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CITY OF MACON, MISSISSIPPI

AUDIT REPORT

SEPTEMBER 30, 2006

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STATE AUDITOR'S OFFICE

**WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF MACON, MISSISSIPPI
AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Financial Statement:	
Independent Auditors' Report on the Combined Statement of Cash Receipts and Disbursements and Supplemental Information	1
Combined Statement of Cash Receipts and Disbursements	3
Notes to Financial Statements	6
Supplemental Information:	14
Schedule of Long-Term Debt	15
Schedule of Investments – All Funds	16
Schedule of Surety Bonds for Municipal Officials	17
Independent Auditors' Report on Compliance with State Laws And Regulations	18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	23
Schedule of Findings and Questioned Costs	26
Schedule of Expenditures of Federal Awards	29



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**INDEPENDENT AUDITORS' REPORT
ON THE COMBINED STATEMENT OF CASH RECEIPTS AND
DISBURSEMENTS AND
SUPPLEMENTAL INFORMATION**

Honorable Mayor and Board of Alderman
City of Macon
Macon, Mississippi

We have audited the accompanying Combined Statement of Cash Receipts and Disbursements of the City of Macon, Mississippi, as of and for the year ended September 30, 2006, as listed in the table of contents. The Combined Statement of Cash Receipts and Disbursements is the responsibility of the City of Macon's management. Our responsibility is to express an opinion on the Combined Statement of Cash Receipts and Disbursements based on our audit.

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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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.

As discussed in Note 1C, the City of Macon, Mississippi, prepares its financial statement on the cash receipts and disbursements basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note 1A, the Combined Statement of Cash Receipts and Disbursements presents only the governmental funds, fiduciary fund, and one proprietary fund and do not purport to, and do not, present fairly the respective results of its operations – cash basis of the City of Macon, Mississippi, as of September 30, 2006, and its proprietary

fund types and nonexpendable trust funds respective results of operations – cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1C.

In our opinion, the Combined Statement of Cash Receipts and Disbursements presents fairly, in all material respects, the respective results of its operations – cash basis of the City of Macon, Mississippi’s governmental funds, fiduciary fund, and one proprietary fund, as of September 30, 2006, and its proprietary fund type and nonexpendable trust funds respective results of operations – cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1C.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2006, on our consideration of the City of Macon, Mississippi’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The City of Macon, Mississippi, has not presented the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic Combined Statement of Cash Receipts and Disbursements.

Our audit was performed for the purpose of forming an opinion on the Combined Statement of Cash Receipts and Disbursements taken as a whole. The accompanying schedule of long-term debt, schedule of investments, and schedule of surety bonds for municipal officials are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the Combined Statement of Cash Receipts and Disbursements of the City of Macon, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the Combined Statement of Cash Receipts and Disbursements, and in our opinion, is fairly stated, in all material respects, in relation to the Combined Statement of Cash Receipts and Disbursements taken as a whole.

Macon, Mississippi
December 28, 2006

Watkins Ward and Stafford PLLC

COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

CITY OF MACON, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
ALL FUNDS EXCLUDING THE ELECTRIC PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

<u>Revenues</u>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>
	\$					
General Property Taxes	681,202					
Penalties and interest on delinquent taxes	1,278					
Licenses and permits	9,823					
In lieu of taxes/franchise taxes:						
Four-County	7,026					
Mississippi Cable	6,121					
Mississippi Valley Gas	12,203					
Tennessee Valley Authority	40,543					
Macon Electric Department	153,160					
Intergovernmental Revenues:						
Federal Revenue:						
Federal Emergency Management Agency	173,911					
Home Program Grant			68,410			
CDBG Grant			102,612			
FAA Grant			149,838			
Rural Development Grant	38,120		203,266			
Justice Assistance Grant	2,641		301,082			
Local Shared Revenues:						
County allocations	63,293					
State Shared Revenues:						
State grants	19,235		3,906			
Sales tax	396,954					
Gasoline Tax	6,767					
Homestead reimbursement	48,757					
General municipal aid	1,283					
Liquor privilege tax	900					
Charges for Services:					746,262	
Water Utility						
Refuse collection	171,043					
Street cuts	600					
Fines and forfeitures	70,940					
Interest	6,263	359	478	21	6,918	2,626
Rents and royalties	67,756					
Perpetual care and sale of lots						2,800
Miscellaneous	13,633				168	
Total Receipts	<u>1,993,452</u>	<u>359</u>	<u>829,592</u>	<u>21</u>	<u>753,348</u>	<u>5,426</u>

The accompanying notes are an integral part of these financial statements.

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF MACON, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
ALL FUNDS EXCLUDING THE ELECTRIC PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General	Special Revenue	Capital Projects	Debt Service	Proprietary Fund	Fiduciary Fund
Other Receipts:						
Loans and Transfers	209,645		75,113	28,056		
Total Other Receipts	209,645		75,113	28,056		
Total Receipts	2,203,097	359	904,705	28,077	753,348	5,426
Cash Balance - Beginning of Year	375,306	14,036	8,512	6	702,778	88,329
Total Amount to Account For	2,578,403	14,395	913,217	28,083	1,456,126	93,755
Operating Disbursements:						
General government	469,181					
Public safety:						
Police	593,835					
Fire	84,397					
Public works	340,870					
Health and welfare	161,787					
Culture and recreation	97,430		75,840			
Engineering and professional fees						
Enterprise:						
Water Utility					347,442	
Interest on Bonds					74,900	
Others						
Total Operating Disbursements	1,747,500	0	75,840	0	422,342	-
Other Disbursements:						
Bonds Retired					48,333	
Bank Loans Repaid	171,012		788,436		14,752	
Capital Outlay	28,056				209,645	
Loans and Transfers	199,068	-	788,436		272,730	
Total Other Disbursements	1,946,568	0	864,276	0	695,072	-
Total Disbursements	631,835	14,395	48,941	28,083	761,054	93,755
Cash Balance - End of Year	2,578,403	14,395	913,217	28,083	1,456,126	93,755
Total Amount Accounted For						

The accompanying notes are an integral part of these financial statements.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The citizens of Macon, Mississippi have elected to operate under a Code Charter as permitted by Mississippi Statue 21-3-3, which prescribes a Mayor and Board of Alderman form of government.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic-but not only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City of Macon, Mississippi's reporting entity.

Not included within the reporting entity:

City of Macon Electric Department. The Electric Department's governing board is the City of Macon, Mississippi's governing body. The rates for user charges and bond issuance authorizations are determined by the government's governing body. The Electric Department has been

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

excluded from the City of Macon's financial statement. The Electric Department prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the provision of the power contract between the Electric Department and the Tennessee Valley Authority, and are consistent with the requirements of the Federal Energy Regulatory Commission's system of accounts which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The fiscal year end for the Electric Department is June 30, and a separate audit report was issued on October 27, 2006.

The following is a summary of the more significant accounting principles:

B. Fund Accounting

The accounts of the City of Macon, Mississippi are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into five generic fund types and three broad fund categories as follows:

Governmental Funds

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

Special Revenue Fund- The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific expenditure purposes. The Special Revenue Fund is the Environmental Protection Agency Fund.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs. The primary revenue source is local property taxes levied specifically for debt service.

Capital Projects Fund – The Capital Projects Fund is used to account for the acquisition of fixed assets or construction of major capital projects not being financed by Proprietary or Nonexpendable Trust Funds.

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs 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. The Proprietary Funds are the Electric System and the Water and Sewer Department. The Electric System operates under the Tennessee Valley Authority and is accounted for and reported on separately with a fiscal year end of June 30.

Fiduciary Funds

Trust and Agency Fund – The Trust and Agency Fund is used to account for assets held by the City of Macon, Mississippi in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Nonexpendable Trust Funds are used to account for the principal portion of Trust Funds, the part which cannot be expended. They are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. The Trust and Agency Fund is the Cemetery Fund.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The financial statement is prepared on a cash receipts and disbursements basis, as prescribed by the Office of the State Auditor. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

D. Use of Estimates

The preparation of financial statements in conformity with the cash receipts and disbursements basis, as prescribed by the Office of the State Auditor requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Encumbrances

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

F. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Accounts

For proprietary funds (including Macon Electric and Water and Sewer) the City of Macon, Mississippi records expense and liability for compensated absences as the benefit is earned. Because the focus of the General Fund is "spendable resources" the expenditure is not recorded until the liability is discharged. However, the obligation is recorded in the Schedule of Long-Term Debt as the benefit is earned by the employees. The City of Macon, Mississippi's policy on annual leave is it must be taken within the year accrued. Except for certain situations, five workdays may be carried over into the next year. The carryover of annual leave is immaterial; therefore it is not recorded in the Schedule of Long-Term Debt.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Note 2: Cash and Other Deposits

The carrying amount of the City's deposits with financial institutions was \$1,578,063 and the bank balance was \$ 1,608,466. The bank balance is categorized as follows:

Amount collateralized with securities held by the pledging financial institutions trust department or agent in the City's name	<u>\$ 1,608,466</u>
Total Bank Balance	<u>\$ 1,608,466</u>

Note 3: Long-Term Debt

The following is a summary of transactions of the City of Macon, Mississippi for the year ended September 30, 2006:

	Bonds	Bonds		Bonds
	Payable at 10/1/2005	Issued	Retired	Payable at 9/30/2006
Water and Sewer Revenue Bonds	\$ 1,595,282	75,114	48,333	1,622,063
Capital Improvements- Revolving Loan	53,739		10,139	43,600
Totals	<u>\$ 1,649,021</u>	<u>75,114</u>	<u>58,472</u>	<u>1,665,663</u>

All liabilities of the City of Macon, Mississippi except for Revenue Bonds are secured by the full faith and credit of the municipality.

The three outstanding issues of Revenue Bonds are due in annual installments ranging from \$25,380 to \$43,812 each through various dates, the last of which is the year 2033. Interest rates range from 4.50% to 7.13%.

The outstanding Capital Improvement Revolving loan is due in monthly installments of \$966 per month, the last of which is September 2010. Interest is 3%.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Note 3: Long-Term Debt (Continued)

Revenue Bond debt service requirements, including interest, for the next five years and to the maturity are as follows:

<u>Fiscal Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2007	\$ 69,192
2008	\$ 69,192
2009	\$ 69,192
2010	\$ 69,192
2011	\$ 69,192
Thereafter	\$1,461,387

Capital Improvements Revolving Loan debt service requirements, including interest for the next four years and to maturity are as follows:

<u>Fiscal Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2007	\$ 11,587
2008	\$ 11,587
2009	\$ 11,587
2010	\$ 11,588

Note 4: Report Classifications

Receipts and disbursements were classified according to requirements for small towns in the State of Mississippi as prescribed by the Office of the State Auditor.

Note 5: Defined Benefit Pension Plan

Plan Description: The City of Macon, Mississippi 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

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Note 5: Defined Benefit Pension Plan (Continued)

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 the City of Macon, Mississippi 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 Macon, Mississippi's contributions to PERS for the years ending September 30, 2006, 2005 and 2004 were \$76,438, \$71,456 and \$67,965 respectively, equal to the required contributions for each year.

Note 6: Joint Ventures

The City of Macon, Mississippi entered into an agreement on November 8, 1994, with the Golden Triangle Regional Solid Waste Management Authority. This authority was organized under laws of the state of Mississippi (Section 17-17-301 et seq. Ms. Code of 1972 as amended). The authority's purpose is to operate and maintain a landfill facility. The project was permitted by DEQ in December, 1994. The City of Macon, Mississippi's share of expense and liability is based on a pro rata share of waste tonnage. The other members of the Authority are Noxubee County, City of West Point, Clay County, City of Columbus, Lowndes County, City of Starkville, Oktibbeha County, City of Eupora, Webster County, the Town of Ackerman and Choctaw County.

Note 7: Risk Management

The City of Macon, Mississippi is exposed to various risks of loss related to torts; errors and omissions; injuries to employees; and natural disasters. The City of Macon, Mississippi carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Note 8: Property Tax

Property taxes attach an enforceable lien on the property as of January 1st. Taxes are levied as of January 1st and are payable on or before February 1st. The City taxes are collected and remitted to the city by the Noxubee County Tax Collector.

The distribution of taxes to funds was made in accordance with prescribed tax levies, and uncollected taxes were properly handled.

Delinquent taxes are not recorded as assets.

SUPPLEMENTAL INFORMATION

CITY OF MACON, MISSISSIPPI
SCHEDULE OF LONG-TERM DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

<u>DEFINITION AND PURPOSE</u>	<u>Balance Outstanding 10-1-2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance Outstanding 9-30-2006</u>
Revenue Bonds:				
W & S Revenue Bond - 1999	669,407		12,283	657,124
W & S Revenue Bond - 2001	154,105		18,831	135,274
W & S Revenue Bond - 2003	771,770	75,114	17,219	829,665
Other Long-term Debt:				
Capital Improvements- Revolving Loan	<u>53,739</u>		<u>10,139</u>	<u>43,600</u>
Totals	<u>\$ 1,649,021</u>	<u>75,114</u>	<u>58,472</u>	<u>1,665,663</u>

All liabilities of the City of Macon, Mississippi except for Revenue Bonds are secured by the full faith and credit of the municipality.

CITY OF MACON, MISSISSIPPI
SCHEDULE OF INVESTMENTS - ALL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

OWNERSHIP	TYPE OF INVESTMENT	INTEREST RATE	ACQUISITION DATE	MATURITY DATE	OTHER INFORMATION	INVESTMENT COST/VALUE
Special Revenue Fund	Certificate of Deposit	4.00%	3/21/2006	3/21/2007	Bankfirst Financial Services	\$ 10,000
Trust and Agency Fund	Certificate of Deposit	2.13%	6/1/2005	12/1/2006	Citizens National Bank	100
Trust and Agency Fund	Certificate of Deposit	4.55%	1/17/2006	7/17/2007	Bankfirst Financial Services	85,090
Enterprise Fund - Water Dept.	Certificate of Deposit	4.46%	12/13/2005	12/13/2006	Bankfirst Financial Services	130,115
TOTAL INVESTMENTS						\$ 225,305

CITY OF MACON, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
SEPTEMBER 30, 2006

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Bond Amount</u>
Pamela P. Norris	City Clerk	Western Surety Co.	\$ 55,000
Robert E. Boykin	Mayor	Western Surety Co.	100,000
Aubrey I. Freshour, Jr.	Chief of Police	Western Surety Co.	50,000
Josefina Harvey	Deputy Clerk	U.S.F. & G.	10,000
Lucious Mason	Deputy Police Chief	Western Surety Co.	25,000
Yolanda Welch	Court Clerk	Western Surety Co.	10,000
Earnestine George	Alderman	Travelers Casualty	35,000
James Watkins	Alderman	Travelers Casualty	35,000
Charles Perkins	Alderman	Travelers Casualty	35,000
Thomas Campbell	Alderman	Travelers Casualty	35,000
Willie Dixon	Alderman	Travelers Casualty	35,000
Laura Bell	Clerk	Brierfield Insurance	10,000
Peggy Brown	Clerk	Brierfield Insurance	10,000

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



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

Honorable Mayor and Board of Alderman
 City of Macon
 Macon, Mississippi

We have audited the Combined Statement of Cash Receipts and Disbursements and supplemental information of the City of Macon, Mississippi, as of and for the year ended September 30, 2006, and have issued our report dated December 28, 2006. 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 Combined Statement of Cash Receipts and Disbursements and supplemental information disclosed no material instances of noncompliance with state laws and regulations.

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

This report is intended for the information of the City's management 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.

Macon, Mississippi
 December 28, 2006

Watkins Ward and Stafford P.C.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor and Board of Alderman
City of Macon
Macon, Mississippi

We have audited the Combined Statement of Cash Receipts and Disbursements and supplemental information of the City of Macon, Mississippi as of and for the year ended September 30, 2006, and have issued our report thereon dated December 28, 2006. The City of Macon, Mississippi, prepares its Combined Statement of Cash Receipts and Disbursements on the cash receipts and disbursements basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Macon, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Combined Statement of Cash Receipts and Disbursements and supplemental information and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Macon, Mississippi's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying schedule of findings and questioned costs as item number one.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Macon, Mississippi's Combined Statement of Cash Receipts and Disbursements and supplemental information are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Alderman, State Department of Audit 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.

Macon, Mississippi
December 28, 2006

Watkins Ward and Stafford LLC

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Board of Alderman
City of Macon
Macon, Mississippi

Compliance

We have audited the compliance of the City of Macon, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City of Macon, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the City of Macon, Mississippi's management. Our responsibility is to express an opinion on the City of Macon, Mississippi's compliance based on our audit.

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

In our opinion, the City of Macon, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the City of Macon, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Macon, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Board of Alderman, State Department of Audit 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.

Macon, Mississippi
December 28, 2006

Wattis Ward and Stafford LLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MACON, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Section 1: Summary of Auditors' Results

1. An unqualified opinion was issued on the Combined Statement of Cash Receipts and Disbursements and supplemental information.
2. The audit of the Combined Statement of Cash Receipts and Disbursements and supplemental information did not disclose any material weaknesses in internal control.
3. The audit did not disclose any reportable conditions of noncompliance which are material to the Combined Statement of Cash Receipts and Disbursements and supplemental information.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510(a) of OMB Circular A-133.
7. The major program was U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities (CFDA #10.760).
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

Section 2: Findings Relating to the Combined Statement of Cash Receipts and Disbursements

1. Finding: There were several instances during the year where cash money was discovered missing.

Recommendation: Daily deposits should be made. Any money left on hand at the end of the day should be placed in a locked cash drawer and then placed inside the vault. The vault should be locked every night and only key employees should have access to the vault.

CITY OF MACON, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Response: The City has purchased a locked cash drawer and now locks the vault every night. Daily deposits are now being made and the police department is responsible for making their own deposits.

Section 3: Findings and Questioned Costs for Federal Awards

None

CITY OF MACON, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

<u>Federal Agency/ Pass-through Entity/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Expenditures Total</u>
<u>U.S. Department of Transportation:</u>		
Airport Improvement Program	20.106	\$ 157,724
<u>U.S. Department of Housing and Urban Development:</u>		
Home Investment Partnerships Program	14.239	50,090
Community Development Block Grants / State's Program	14.228	76,930
		<u>127,020</u>
<u>U.S. Department of Agriculture:</u>		
Water & Waste Disposal Systems for Rural Communities	10.760	376,196
Community Facilities Loans and Grants	10.766	38,798
Cooperative Forestry Assistance	10.664	2,002
		<u>416,996</u>
<u>U.S. Department of Homeland Security:</u>		
Assistance to Firefighters Grant	97.044	133,538
Disaster Grants - Public Assistance	97.036	52,530
State Domestic Preparedness Equipment Support Program	97.004	8,881
		<u>194,949</u>
<u>U.S. Department of Justice:</u>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2,935
<u>Appalachian Regional Commission:</u>		
Appalachian Regional Development	23.001	203,266
<u>Total of all Federal Awards</u>		<u>\$ 1,102,890</u>

Notes to Schedule

- (1) This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the statement of cash receipts and disbursements.
- (2) The revenue and expenditure amounts include transfers in and out, respectively.