Bonds and capital improvement loans payable at September 30, 2006 are comprised of the following:

	Governmental Activities	Business-type Activities
<u>Bonds</u>		
During the year ended September 30, 1998, the utility issued \$1,585,000 of revenue bonds in a private placement to Trustmark National Bank. The bonds are secured by the gross revenues of the utility system after payment of the reasonable and necessary expenses of operating and maintaining the system. The bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory restriction, limitation of provision and the bonds are not secured by the taxing power of the City either as to principal or interest. The utility is required to fix and maintain rates and make and collect charges for the services of the utility system that are sufficient to provide for the operation and maintenance of the utility system and to provide for timely payment of principal and interest on the bonds. The proceeds from the sale of the bonds were used to retire in full the unpaid principal balances on notes payable to the U.S. Department of Agriculture and the Utility Revenue Bonds, Series 1998. The bonds bear interest at 5.120% and are due in monthly installments of approximately \$16,900, including principal and interest, through May 1, 2008.	\$	0 \$ 323,468
During the year ended September 30, 2003, the City issued \$1,000,000 in general obligation bonds series 2002-1 for capital improvements. The bonds bear interest at an average rate of 4.561% and are due in yearly installments of \$20,000 on March 1, 2004, \$30,000 March 1, 2005, \$35,000 March 1, 2006 thru 2008, \$40,000 March 1, 2009 thru 2010, \$45,000 March 1, 2011 thru 2012, \$50,000 March 1, 2013 thru 2015, \$55,000 March 1, 2016, \$60,000 March 1, 2017 thru 2018, \$65,000 March 1, 2019 thru 2020, \$70,000 March 1, 2021 and \$75,000 thereafter including interest, maturing March 2023.	274,500	640,500
Total Bonds	274,500	963,968

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

	Governmental Activities	Business-type Activities
<u>Capital Improvement Loans</u>		
During the year ended September 30, 2003, the City was approved for two CAP Loans for \$500,000 each. On the first CAP Loan, the City drew only \$470,982. Monthly payments of \$2,529 including interest, with the final payment due March 31, 2025. The second CAP Loan, the City drew only \$388,926. Monthly payments of \$2,529, including 2% interest, with the final payment due October 31, 2025.	54,514	759,537
Total Capital Improvement Loan Payable	54,514	759,537
Total Capital Improvement Loans and Bonds Payable	\$ 329,014	\$ 1,723,505

Transactions for the fiscal year ended September 30, 2006 are summarized as follows:

	Balance 10/01/05	Additions	Payments	Balance 09/30/06
<u>Governmental Activities</u>				
Capital improvement loans	\$ 57,033	\$ 0	\$ 2,519	\$ 54,514
General obligation bonds	285,000	0	10,500	274,500
Obligations under capital lease	583,175	0	45,265	537,910
Compensated absences	39,024	0	7,212	31,812
Total governmental activities	964,232	0	65,496	898,736
<u>Business-type Activities</u>				
Capital improvement loan	795,041	0	35,504	759,537
General Obligation Bonds	665,000	0	24,500	640,500
Revenue Bonds	504,649	0	181,181	323,468
Obligations under capital lease	25,719	0	12,082	13,637
Compensated absences	12,760	0	320	12,440
Total business-type activities	2,003,169	0	253,587	1,749,582
Total government-wide	\$ 2,967,401	\$ 0	\$ 319,083	\$ 2,648,318

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

The annual requirements to amortize loans and bonds outstanding as of September 30, 2006, including interest payments are as follows:

Fiscal Year Ended September 30	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2007	\$ 12,858	\$ 13,090	\$ 249,108	\$ 55,103	\$ 330,159
2008	12,906	12,628	191,735	43,876	261,145
2009	14,455	12,130	63,227	39,567	129,379
2010	14,504	11,600	63,938	37,737	127,779
2011-2015	85,299	48,705	358,867	157,638	650,509
2016-2020	106,196	29,573	424,422	96,198	656,389
2021-2025	82,796	5,871	372,208	22,428	483,303
Total	\$ 329,014	\$ 133,597	\$ 1,723,505	\$ 452,547	\$ 2,638,663

(7) Special Assessment Bonds:

On September 17, 1996, the City authorized the sale of special assessment bonds. The bonds were sold to Trustmark National Bank. The bonds bear interest at a net rate of 5.75% and mature in various amounts each year through 2011. Proceeds from the bonds will be used to construct the infrastructure for the benefit of owners of fifty-eight lots in the Butler Creek Estates subdivision which is located within the municipality. The bonds are secured by a special tax lien of \$10,345 on each of the fifty-eight lots and each year the owners of such lots shall be assessed an amount sufficient to satisfy the principal and interest due and any other cost associated with the bonds.

The bonds described above are not included in the financial statements since they are properly recorded in an agency fund in accordance with current governmental accounting principles. A bank account required by the issuance of these bonds are maintained by the City. The September 30, 2006, balance of the bonds payable are shown below, interest was accrued on the bonds outstanding balances. The balance of the bonds at September 30, 2006 is \$93,630.

(8) Other Required Individual Fund Disclosures

1. Individual fund interfund receivable and payable balances at September 30, 2006 were:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 11,493	\$ 202,611
Water & Sewer Fund	202,611	11,493
Total	\$ 214,104	\$ 214,104

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

2. Reconciliation of Fund Balances on the budgetary basis to the GAAP basis:

Mississippi law requires that municipalities prepare budgets using the modified cash basis, which differs from generally accepted accounting principals (GAAP) basis. The budget and all transactions are presented in accordance with the City's method (modified cash basis) in the Budgetary Comparison Schedule -General Fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are that only expenditures relating to the 9/30/06 fiscal year which are paid within the first 30 days after year end are included in the budget and all revenues are recognized for budgetary purposes when received. Budgetary and GAAP differences are shown as reconciling items on the budget comparison schedule.

3. Fund Balance Reserves

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds.

(9) Defined Benefit Pension Plan

The City of Florence 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.

PERS members are required to contribute 7.25% of their annual covered salary and the City of Florence 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 are established and may be amended only by the State of Mississippi Legislature. The City of Florence's contributions to PERS for the year ended September 30, 2006 was \$92,154 equal to the required contribution for the year.

(10) Contingent Liabilities

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, there are no material unfavorable dispositions anticipated against the City.

CITY OF FLORENCE
Notes to Financial Statements
September 30, 2006

(11) Risk Management

Participation in Public Entity Risk Pool.

The City is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG) and the Mississippi Municipal Liability Plan (MMLP), both of which are administered by Municipal Services, Inc. Both groups are risk-sharing pools; such a pool is frequently referred to as a self-insurance pool.

MMWCG covers risks of loss arising from injuries to the city'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 the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any employee claim. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The City has not had an additional assessment for excess losses incurred by the pool.

MMLP covers the risk of loss related to torts and other liability claims. The general policy limit is \$500,000 per occurrence, but the policy also tracks the Mississippi tort claims law for municipalities which limits the City's liability to \$250,000 per occurrence. The policy also covers up to \$1,000,000 in federal claims. As with the MMWCG, pool members would be required to pay for the deficiency should total claims for the year exceed member contributions. The City has received no assessments for excess losses incurred by the pool.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF FLORENCE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended September 30, 2006

	Original Budget	Budget as Amended	Actual	Variance from Amended Budget Over (under)
Revenues:				
Taxes	\$ 500,000	\$ 500,000	\$ 537,838	\$ 37,838
Licenses and permits	156,920	156,920	166,436	9,516
State shared revenues	636,676	636,676	757,111	120,435
Fines and forfeits	188,000	188,000	291,085	103,085
Other	5,500	5,500	6,514	1,014
Total Revenues	1,487,096	1,487,096	1,758,984	271,888
Expenditures:				
General government	434,246	434,246	391,224	(43,022)
Public safety	749,938	749,938	705,497	(44,441)
Public service	195,594	195,594	146,090	(49,504)
Culture and recreation	4,000	4,000	4,000	0
Capital outlays	100,000	100,000	48,875	(51,125)
Debt service	109,851	109,851	109,165	(686)
Total expenditures	1,593,629	1,593,629	1,404,851	(188,778)
Excess of revenues over (under) expenditures	(106,533)	(106,533)	354,133	460,666
Other financing sources (uses):				
Operating transfers out	(30,000)	(30,000)	(15,000)	15,000
Total other financing sources (uses)	(30,000)	(30,000)	(15,000)	15,000
Excess (deficiency) of revenues and other sources over expenditures and other uses, budgetary basis	\$ (136,533)	\$ (136,533)	339,133	\$ 475,666
Fund balance, October 1, 2005			336,423	
Adjustments to GAAP Basis:				
Increase in accrued revenues			3,191	
Fund balance, September 30, 2006			\$ 678,747	

See Independent Auditors' Report and notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION

CITY OF FLORENCE
Schedule of Surety Bonds for Municipal Officials
September 30, 2006

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Wendell Godfrey	Mayor	Municipal Program	\$30,000
All Five Alderpersons		Municipal Program	\$30,000 each
Linda C. Wigley	City Clerk	Western Surety	\$75,000
Caley Gray	Police Chief	Western Surety	\$50,000
Jane M. Morgan	Water Clerk	Western Surety	\$75,000
Melissa J. Mccue	Court Clerk	Western Surety	\$75,000
Nancy Odom	Deputy Clerk	Western Surety	\$10,000
Bottsy Smith	Water Clerk	Western Surety	\$10,000
Judy Hilton	Court Clerk	Western Surety	\$10,000
Various Policemen	Police Department	Western Surety	\$5,000 to \$10,000 each
Various Firemen	Fire Department	Western Surety	\$10,000
Various Park Staff	Park Department	Western Surety	\$10,000

COMPLIANCE REPORT

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Independent Auditor's Special Report on Compliance With Office of the State Auditor Requirements

To the Mayor and Board of Alderpersons
of the City of Florence, Mississippi

We have audited the basic financial statements of the City of Florence, Mississippi ("The City"), as of and for the year ended September 30, 2006, and have issued our report thereon dated May 8, 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.

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 basic financial statements disclosed no material instances of noncompliance with state laws and regulations.

This report is intended solely for the use of the City of Florence's management 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.

Barlow, Walker & Hill, P.A.

Brandon, Mississippi
May 8, 2007



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