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CITY OF MOSS POINT, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

CITY OF MOSS POINT
TABLE OF CONTENTS

INTRODUCTORY SECTION

List of Municipal Officials	1
-----------------------------	---

INDEPENDENT AUDITOR'S REPORT	4
-------------------------------------	---

MANAGEMENT'S DISCUSSION AND ANALYSIS	7
---------------------------------------------	---

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Government-Wide Statement of Net Assets	17
-----------------------------------------	----

Government-Wide Statement of Activities	18
-----------------------------------------	----

FUND FINANCIAL STATEMENTS:

Governmental Funds Financial Statements:

Balance Sheet - Governmental Funds	21
------------------------------------	----

Reconciliation of the Governmental Funds Balance to the Statement of Net Assets	22
---------------------------------------------------------------------------------	----

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	23
---------------------------------------------------------------------------------------	----

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	24
---------------------------------------------------------------------------------------------------------------------------------------------	----

Proprietary Funds Financial Statements:

Statement of Net Assets - Proprietary Funds	26
---------------------------------------------	----

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	27
--------------------------------------------------------------------------------	----

Statement of Cash Flows - Proprietary Funds	28
---------------------------------------------	----

NOTES TO FINANCIAL STATEMENTS	31
--------------------------------------	----

CITY OF MOSS POINT
TABLE OF CONTENTS

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule - General Fund	54
Schedule of Budget-to-Actual Reconciliation - General Fund	57
Notes to Required Supplementary Information on Budgetary Accounting and Control	58

OTHER SUPPLEMENTARY INFORMATION

Schedule of Surety Bonds of Municipal Officials	61
Schedule of Expenditures of Federal Awards	62
Notes to Schedule of Expenditures of Federal Awards	63

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	65
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	67
Independent Auditor's Report on Compliance with Mississippi State Laws and Regulations	70
Schedule of Findings and Questioned Costs	73
Summary Schedule of Prior Audit Findings	75

INTRODUCTORY SECTION

CITY OF MOSS POINT
MUNICIPAL OFFICIALS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

OFFICIALS

Mayor

Xavier Bishop

BOARD OF ALDERMEN

Alderman at Large

Aneice Liddell

Alderman Ward I

Charles Molden

Alderman Ward II

James Smith

Alderman Ward III

Nancy Norvel

Alderman Ward IV

Michael Middleton

Alderman Ward V

Thomas Hightower

Alderman Ward VI

Alfred Bodden

CITY OF MOSS POINT
MUNICIPAL OFFICIALS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

DEPARTMENT HEADS

City Clerk	Adlean Liddell
City Attorney	Richie Perkins
City Accountant	Shavay Gaines
Human Resources	Tenesha Taylor-McClendon
Economic Development	Linda Holden
Parks and Recreation	Donna Joseph
Community Development	Daphne Viverette
Judicial	Maxine Conway
Building Inspections	Thomas Franklin
Public Works	Robert Armstrong
Police	Demetrius Drakeford
Fire	Mike Dale

INDEPENDENT AUDITOR'S REPORT



Wolfe • McDuff & Oppie
CERTIFIED PUBLIC ACCOUNTANTS
(A Professional Association)

Jack A. Oppie, CPA
C. Scott Rankin, CPA

Jason S. Keenum, CPA
Delorise A. Larsen, CPA
Jesse J. Wolfe, CPA (Retired)
Grover B. McDuff, CPA (Retired)

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Moss Point, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Moss Point, 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 Moss Point, Mississippi's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of noncompliance with GASB 34 infrastructure reporting requirements for the fiscal year ended September 30, 2006, we are unable to issue an opinion regarding the amounts associated with capitalized infrastructure recorded in the accompanying balance sheet at September 30, 2006, or the amount of depreciation expense for the year then ended.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had prior-year records concerning infrastructure assets and related accumulated depreciation been adequate, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Moss Point, Mississippi, as of September 30, 2006, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2008, on our consideration of the City of Moss Point, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and pages 53 through 58, respectively, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Moss Point, Mississippi's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Moss Point, Mississippi. 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 also not a required part of the basic financial statements of the City of Moss Point, Mississippi. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The remaining supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Walfe, McDuff & Oppie

Pascagoula, Mississippi
March 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOSS POINT
MANGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

The discussion and analysis of the City of Moss Point's (the City's) financial performance provides an overall narrative 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 performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the City's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the City's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the City's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- In 2006 and 2005, the City's net assets amounted to \$18,440,733 and \$12,416,525, respectively. While the net assets for governmental activities totaled \$13,064,998 in 2006 and \$6,850,648 in 2005, contributing 71% and 55% of total net assets; business-type activities contributed 29% and 45%, totaling \$5,375,735 in 2006 and \$5,565,877 in 2005.
- General revenues for 2006 and 2005 were \$9,811,404 and \$8,274,477, equaling 46% and 44% of all revenues, respectively. Program specific revenues in the form of charges for services and grants and contributions were \$11,426,238 and \$10,675,901, equaling 54% and 56% of total revenues.
- In 2006 and 2005, the City had \$14,454,271 and \$16,760,212 in expenses, respectively; only \$11,426,238 and \$10,675,901 of these expenses were offset by program specific charges for services, grants and contributions.
- Capital assets, net of accumulated depreciation, totaled \$20,267,625 in 2006, and \$19,644,566 in 2005.

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 are comprised of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the 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.

CITY OF MOSS POINT
MANGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

The statement of net assets presents information on all of 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 both functions of the City and business-type activities. The governmental activities of the City include police and fire protection, parks, recreation, public works, urban and economic development, and general administrative services. The business-type activities include the water, sewer and gas system, and solid waste management.

The government-wide financial statements can be found on pages 17 through 18 of this report.

Fund financial statements – Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements are comprised of the following funds: governmental and proprietary (enterprise) funds.

Notes to the financial statements – The notes provide additional information that is essential to a user's understanding of the basic financial statements. The notes to the financial statements can be found on pages 31 through 52 of this report.

Other 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. A Budgetary Comparison Statement has been provided for the General Fund. This required supplementary information can be found on pages 54 through 59 of this report.

Reporting the City's Most Significant Funds

Fund financial statements begin on page 21 and provide detailed information about the most significant funds. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two major types of funds are discussed below:

CITY OF MOSS POINT
MANGEMENT'S DISCUSSION & ANALYSIS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliations found on pages 22 and 24.

Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities. Proprietary funds include the Water, Sewer & Gas Fund. These funds are the same as the business-type activities reported in the government-wide financial statements but provide more detail and additional information, such as cash flows. The accrual basis of accounting is used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets – Net assets may serve over time as a useful indicator of government's financial position. The following table presents a summary of the City's net assets for the fiscal years ended September 30, 2006 and 2005.

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets:	\$ 13,704,599	\$ 6,475,654	\$ 656,717	\$ (710,796)	\$ 14,361,316	\$ 5,764,858
Capital assets	12,049,432	10,779,024	8,342,464	8,865,542	20,391,896	19,644,566
Total assets	<u>25,754,031</u>	<u>17,254,678</u>	<u>8,999,181</u>	<u>8,154,746</u>	<u>34,753,212</u>	<u>25,409,424</u>
Long-term debt outstanding	6,374,346	6,188,500	2,637,886	1,706,791	9,012,232	7,895,291
Other liabilities	6,314,687	4,215,530	985,560	882,078	7,300,247	5,097,608
Total liabilities	<u>\$ 12,689,033</u>	<u>\$ 10,404,030</u>	<u>\$ 3,623,446</u>	<u>\$ 2,588,869</u>	<u>\$ 16,312,479</u>	<u>\$ 12,992,899</u>
Net assets:						
Invested in capital assets, net of debt	\$ 4,936,342	\$ 3,285,177	\$ 5,592,286	\$ 7,119,287	\$ 10,528,628	\$ 10,404,464
Restricted	880,163	(2,525,000)	785,592	-	1,665,755	(2,525,000)
Unrestricted	7,248,493	6,090,471	(1,002,143)	(1,553,410)	6,246,350	4,537,061
Total net assets	<u>\$ 13,064,998</u>	<u>\$ 6,850,648</u>	<u>\$ 5,375,735</u>	<u>\$ 5,565,877</u>	<u>\$ 18,440,733</u>	<u>\$ 12,416,525</u>

CITY OF MOSS POINT
MANGEMENT'S DISCUSSION & ANALYSIS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

The City's restricted net assets (e.g. revenue source, sales tax, water, sewer and garbage revenue, CDBG, ad valorem tax) accounted for 9% of total net assets in 2006, and 20% in 2005. Investment in capital assets (e.g. land, construction in progress, buildings, equipment, and infrastructure) accounted for 57% and 84%, respectively. The remaining balance consisted of unrestricted net assets, the part of net assets used to finance everyday operations without constraints of legal requirements.

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The City was issued approximately \$2.6 million in disaster loans for assistance in operating expense following Hurricane Katrina.

Changes in net assets – The City's total revenues for the fiscal years ended September 30, 2006 and 2005, were \$21,237,642 and \$17,881,906, respectively. The total cost of all programs and services was \$14,454,271 and \$16,760,212. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2006 and 2005.

	Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues						
Charges for services	\$ 1,648,653	\$ 1,494,453	\$ 5,658,735	\$ 6,300,667	\$ 7,307,388	\$ 7,795,120
Operating grants and contributions	2,315,960	1,875,229	-	-	2,315,960	1,875,229
Capital grants and contributions	1,802,890	1,005,552	-	-	1,802,890	1,005,552
General revenues						
Property taxes	4,492,081	4,002,333	-	-	4,492,081	4,002,333
Franchise taxes	1,042,088	934,731	-	-	1,042,088	934,731
Public service taxes	2,650,720	1,762,389	64,904	102,466	2,715,624	1,864,855
Other general revenues	1,497,676	371,538	63,935	32,548	1,561,611	404,086
Total revenues	<u>\$ 15,450,068</u>	<u>\$ 11,446,225</u>	<u>\$ 5,787,574</u>	<u>\$ 6,435,681</u>	<u>\$ 21,237,642</u>	<u>\$ 17,881,906</u>

**CITY OF MOSS POINT
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program expenses						
General government	\$ 1,594,485	\$ 1,974,223	\$ -	\$ -	\$ 1,594,485	\$ 1,974,223
Public safety	3,722,052	3,908,018	-	-	3,722,052	3,908,018
Public works	847,645	902,940	-	-	847,645	902,940
Culture and recreation	424,137	293,111	-	-	424,137	293,111
Urban & economic dev.	674,060	245,423	-	-	674,060	245,423
Community development	466,613	403,640	-	-	466,613	403,640
Debt service - interest	398,399	798,799	-	-	398,399	798,799
Water, sewer & gas	-	-	5,423,073	6,894,308	5,423,073	6,894,308
Solid waste	903,807	1,339,750	-	-	903,807	1,339,750
Total expenses	9,031,198	9,865,904	5,423,073	6,894,308	14,454,271	16,760,212
Excess (deficiency) before extraordinary items	6,418,870	1,580,321	364,501	(458,627)	6,783,371	1,121,694
Transfers in (out)	530,481	1,085,012	(530,481)	(16,540)	-	1,068,472
Increase in net assets	\$ 6,949,351	\$ 2,665,333	\$ (165,980)	\$ (475,167)	\$ 6,783,371	\$ 2,190,166

Governmental activities

The following table presents the cost of major City functional activities: general government, public safety, public works, culture and recreation, urban and economic development, and debt service-interest. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

	Governmental Activities			
	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	\$ 1,594,485	\$ 911,579	\$ 1,974,223	\$ 349,268
Public safety	3,722,052	3,557,182	3,908,018	3,237,973
Public works	847,645	847,645	902,940	520,151
Culture and recreation	424,137	127,844	293,111	264,740
Urban & economic development	674,060	(1,330,970)	245,423	146,604
Natural disaster	466,613	(1,517,517)	403,640	17,161
Solid Waste	903,807	269,533	1,339,750	454,124
Debt service - interest	398,399	398,399	798,799	500,649
Total expenses	\$ 9,031,198	\$ 3,263,695	\$ 9,865,904	\$ 5,490,670

CITY OF MOSS POINT
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Business-type activities

The City's business-type activities generated a change in net assets of \$165,980. This represents an increase of approximately \$653,328 from the previous year. The factors contributing to this increase include:

- Wastewater treatment expenses decreased approximately 4% from the previous year.
- A Community Disaster loan of approximately \$1.11 million gave the proprietary fund an additional cash infusion. No principal or interest payments were made on these funds as of 9/30/2006.

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.

As the City completed the year, its governmental funds reported a combined fund balance of \$11,291,500, compared to \$3,565,396 in the previous year. Activities within the general fund contributed to 35% and 27% of the fund balances, respectively. Other items that influenced the fund balances are as follow:

- The City's general fund included loan proceeds in the amount of approximately \$1.42 million for Hurricane Katrina assistance.
- The City had an increase of approximately 139% in grant revenues since the previous year.

General Fund Budgetary Highlights

Over the course of the year, adjustments made in the budget were minor. The changes were due to the following: 1) amendments were made shortly after the beginning of the year, 2) the Council made changes in the middle of the year to prevent shortages from the addition or extension of service contracts, or 3) Council approved several increases in appropriations to prevent budget overruns and to recognize receipt of funds not expected.

With these adjustments, the actual expenditures were \$6,745,483 compared to \$7,168,469 of the final budget. A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report in Section III as required supplementary information.

CITY OF MOSS POINT
MANGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The City’s total capital assets for 2006 and 2005 were \$20,391,896 and \$19,569,566, respectively. The City mainly invested in infrastructure improvements for the area. The following table presents a summary of the City’s net assets for the fiscal years ended September 30, 2006 and 2005.

Capital Assets at Year End (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 2,124,193	\$ 2,354,194	\$ 189,348	\$ 189,348	\$ 2,313,541	\$ 2,543,542
Construction in progress	1,973,219	54,513	-	-	1,973,219	54,513
Buildings	8,251,183	8,183,938	18,507,777	124,272	26,758,960	8,308,210
Improvements - other	75,000	75,000	-	-	75,000	-
Equipment	5,429,877	5,441,500	2,445,727	2,424,043	7,875,604	7,865,543
Infrastructure	1,659,676	1,551,920	-	18,383,504	1,659,676	19,935,424
Accumulated depreciation	<u>\$ (7,463,716)</u>	<u>\$ (6,882,041)</u>	<u>\$ (12,800,388)</u>	<u>\$ (12,255,625)</u>	<u>\$ (20,264,104)</u>	<u>\$ (19,137,666)</u>
Total	<u>\$ 12,049,432</u>	<u>\$ 10,779,024</u>	<u>\$ 8,342,464</u>	<u>\$ 8,865,542</u>	<u>\$ 20,391,896</u>	<u>\$ 19,569,566</u>

This year’s major projects included:

	<u>Expended through 09/30/06</u>	<u>Remaining Commitment</u>
Primary Government		
Governmental Activities:		
Rohm-Haas Reverse Osmosis	\$ 1,973,219	\$ 6,431,706
Total governmental construction in progress	<u>\$ 1,973,219</u>	<u>\$ 6,431,706</u>

Debt Administration

At September 30, 2006, the City had \$10,053,378 in general obligation bonds and other long-term debt outstanding, of which \$1,041,146 is due within one year.

Outstanding Debt at Year-End

	<u>Governmental Activities</u>		<u>Business-type 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 (backed by the City)	\$ 3,470,000	\$ 4,050,000	\$ -	\$ -	\$ 3,470,000	\$ 4,050,000
Revenue bonds and notes (backed by specific tax and fee revenues)	3,643,090	3,443,847	2,750,178	1,770,731	6,393,268	5,214,578
Compensated absences	141,419	541,814	48,691	85,734	190,110	627,548
Total	<u>\$ 7,254,509</u>	<u>\$ 8,035,661</u>	<u>\$ 2,798,869</u>	<u>\$ 1,856,465</u>	<u>\$ 10,053,378</u>	<u>\$ 9,892,126</u>

CITY OF MOSS POINT
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

More detailed information about the City's long-term liabilities is presented in Note 3 (F) to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

On August 29, 2005, the City was severely impacted by Hurricane Katrina. The City is in the process of rebuilding, which will be the case over the next several years. The City anticipates the use of federal grants, insurance reimbursements, and loans to help with the costs.

The City's elected and appointed officials considered many factors when setting the fiscal-year 2006 budget, tax rates, and fees to be charged for business-type activities. The local economy is slowly recovering from the loss of several major industries and revenues lost due to Hurricane Katrina, but the prospects for new industries are improving.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City'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 the City Clerk's Office at 4412 Denny Street Moss Point, Mississippi.

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
 - Governmental funds
 - Proprietary (enterprise) funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MOSS POINT
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 8,994,271	\$ 2,080,143	\$ 11,074,414
Restricted cash and cash equivalents	-	624,609	624,609
Receivables, net	1,190,284	1,086,291	2,276,575
Prepaid items	127,417	29,496	156,913
Internal balances	3,378,033	(3,378,033)	-
Other assets	14,594	214,211	228,805
Capital assets:			
Land and construction in progress	4,097,412	189,348	4,286,760
Other capital assets, net of depreciation	7,952,020	8,153,116	16,105,136
Total capital assets	<u>12,049,432</u>	<u>8,342,464</u>	<u>20,391,896</u>
Total assets	<u>25,754,031</u>	<u>8,999,181</u>	<u>34,753,212</u>
LIABILITIES			
Accounts payable and accrued expenses	2,434,524	454,794	2,889,318
Deferred revenues	3,000,000	-	3,000,000
Customer deposits	-	369,783	369,783
Long-term liabilities:			
Due within one year			
Bonds and notes payable	880,163	160,983	1,041,146
Due in more than one year			
Bonds and notes payable	6,232,927	2,589,195	8,822,122
Compensated absences	141,419	48,691	190,110
Total liabilities	<u>12,689,033</u>	<u>3,623,446</u>	<u>16,312,479</u>
NET ASSETS			
Investment in capital assets (net of related debt)	4,936,342	5,592,286	10,528,628
Restricted net assets:			
Debt service	880,163	160,983	1,041,146
Other purposes	-	624,609	624,609
Unrestricted net assets (deficit)	7,248,493	(1,002,143)	6,246,350
Total net assets	<u>\$ 13,064,998</u>	<u>\$ 5,375,735</u>	<u>\$ 18,440,733</u>

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

CITY OF MOSS POINT
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Expenses	Program revenue		Net (expense) revenue and changes in net assets			
		Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 1,594,485	\$ 538,537	\$ 22,933	\$ 121,436	\$ (911,579)	\$ -	\$ (911,579)
Public safety	3,722,052	66,551	56,969	41,350	(3,557,182)	-	(3,557,182)
Public works	847,645	-	-	-	(847,645)	-	(847,645)
Culture and recreation	424,137	205,995	90,298	-	(127,844)	-	(127,844)
Urban & econ. development	674,060	203,296	161,630	1,640,104	1,330,970	-	1,330,970
Natural Disaster	466,613	-	1,984,130	-	1,517,517	-	1,517,517
Solid waste	903,807	634,274	-	-	(269,533)	-	(269,533)
Debt service - interest	398,399	-	-	-	(398,399)	-	(398,399)
Total governmental activities	<u>9,031,198</u>	<u>1,648,653</u>	<u>2,315,960</u>	<u>1,802,890</u>	<u>(3,263,695)</u>	<u>-</u>	<u>(3,263,695)</u>
Business-type activities:							
Water, sewer, & gas fund	5,423,073	5,658,735	-	-	-	235,662	235,662
Total business-type activities	<u>\$ 5,423,073</u>	<u>\$ 5,658,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>235,662</u>	<u>235,662</u>
Total primary	<u>\$ 14,454,271</u>	<u>\$ 7,307,388</u>	<u>\$ 2,315,960</u>	<u>\$ 1,802,890</u>	<u>(3,263,695)</u>	<u>235,662</u>	<u>(3,028,033)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					4,492,081	-	4,492,081
Franchise taxes					1,042,088	-	1,042,088
Intergovernmental					2,650,720	64,904	2,715,624
Unrestricted investment earnings					133,597	34,215	167,812
Insurance proceeds					848,509	-	848,509
Miscellaneous					515,570	29,720	545,290
Transfers in (out)					530,481	(530,481)	-
Total general revenues					<u>10,213,046</u>	<u>(401,642)</u>	<u>9,811,404</u>
CHANGES IN NET ASSETS							
Net assets - beginning					6,850,648	5,565,877	12,416,525
Prior period adjustments					(735,001)	(24,162)	(759,163)
Net assets - ending					<u>\$ 13,064,998</u>	<u>\$ 5,375,735</u>	<u>\$ 18,440,733</u>

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

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

CITY OF MOSS POINT
BALANCE SHEET - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006
Major Funds

	<u>General Fund</u>	<u>Natural Disaster Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,453,536	\$ 5,765,105	\$ 1,775,630	\$ 8,994,271
Receivables, net	988,373	-	201,911	1,190,284
Due from other funds	6,262,538	77,515	560,494	6,900,547
Prepaid expenses	127,274	-	143	127,417
	<u>8,831,721</u>	<u>5,842,620</u>	<u>2,538,178</u>	<u>17,212,519</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	314,527	39,988	162,293	516,808
Other accrued liabilities	1,878,233	-	3,464	1,881,697
Due to other funds	2,715,862	14,100	792,552	3,522,514
	<u>4,908,622</u>	<u>54,088</u>	<u>958,309</u>	<u>5,921,019</u>
Fund balances:				
Reserved for:				
Debt service	65,900	140,000	674,263	880,163
Capital projects	-	-	1,973,219	1,973,219
Unreserved:				
General fund	3,923,099	5,788,532	(393,350)	9,318,281
	<u>3,923,099</u>	<u>5,788,532</u>	<u>1,579,869</u>	<u>11,291,500</u>
Total fund balances	<u>3,923,099</u>	<u>5,788,532</u>	<u>1,579,869</u>	<u>11,291,500</u>
Total liabilities and fund balances	<u>\$ 8,831,721</u>	<u>\$ 5,842,620</u>	<u>\$ 2,538,178</u>	<u>\$ 17,212,519</u>

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

CITY OF MOSS POINT
**RECONCILIATION OF THE GOVERNEMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total governmental funds balance **\$ 11,291,500**

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives and reported as depreciation expense.

Governmental capital assets	\$ 19,513,148	
less: accumulated depreciation	<u>(7,463,717)</u>	12,049,431

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued payables		(36,018)
Premium on capital lease		14,594
Bonds and notes		(7,113,090)
Deferred Revenue		(3,000,000)
Compensated absences		<u>(141,419)</u>

Net assets of governmental activities **\$ 13,064,998**

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

CITY OF MOSS POINT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>General Fund</u>	<u>Natural Disaster Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 2,753,194	\$ -	\$ 1,738,887	\$ 4,492,081
Franchise fees	1,042,088	-	-	1,042,088
Fees and fines	463,507	-	-	463,507
Licenses and permits	60,909	-	-	60,909
Intergovernmental	2,225,714	-	425,006	2,650,720
Charges for services	667,568	-	457,096	1,124,664
Investment earnings	18,115	62,116	53,366	133,597
Insurance proceeds	858	839,175	8,476	848,509
Contribution in aid	-	-	1,753,140	1,753,140
Grants	31,333	4,984,130	349,845	5,365,308
Miscellaneous	132,643	-	382,927	515,570
Total revenues	<u>7,395,929</u>	<u>5,885,421</u>	<u>5,168,743</u>	<u>18,450,093</u>
EXPENDITURES				
Current:				
General government	1,269,234	-	1,345	1,270,579
Public safety	3,553,971	-	80,044	3,634,015
Public works	847,645	-	-	847,645
Solid Waste	903,807	-	-	903,807
Culture and recreation	310,077	-	126,600	436,677
Urban and economics	66,147	-	644,291	710,438
Natural Disaster	-	466,613	-	466,613
Debt service:				
Principal payments	73,132	115,000	1,902,212	2,090,344
Interest and fiscal charges	31,416	46,865	397,791	476,072
Capital outlay	-	27,317	1,641,947	1,669,264
Total expenditures	<u>7,055,429</u>	<u>655,795</u>	<u>4,794,230</u>	<u>12,505,454</u>
Excess of revenues over expenditures	<u>340,500</u>	<u>5,229,626</u>	<u>374,513</u>	<u>5,944,639</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	865,531	-	(335,050)	530,481
Loan proceeds	1,418,940	-	-	1,418,940
Total other financing sources(uses)	<u>2,284,471</u>	<u>-</u>	<u>(335,050)</u>	<u>1,949,421</u>
Net changes in fund balances	2,624,971	5,229,626	39,463	7,894,060
Fund balance - beginning of year	961,488	1,283,359	1,320,549	3,565,396
Prior period adjustments	336,640	(724,453)	219,857	(167,956)
Fund balance - end of year	<u>\$ 3,923,099</u>	<u>\$ 5,788,532</u>	<u>\$ 1,579,869</u>	<u>\$ 11,291,500</u>

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

CITY OF MOSS POINT
**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds **\$ 7,894,060**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$	1,669,264	
Depreciation		<u>(514,430)</u>	
Excess of capital outlay over depreciation expense			1,154,834

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,090,344
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The proceeds of new debt is reported as revenue in the governmental funds, but as a long-term liability in the statement of net assets.	(1,418,940)
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Deferred Revenues	(3,000,000)
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Adjustments due to prior year entries that were unposted or misposted	66,210
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds

Accrued compensated absences	\$	141,419	
Accrued payables		36,018	
Other Assets		<u>(14,594)</u>	<u>162,843</u>

Changes in net assets of governmental activities **\$ 6,949,351**

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

CITY OF MOSS POINT
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Water, Sewer and Gas Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,080,143
Restricted cash and cash equivalents	624,609
Accounts receivable, net	1,086,291
Due from other funds	7,848,261
Other assets	243,707
Total current assets	<u>11,883,011</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	189,348
Other capital assets, net of accumulated depreciation	8,028,845
Total noncurrent assets	<u>8,218,193</u>
Total assets	<u>20,101,204</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	454,794
Due to other funds	11,226,294
Bonds and notes payable	160,983
Total current liabilities	<u>11,842,071</u>
Noncurrent liabilities:	
Deposits and escrow	369,783
Compensated absences	48,691
Bonds and notes payable	2,589,195
Total noncurrent liabilities:	<u>3,007,669</u>
Total liabilities	<u>14,849,740</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,468,015
Reserved for:	
Debt service	160,983
Other	624,609
Unrestricted (deficit)	<u>(1,002,143)</u>
Total net assets	<u>\$ 5,251,464</u>

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

CITY OF MOSS POINT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Water, Sewer and Gas Fund</u>
OPERATING REVENUES	
Charges for services	\$ 7,560,127
Intergovernmental	64,904
Miscellaneous	<u>29,720</u>
Total operating revenues	<u>7,654,751</u>
OPERATING EXPENSES	
Personnel services	1,178,843
Insurance claims and expenses	119,177
Administrative expenses	104,787
Wastewater treatment	1,703,215
Natural gas purchases	3,002,927
Utilities	311,518
Supplies	227,963
Depreciation	544,773
Other services and charges	<u>47,351</u>
Total operating expenses	<u>7,240,554</u>
Operating income (loss)	<u>414,197</u>
NONOPERATING REVENUES (EXPENSES)	
Interest earnings	34,215
Interest expense	(83,911)
Transfers in (out)	<u>(530,481)</u>
Total operating revenues (expenses)	<u>(580,177)</u>
Changes in net assets	(165,980)
Total net assets - beginning of year	5,565,877
Prior period adjustments	(148,433)
Total net assets - end of year	<u>\$ 5,251,464</u>
Net assets of business-type activities	

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

CITY OF MOSS POINT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Water, Sewer, and Gas Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 7,266,312
Payments for goods and services	(3,910,057)
Payments to employees	(1,183,717)
Other receipts	<u>72,418</u>
Net cash provided by operating activities	<u>2,244,956</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	<u>(530,481)</u>
Net cash used by noncapital financing activities	<u>(530,481)</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	2,893,641
Principal paid on capital debt	(2,355,658)
Interest paid on capital debt	<u>(304,517)</u>
Net cash provided by capital and related financing activities	<u>233,466</u>
Cash flows from investing activities:	
Interest received	<u>34,215</u>
Net cash provided by investing activities	<u>34,215</u>
Net increase in cash and cash equivalents	1,982,156
Cash and cash equivalents:	
Beginning of the year	<u>722,596</u>
End of the year	<u>\$ 2,704,752</u>

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

CITY OF MOSS POINT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Water, Sewer and Gas Fund</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 414,197
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	544,773
(Increase) decrease in current assets:	
Accounts receivable	(401,569)
Due from other funds	(4,337,792)
Other assets	111,296
Increase (decrease) in current liabilities:	
Accounts payable	161,249
Due to other funds	5,853,256
Customer deposits	(149,145)
Compensated absences	48,691
Net cash provided by operating activities	<u>\$ 2,244,956</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Moss Point, Mississippi was incorporated on May 17, 1901. The City operates under a Mayor/Alderman form of government and provides the following services as authorized by its charter: public safety, public works, culture and recreation, community development, public utilities, and general administration services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City with the option of electing to apply FASB pronouncements issued after that date. The City has chosen not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The City implemented the general provisions of the GASB Statement Nos. 33 and 34 during fiscal year ended September 30, 2003, and plans to retroactively report infrastructure.

A. Financial Reporting Entity

These financial statements present the City (the primary government) only. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

The Moss Point Municipal Separate School District has been excluded from the reporting entity, because it is an "other stand-alone government." The School District is a related organization of, but not a component unit of the City of Moss Point. The governing authorities of the City do select a majority of the School District's Board, but do not have ongoing financial accountability for the School District.

B. Basic Financial Statements-Government-wide statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks, recreation, public works, and general administrative services are classified as governmental activities. The City's water, sewer & gas system and solid waste management services are classified as business-type activities.

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (public safety, public works, culture and recreation, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, and operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc).

The City does not allocate indirect costs. An administrative service fee is charged by the General Fund to the water, sewer, and gas fund to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. Basic Financial Statements-Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenue and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City.

1. 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 MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include: Community Development Grant, Natural Disaster Fund, and Library Fund.
3. Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.
4. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The City had one capital project fund during the year ended September 30, 2006.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City.

1. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. These funds include: Water, Sewer & Gas System and Solid Waste Management.
2. Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the City on a cost-reimbursement basis. The City has no internal service funds.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

E. Financial Statement Amounts

Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Investments:

Investments, including deferred compensation and pension funds, are stated at fair value, (quoted market price or the best available estimate).

Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Water and sewer system	30-35 years
Machinery and equipment	7-10 years
Improvements	30-35 years
Other infrastructures	10-60 years
Vehicles	5 years

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets beginning in 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period. As of the fiscal year ending September 30, 2006, the City has not begun the process of implementing the proper accounting of its infrastructure.

Revenues:

Substantially all government fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Expenditures:

Expenditures are recognized when the related fund liability is incurred.

Compensated Absences:

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to two years generally. Upon termination, any accumulated vacation will be paid to the employee. Sick leave is not paid upon termination. The City accrues accumulated unpaid vacation leave at the end of the fiscal year. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Interfund Activity:

Interfund activity consists of loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

A. Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds.

B. Deposits and Investments Laws and Regulations

State law requires that all deposits in excess of FDIC insurance limits be 105% collateralized by U.S. Government obligations or by state municipal obligations that have a market value of not less than the principal amount of the deposits. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. The City's deposits were fully insured or collateralized as required by statute at September 30, 2006.

C. Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source:</u>	<u>Legal Restrictions in Use:</u>
Sales Tax	Sewer Rehabilitation Notes
Gasoline Excise & Commercial Vehicle Tax	Street and Road Purposes
Water, Sewer, and Gas Revenue	Debt Service and Utility Operations
Grant Agreements	Grant Program Expenditures
Ad Valorem Tax	Debt Service

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

For the year ended September 30, 2006, the City complied, in all material respects, with these revenue restrictions.

D. Debt Restrictions and Covenants

General obligation debt represents direct obligations issued on a pledge of the general taxing power of the City for the payment of its debt obligations.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Cash and Investments

The City deposits funds in financial institutions selected by the City's Aldermen in accordance with Mississippi statutes. Allocation of the resulting balance is accomplished with inter-bank transfers. Approved city depositories for the calendar years 2005-2006 were as follows:

	Allocation Percentage
Merchant and Marine Bank	50%
Hancock Bank	50%
	100%

By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2006, fall into the credit risk category of "Insured or collateralized with securities held by the entity or its agent in the entity's name."

Deposits at September 30, 2006, (including restricted deposits) are as follows:

	Bank Balances	Total Carrying Value
Pooled deposits:		
Cash and cash equivalents	\$ 15,613,795	\$ 11,699,023
	\$ 15,613,795	\$ 11,699,023
Reconciliation to Government-wide Statement of Net Assets:		
Restricted cash		\$ 624,609
Unrestricted cash		11,074,414
		\$ 11,699,023

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

B. Restricted Cash

The amounts reported as restricted assets are cash and accrued interest held by the trustee bank on behalf of the various public trusts (Authorities) related to their required note payable accounts and amounts held in trust for customer utility meter deposits.

The business-type restricted assets as of September 30, 2006, are as follows:

<u>Types of Restricted Assets</u>	<u>Cash Including Time Deposits</u>
Customer deposits and escrow	<u>\$ 624,609</u>

C. Accounts Receivable

Accounts receivable at September 30, 2006, consisted of the following:

	<u>Accounts Receivable</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net Accounts Receivable</u>
Governmental activities			
General Fund:			
Ad valorem taxes	\$ 230,125	\$ -	\$ 230,125
Franchise taxes	330,193	-	330,193
Sales tax	137,186	-	137,186
Grants	5,386	-	5,386
Garbage collection fees	253,684	37,968	215,716
Other	43,104	-	43,104
Total General Fund	999,678	37,968	961,710
Special Revenue Fund:			
Grants	31,017	-	31,017
Sales tax	27,503	-	27,503
Debt Service Fund:			
Ad valorem taxes	170,054	-	170,054
Total governmental activities	1,228,252	37,968	1,190,284
Business-type activities			
Enterprise Fund:			
Water, sewer and gas services	2,225,262	1,138,971	1,086,291
Total business-type activities	2,225,262	1,138,971	1,086,291
Total government-wide activities	<u>\$ 3,453,514</u>	<u>\$ 1,176,939</u>	<u>\$ 2,276,575</u>

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

D. Capital Assets:

Capital asset activity for the year ended September 30, 2006, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases/ Adjustments	
Government activities:				
Capital assets not being depreciated:				
Land	\$ 2,124,193	\$ -	\$ -	\$ 2,124,193
Construction in progress	54,513	1,918,706	-	1,973,219
Total capital assets not being depreciated	<u>2,178,706</u>	<u>1,918,706</u>	<u>-</u>	<u>4,097,412</u>
Capital assets being depreciated:				
Buildings	8,251,183	-	-	8,251,183
Improvements - other	75,000	-	-	75,000
Infrastructure	1,551,920	107,756	-	1,659,676
Equipment	5,375,862	54,015	-	5,429,877
Total capital assets being depreciated	<u>15,253,965</u>	<u>161,771</u>	<u>-</u>	<u>15,415,736</u>
Less accumulated depreciation for:				
Buildings	(2,295,439)	(189,470)	-	(2,484,909)
Improvements - other	(18,751)	(3,750)	-	(22,501)
Infrastructure	(95,226)	(48,960)	-	(144,186)
Equipment	(4,539,870)	(272,250)	-	(4,812,120)
Total accumulated depreciation	<u>(6,949,286)</u>	<u>(514,430)</u>	<u>-</u>	<u>(7,463,716)</u>
Total capital assets being depreciated, net	<u>8,304,679</u>	<u>(352,659)</u>	<u>-</u>	<u>7,952,020</u>
Total governmental activities capital assets, net	<u>\$ 10,483,385</u>	<u>\$ 1,566,047</u>	<u>\$ -</u>	<u>\$ 12,049,432</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 189,348	\$ -	\$ -	\$ 189,348
Total capital assets not being depreciated	<u>189,348</u>	<u>-</u>	<u>-</u>	<u>189,348</u>
Capital assets being depreciated:				
Buildings	18,383,504	124,273	-	18,507,777
Equipment	2,424,045	21,682	-	2,445,727
Total capital assets being depreciated	<u>20,807,549</u>	<u>145,955</u>	<u>-</u>	<u>20,953,504</u>
Less accumulated depreciation for:				
Buildings	(36,400)	(4,561)	-	(40,961)
Utility plant	(10,158,870)	(451,766)	-	(10,610,636)
Equipment	(2,060,345)	(88,446)	-	(2,148,791)
Total accumulated depreciation	<u>(12,255,615)</u>	<u>(544,773)</u>	<u>-</u>	<u>(12,800,388)</u>
Total capital assets being depreciated, net	<u>8,551,934</u>	<u>(398,818)</u>	<u>-</u>	<u>8,153,116</u>
Total business-type activities capital assets, net	<u>\$ 8,741,282</u>	<u>\$ (398,818)</u>	<u>\$ -</u>	<u>\$ 8,342,464</u>
Primary Government				
Total capital assets, net	<u>\$ 19,224,667</u>	<u>\$ 1,167,229</u>	<u>\$ -</u>	<u>\$ 20,391,896</u>

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

A summary of general fixed assets transactions for the year ended September 30, 2006, follows:

	Expended through 09/30/06	Remaining Commitment
Primary Government		
Governmental Activities:		
Rohm-Haas Reverse Osmosis	\$ 1,973,219	\$ 6,376,781

Depreciation expense was charged to functions/programs for the year ended September 30, 2006, as follows:

Governmental activities:		
General government		\$ 514,430
Business-type activities:		
Water, sewer and gas fund		\$ 544,773

E. Accounts Payable:

Payables are composed of amounts due to vendors within 60 days of year end and accrued salaries and benefits.

F. Long-Term Debt:

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Long-term liability activity for the year ended September 30, 2006, is shown below :

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Bonds and notes payable:					
General obligation debt	\$ 4,050,000	\$ -	\$ 580,000	\$ 3,470,000	\$ 525,000
Notes payable	2,285,406	-	261,987	2,023,419	289,263
School bonds	925,000	-	925,000	-	-
Capital leases	233,441	44,940	80,927	197,454	65,900
Community Disaster Loan	-	1,422,217	-	1,422,217	-
Total bonds and notes payable	<u>7,493,847</u>	<u>1,467,157</u>	<u>1,847,914</u>	<u>7,113,090</u>	<u>880,163</u>
Other Liabilities:					
Compensated absences-long-term	<u>541,814</u>	<u>-</u>	<u>400,395</u>	<u>141,419</u>	<u>-</u>
Total other liabilities	<u>541,814</u>	<u>-</u>	<u>400,395</u>	<u>141,419</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 8,035,661</u>	<u>\$ 1,467,157</u>	<u>\$ 2,248,309</u>	<u>\$ 7,254,509</u>	<u>\$ 880,163</u>
Business-type activities:					
Bonds and notes payable:					
Water and sewer debt	\$ 1,688,353	\$ -	\$ 130,881	\$ 1,557,472	\$ 135,647
Community Disaster Loan	-	1,112,738	-	1,112,738	-
Total bonds and notes payable	<u>1,688,353</u>	<u>1,112,738</u>	<u>130,881</u>	<u>2,670,210</u>	<u>135,647</u>
Other Liabilities:					
Capital leases	82,378	21,694	24,103	79,969	25,336
Compensated absences-long-term	<u>85,734</u>	<u>-</u>	<u>37,043</u>	<u>48,691</u>	<u>-</u>
Total other liabilities	<u>168,112</u>	<u>21,694</u>	<u>61,146</u>	<u>128,660</u>	<u>25,336</u>
Total business-type activities long-term liabilities	<u>\$ 1,856,465</u>	<u>\$ 1,134,432</u>	<u>\$ 192,027</u>	<u>\$ 2,798,870</u>	<u>\$ 160,983</u>

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Description of Debt

At September 30, 2006, notes payable consisted of the following individual issues:

**General Long-
Term Debt**

Governmental activities:

Bonds and notes:

General Obligation Bond Refunding, Series 2005, due in various annual installments, bearing interest at 2.80% - 3.40%, maturing 2011	1,515,000
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General Obligation Public Improvement Bonds, Series 1998, due in various annual installments, bearing interest at 4.20% - 6.00%, maturing 2013	1,070,000
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General Obligation Street Bonds, Series 1998, due in various annual installments, bearing interest at 4.38% - 6.00%	885,000
---------------------------------------------------------------------------------------------------------------------	---------

State of Mississippi Capital Improvements Program Loan, due in monthly installments of \$2,773, bearing interest at 3.00%, maturing 2020	368,418
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Hancock Bank Hurricane Loan, due in various annual installments, bearing interest at 4.70%, maturing 2010	600,000
-----------------------------------------------------------------------------------------------------------	---------

HUD Section 108 Government Guaranteed Participation Loan, due in various annual installments, bearing interest at variable rates, maturing 2014	1,055,000
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Unsecured Community Disaster Loan, bearing interest at 2.81%, maturing 2011	<u>1,422,217</u>
-----------------------------------------------------------------------------	------------------

Total general obligation bonds and notes	6,915,635
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Capital leases:

Capital lease note, payable in an annual installment of \$55,565, bearing interest at 5.57%, maturing September 2009, secured by vehicle	149,717
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Capital lease note, payable in monthly installments of \$2,795, secured by vehicle	5,471
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Capital lease note, payable in monthly installments of \$589, secured by vehicle	5,223
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Capital lease note, payable in quarterly installments of \$2,247, maturing 2010, secured by postage meter	37,044
-----------------------------------------------------------------------------------------------------------	--------

Less current portion of long-term debt	<u>(880,163)</u>
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Total governmental activities long-term debt	<u><u>\$ 6,232,927</u></u>
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CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Business-type activities:

Bonds and notes:

Unsecured community disaster loan, bearing interest at 2.81%, maturing March 2011	\$ 1,112,738
State of Mississippi Capital Improvement Program Loan, bearing interest at 4.25%, maturing 2012	319,707
State Revolving Fund Loan, payable in monthly installments of \$4,524, bearing interest at 3.75%, maturing 2017, secured by sales tax revenues	456,383
State Revolving Fund Loan, payable in monthly installments of \$7,429, bearing interest at 3.75%, maturing 2017, secured by sales tax revenues	<u>781,381</u>
Total general obligation bonds and notes	2,670,209

Capital leases:

Capital lease note, payable in an annual installments of \$23,540, bearing interest at 5.57%, maturing 2009, secured by vehicle	63,427
Capital lease note, payable in an annual installments of \$5,898, bearing interest at 3.15%, maturing 2009, secured by vehicles	16,542
Less current portion of long-term debt	<u>(160,983)</u>
Total business-type activities long-term debt	<u><u>\$ 2,589,195</u></u>

General Obligation Bonds

General obligation bonds are direct obligations issued on a pledge of the general taxing power of the City for the payment of its debt obligations. The balance on bonds outstanding at September 30, 2006, was \$3,470,000, with a current portion of \$525,000.

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of September 30, 2006, are as follows:

Governmental Activities - Bonds and Notes				
	Bonds and Notes		Capital Leases	
	Principal	Interest	Principal	Interest
2007	814,263	218,848	65,900	12,995
2008	848,198	335,546	58,886	9,316
2009	748,903	159,700	62,966	5,236
2010	774,630	129,731	9,703	687
2011	2,057,597	101,758	-	-
2012-2016	1,338,958	215,218	-	-
2017-2021	333,086	23,974	-	-
2022-2026	-	-	-	-
Total	<u>\$ 6,915,635</u>	<u>\$ 1,184,775</u>	<u>\$ 197,455</u>	<u>\$ 28,234</u>

Enterprise Activities - Bonds and Notes				
	Bonds and Notes		Capital Leases	
	Principal	Interest	Principal	Interest
2007	135,647	66,463	25,336	4,102
2008	141,759	60,351	26,634	2,805
2009	148,146	53,964	28,000	1,438
2010	154,822	46,839	-	-
2011	1,274,536	40,312	-	-
2012-2016	682,963	104,385	-	-
2017-2021	132,336	25,957	-	-
2022-2026	-	-	-	-
Total	<u>\$ 2,670,209</u>	<u>\$ 398,271</u>	<u>\$ 79,970</u>	<u>\$ 8,345</u>

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

G. Interfund Balances

Interfund balances at September 30, 2006, consisted of the following:

DUE TO:	DUE FROM:			
	Governmental Activities			Business-type Activities
	General Fund	Natural Disaster Fund	Other Governmental Funds	Water, Sewer and Gas Fund
Governmental activities:				
General Fund	\$ -	\$ -	\$ 316,278	\$ 5,900,468
Natural Disaster Fund	45,007	-	32,508	-
Other governmental funds	226,631	34,341	299,513	609
Business-type activities:				
Water, Sewer and Gas	1,975,547	400,000	102,712	-
Total	\$ 2,247,185	\$ 434,341	\$ 751,011	\$ 5,901,077

All balances resulted from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

H. Interfund Transfers

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

NOTE 4. OTHER NOTES

A. Property Tax

Property tax is levied on the assessed (appraised) value as compiled by the Jackson County Tax Assessor for all real and business personal property located in the City. The assessment roll is approved and the levy is set before September 30, following a series of public hearings to receive citizen comments. Resulting taxes are due on or before February 1.

Included in revenues are taxes for automobile tags, which are assessed and collected by Jackson County. Such taxes, less a collection fee, are remitted to the City monthly.

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 4. OTHER NOTES (continued)

Property tax revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue.

Increases in taxes are generally limited by State law to 10% of the taxes collected for the prior assessment year, excluding taxes from property added to the tax assessment rolls in the current year.

The City is required by law to assess and collect taxes necessary for operation of the Moss Point School District (MPSD) and for service of certain related debt. MPSD provides services to residents inside and outside of the geographic boundaries of the City and has a separate appointed and/or elected board. The school district is not included as a component unit of the City's financial reporting entity because the City does not have the ability to exercise control over school operations or approve budgets. A similar situation exists with the Jackson-George Regional Library System, who receives a portion of the City's tax levy for library operation.

The tax levies for the calendar years 2006 and 2005 (taxes collected in the fiscal years ending 09/30/07 and 09/30/06) are as follows:

	09/30/06	09/30/05
	Millage	Millage
City Funds:		
General fund	35.50	34.03
Special revenue funds:		
Library fund	1.50	1.50
Fire protection	0.25	0.25
Bond redemption fund	10.50	8.02
Total City administered funds	47.75	43.80
School Funds:		
District maintenance	68.59	68.04
School debt	2.54	10.69
Total School administered funds	71.13	78.73
Total levy	118.88	122.53

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

B. Pension Plans

Defined Benefit Pension Plan

Plan Description:

The City of Moss Point, 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 that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' 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 Moss Point is required to contribute at an actuarially determined rate. The rate was 10.75% of annual covered payroll, but increased to 11.30% effective July 1, 2006. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature.

City of Moss Point and participant contributions to PERS for the years ended September 30, 2006, 2005, and 2004, were \$403,005, \$388,175, and \$389,279, respectively, representing 100% of the required contributions for those years.

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 4. OTHER NOTES (continued)

C. Commitments and Contingencies

Related Party Transactions

No known transactions requiring disclosure occurred between the City and its employees or elected officials.

Grants and Awards

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed by management to be material.

Litigation

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially effect the City's financial position.

Contract commitments

Construction Contracts:

On November 25, 2003, the City of Moss Point entered into an agreement with Morton International, Inc, whose parent company is Rohm and Haas, for the purpose of establishing a Supplemental Environmental Project (SEP). The purpose of the SEP is to fund and oversee improvements to the drinking water facilities of the City of Moss Point. The objective of the SEP is to improve the naturally occurring characteristics (such as taste, odor, and color) of the City's drinking water. Morton International, Inc. is to fund a trust up to a total of \$9,434,537 to facilitate improvements needed to implement a Reverse Osmosis system. The City is the prime contractor and will work with Diversified Consultants, Inc. to provide the engineering, planning, design, and construction oversight required to complete the project. The project is scheduled to be completed by January 2008 and cost approximately \$8.35 million. The City will be liable for any costs in excess of the \$9,434,537 funded by Morton International, Inc.

Lease agreements:

On August 13, 1997, the City of Moss Point, Mississippi, through the Moss Point Redevelopment Authority (Lessor), executed a lease agreement with the United States Postal Service. Terms of the lease call for the lessor to lease a one story building and parking area to the Postal Service for an annual rental of \$377,589 for a fixed term of nineteen (19) years. The annual rental is payable in monthly installments. In addition to the general terms of the lease agreement, the Lessor has agreed to sell the building and improvements to the Postal Service at any time subsequent to the completion of building construction upon receiving notice from the Postal Service at least six months in advance. See below for the determination of the selling price.

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

In connection with the lease agreement described above, the Lessor issued an Urban Renewal Bond, Series 1997, in the principal amount of three million four hundred seventeen thousand dollars (\$3,417,000). The proceeds were used for constructing the building and improvements to be leased to the Postal Service under the lease agreement described above. On December 6, 1998, the bond covenants called for a monthly principal and interest payment of \$29,420.73 to commence and continue be made for a period of nineteen (19) years. In addition, the bond covenants call for certain other bond funds to be provided by the bond proceeds. The bond payments are to be paid from the monthly rental revenues described above, making the debt a revenue bond.

Therefore, the bond does not constitute an indebtedness of the City of Moss Point, Mississippi, and is not included in the outstanding debt of the City.

As mentioned above, the Lessor has agreed, under certain conditions, to sell the property to the Postal Service. The selling price will be based upon the unpaid balance of the bond at the time that the purchase option is exercised by the Postal Service, less the amount of any funds on deposit in any of the bond covenant funds set up as a requirement under the bond issue. Consequently, no monetary assets accrue to the benefit of the Lessor or the City of Moss Point.

Under the criteria established by the Financial Accounting Standards Board (FASB) Statement No. 13 (Accounting for Leases), the Lessor has determined that the lease agreement represents an in-substance sale of the property to the Postal Service. Consequently, the lease is deemed to be a capital lease and not an operating lease.

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 4. OTHER NOTES (continued)

D. Joint Venture

The City is a member of the joint venture Jackson County Utility Authority (the Authority), which was established by an act of the Mississippi Legislature to design and implement a water pollution abatement plan. The Authority is responsible for the operations and maintenance of the wastewater treatment plants for the cities of Pascagoula, Moss Point, Ocean Springs and Pascagoula. The Authority enters into subscription agreements with each of the governing bodies and districts to fund its operations. The City of Moss Point's subscription agreement called for monthly payments of \$157,528 for 2005-2006 fiscal year.

The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2006, a complete copy of which is on file at the administrative offices of the Authority located at 1225 Jackson Avenue, Pascagoula, MS 39567.

BALANCE SHEET

ASSETS

Current assets	\$ 3,608,143
Restricted investments	4,137,354
Capital assets	44,451,328
Total assets	\$ 52,196,825

LIABILITIES AND FUND BALANCE

LIABILITIES

Current liabilities	\$ 3,536,192
Noncurrent liabilities	19,183,741
Total liabilities	22,719,933

FUND BALANCE

Total liabilities and fund balance	\$ 52,196,825
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STATEMENT OF REVENUES AND EXPENSES

Operating revenues	\$ 6,955,490
Operating expenses	(6,690,200)
Non-operating revenues	331,008
Non-operating expenses	(709,979)
Capital contributions and grants	12,113,795
Change in net assets	\$ 12,000,114

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 4. OTHER NOTES (continued)

E. Jointly Governed Venture

Management has identified the Jackson County Library System as a jointly governed organization. A jointly governed organization is similar in nature to a joint venture in that it provides goods and services to the citizens of two or more governments. However, it does not meet the definition of a joint venture because there is no ongoing significant financial interest or responsibility by the participating governments.

F. Deficit fund balances/Retained earnings

Deficit fund balances of individual funds are as follows:

Governmental activities:

Municipal Crime Prevention	\$ 16,422
Economic Development Resources	1,561,029
Pelican Landing	38,324
Bond Redemption	4,033,573
School Bond Redemption	825,588
Community Development	11,623
Sewer Rehabilitation	5,714
Total	<u>6,492,273</u>

G. Prior Period Adjustments

GOVERNMENT-WIDE:

	Governmental Activities	Business-type Activities	Total Government- Wide
Net Assets September 30, 2005, As Originally Presented	\$ 6,850,648	\$ 5,565,877	\$ 12,416,525
Compensated absences difference	(325,401)	(112,037)	(437,438)
Unposted entries and discrepancies	(409,600)	87,875	(321,725)
Total prior period adjustments	(735,001)	(24,162)	(759,163)
Restated Fund Balance, September 30, 2005	<u>\$ 6,115,647</u>	<u>\$ 5,541,715</u>	<u>\$ 11,657,362</u>

CITY OF MOSS POINT
NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 4. OTHER NOTES (continued)

G. Prior Period Adjustments (continued)

GOVERNMENTAL FUNDS:

	<u>General Fund</u>	<u>Natural Disaster Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances, September 30, 2005, As Originally Presented	\$ 961,488	\$ 1,283,359	\$ 1,320,549	\$ 3,565,396
Unposted entries and discrepancies	<u>336,640</u>	<u>(724,453)</u>	<u>219,857</u>	<u>(167,956)</u>
Restated Fund Balance, September 30, 2005	<u>\$ 1,298,128</u>	<u>\$ 558,906</u>	<u>\$ 1,540,406</u>	<u>\$ 3,397,440</u>

In prior years compensated absences were overstated. The year-end compensated absences from the September 30, 2006 vacation accrual report and the difference from prior years were adjusted to fund balance. Other fund balance adjustments resulted from unposted audit adjustments for several years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MOSS POINT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, October 1, 2005	\$ 216,449	\$ 216,449	\$ 267,129	\$ 50,680
Resources (inflows):				
Taxes	4,760,010	4,584,000	4,388,591	(195,409)
Licenses and permits	84,000	100,500	60,949	(39,551)
Grants	140,900	115,900	29,233	(86,667)
Inter-governmental revenues	364,400	324,400	348,333	23,933
Charges for services	900,150	902,300	719,779	(182,521)
Fines and forfeitures	465,000	466,500	456,545	-
Interest	5,000	6,500	14,972	8,472
Miscellaneous	37,000	22,000	19,299	(2,701)
Transfers	466,005	590,613	507,603	(83,010)
Other financing sources	40,000	1,438,940	1,418,940	(20,000)
Amounts available for appropriations	<u>\$ 7,478,914</u>	<u>\$ 8,768,102</u>	<u>\$ 8,231,373</u>	<u>\$ (526,774)</u>

CITY OF MOSS POINT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Charges to appropriations (outflows):				
<i>Supervision and Finance</i>				
Compensation	\$ 161,850	\$ 164,503	\$ 269,212	\$ (104,709)
Operating supplies & expenses	292,300	289,400	327,696	(38,296)
Capital outlay	11,100	11,100	8,172	2,928
<i>Police Department</i>				
Compensation	1,468,858	1,468,908	1,364,356	104,552
Operating supplies & expenses	293,500	345,400	313,866	31,534
Capital outlay	38,900	38,900	38,251	649
<i>Fire Department</i>				
Compensation	1,661,277	1,687,477	1,687,813	(336)
Operating supplies & expenses	153,200	167,200	126,129	41,071
Capital outlay	55,565	55,565	55,565	-
<i>Judicial Department</i>				
Compensation	142,338	137,338	131,132	6,206
Operating supplies & expenses	9,700	10,700	8,913	1,787
Capital outlay	-	-	-	-
<i>Inspection Department</i>				
Compensation	125,350	125,550	102,378	23,172
Operating supplies & expenses	13,200	16,000	7,076	8,924
Capital outlay	1,500	-	-	-
<i>Street Department</i>				
Compensation	170,250	149,160	98,467	50,693
Operating supplies & expenses	307,100	314,600	280,109	34,491
Capital outlay	25,000	15,000	-	15,000
<i>Sanitation</i>				
Waste disposal & dumping	852,000	985,000	921,201	63,799
<i>Grounds Maintenance</i>				
Compensation	184,200	183,408	179,335	4,073
Operating supplies & expenses	121,100	137,800	132,605	5,195
Capital outlay	27,200	27,200	24,444	2,756
<i>Data Processing</i>				
Operating supplies & expenses	14,500	17,500	11,092	6,408
<i>Safety & Human Resources</i>				
Compensation	134,650	138,650	116,549	22,101
Operating supplies & expenses	39,400	39,400	26,516	12,884
Capital outlay	1,500	1,500	-	1,500
<i>Recreation</i>				
Compensation	124,900	121,100	93,811	27,289
Operating supplies & expenses	91,800	77,700	73,631	4,069
Capital outlay	15,100	5,100	5,025	75
Program expenses	23,750	35,850	15,939	19,911
<i>Equipment Maintenance</i>				
Compensation	64,000	12,500	9,322	3,178
Operating supplies & expenses	85,300	73,300	46,738	26,562
Capital outlay	-	-	-	-

CITY OF MOSS POINT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

Charges to appropriations (outflows):

<i>Economic Development</i>				
Operating supplies & expenses	66,100	60,000	62,178	(2,178)
<i>Pelican Landing</i>				
Compensation	48,160	48,260	40,055	8,205
Operating supplies & expenses	138,300	139,300	99,807	39,493
<i>Miscellaneous</i>				
Transfer	-	68,100	68,100	-
Total charges to appropriations	<u>6,962,948</u>	<u>7,168,469</u>	<u>6,745,483</u>	<u>422,986</u>
Budgetary fund balance, September 30, 2006	<u>\$ 515,966</u>	<u>\$ 1,599,633</u>	<u>\$ 1,485,890</u>	<u>\$ (103,788)</u>

CITY OF MOSS POINT
SCHEDULE OF BUDGET-TO-ACTUAL RECONCILIATION - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles is as follows:

Sources/inflows of resources:

	General Fund
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 8,231,373
Differences - budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(267,129)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(507,603)
The budget is prepared on the cash basis whereas the fund statements are on the modified accrual basis. This is the net effect of accrual transactions.	1,358,228
Total revenues as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds, General Fund	\$ 8,814,869

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 6,745,483
Differences - budget to GAAP	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	241,846
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	68,100
Total expenditures as reported on the Statement of Revenues, Expenditure, and Changes in Fund Balances - Governmental Funds, General Fund	\$ 7,055,429

CITY OF MOSS POINT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
ON BUDGETARY ACCOUNTING AND CONTROL
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1: BUDGETARY DATA

The procedures used by the City in establishing the budgetary data are as follows:

1. The City Comptroller's office prepares estimates of available revenue.
2. Department directors submit proposed expenditure budgets to the Comptroller by June 1 each year.
3. The City Manager and the department directors review expenditure budgets and necessary revisions are made.
4. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the City Council.
5. The City Manager submits the proposed budget to the Board by August 1.
6. A public hearing is conducted to obtain taxpayer comments.
7. The final budget is approved by September 15 and must be published in a local newspaper on or before September 30.
8. Budget revisions are made throughout the year (prior to September), as reallocations of funds are necessary or circumstances change which dictate the need for a budget amendment.
9. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
10. The general fund budget is adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is the department level. The City Comptroller's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Board approval. However, department heads may make transfers of appropriations within a department. Budgetary controls are implemented through the City Comptroller's office through the use of budget to actual reports. Any purchase requisition that will cause a line item to exceed its budget will be disallowed by the City Comptroller. The department head will then be required to make an inter-department budget transfer or request a budget amendment.

CITY OF MOSS POINT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
ON BUDGETARY ACCOUNTING AND CONTROL
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS (BUDGET)

Excess of expenditures over appropriations (budget) by department for the fiscal year ending September 30, 2006, are as follows:

	<u>Budget</u>		<u>Actual</u>		<u>Excess</u>
<i>Supervision and Finance</i>					
Compensation	\$ 164,503	\$	269,212	\$	104,709
<i>Fire Department</i>					
Compensation	\$ 1,687,477	\$	1,687,813	\$	336
<i>Supervision and Finance</i>					
Operating supplies & expenses	\$ 289,400	\$	327,696	\$	38,296
<i>Economic Development</i>					
Operating supplies & expenses	\$ 60,000	\$	62,178	\$	2,178

OTHER SUPPLEMENTARY INFORMATION

CITY OF MOSS POINT
SCHEDULE OF SURETY BONDS OF MUNICIPAL OFFICIALS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Name	Position	Amount
Xavier Bishop	Mayor	\$ 51,000
Adlean Liddell	City Clerk	51,000
Thomas Hightower	Alderman	100,000
Aneice Liddell	Alderman	100,000
Nancy Norvel	Alderman	100,000
Alfred Bodden	Alderman	100,000
Charles Molden	Alderman	100,000
James Smith	Alderman	100,000
Michael Middleton	Alderman	100,000

CITY OF MOSS POINT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice			
Passed Through State:			
Multi-Jurisdictional Narcotics Grant	16.540	1NM1301/2NM1301	\$ 18,064
Local Law Enforcement Block Grant			
Local Law Enforcement Grant	16.592	20102-LB-BX-3676	49,777
HIDTA	16.592	14PGCP5712	8,400
Total U.S. Dept. of Justice			<u>76,241</u>
U.S. Department of Homeland Security			
Community Disaster Loan	97.030		2,529,114
Passed Through State:			
State Domestic Preparedness Equipment Grant	97.004	3-SUP-36	12,598
Disaster Grant - Public Assistance - Hurricane Georges	97.036	1251-DR-MS	900
Disaster Grant - Public Assistance - Hurricane Dennis	97.036		7,976
Disaster Grant - Public Assistance - Hurricane Ivan	97.036	1550-DR-MS	418
Disaster Grant - Public Assistance - Hurricane Katrina	97.036	1604-DR-MS	461,899
Total U.S. Dept. of Homeland Security			<u>3,012,905</u>
U.S. Department of Housing and Urban Development			
Passed Through State:			
Community Development Block Grant	14.218	B-02-MC-28-0004	17,497
Community Development Block Grant	14.218	B-03-MC-28-0004	144,311
Community Development Block Grant	14.218	B-04-MC-28-0004	23,682
Community Development Block Grant	14.218	B-05-MC-28-0004	89,800
Community Development Block Grant	14.218	B-06-MC-28-0004	90,057
Total U.S. Dept. of Housing and Urban Development			<u>365,347</u>
Total Expenditures of Federal Awards			<u>\$ 3,454,493</u>

CITY OF MOSS POINT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Federal Expenditures of Federal Awards includes the federal grant activity of the City of Moss Point and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

NOTE 2. LOAN AGREEMENTS OUTSTANDING

Proceeds of State Revolving Fund loans were obtained for sewer rehabilitation and drinking water system improvements. The State Revolving Fund is financed, at least in part, by the U.S. Environmental Protection Agency. The principal balance on September 30, 2006, was:

SRF-C280854-01-0	\$ 456,383
SRF-C280854-02-2	<u>781,381</u>
	<u>\$ 1,237,764</u>

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



Wolfe • McDuff & Oppie

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Independent Auditor's Report On Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Honorable Mayor and Members of the Board of Aldermen
City of Moss Point, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Moss Point as of and for the year ended September 30, 2006, which collectively comprise the City of Moss Points' basic financial statements and have issued our report thereon dated March 14, 2008. 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 Moss Points' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Moss Points' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Moss Points' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Moss Points' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Moss Points' financial statements that is more than inconsequential will not be prevented or detected by the City of Moss Points' internal control.

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AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



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Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Moss Points' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We also noted certain matters that we reported to management of the City of Moss Point, in a separate letter dated March 14, 2008.

This report is intended solely for the information and use of management, Board of Aldermen, 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.

Walter M. Duff, Jr. Oppie

Pascagoula, Mississippi
March 14, 2008



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**Independent Auditor's Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

The Honorable Mayor and Members of the Board of Aldermen
City of Moss Point, Mississippi

Compliance

We have audited the compliance of the City of Moss Point 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 Moss Points' 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 is the responsibility of the City of Moss Points' management. Our responsibility is to express an opinion on the City of Moss Points' compliance based on our audit.

Except as discussed in the following paragraph, 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 Moss Points' 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 of the City of Moss Points' compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the City of Moss Point with Department of Homeland Security requirements regarding the Community Disaster Loan, nor were we able to satisfy ourselves as to the City of Moss Points' compliance with those requirements by other auditing procedures. Please refer to finding 9/2006 - 1 located in the accompanying Schedule of Findings and Questioned Costs for more information.

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AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



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In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City of Moss Points' compliance with the requirements of the Department of Homeland Security regarding the Community Disaster Loan, the City of Moss Point 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 Moss Point is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Moss Points' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Moss Points' internal control over compliance.

Our consideration of the internal control over compliance was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency and a material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as finding 9/2006 - 1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider finding 9/2006 - 1 to be a material weakness.

The City of Moss Points' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the the City of Moss Points' response and, accordingly, we express no opinion on it.

Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133
Page 3

This report is intended for the information of management, Board of Aldermen, 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.

Walton, McPhee & Oppie

Pascagoula, Mississippi
March 14, 2008



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**Independent Auditor's Report on Compliance
With Mississippi State Laws and Regulations**

The Honorable Mayor and Members of the Board of Aldermen
City of Moss Point, Mississippi

We have audited the accompanying financial statements of the City of Moss Point, Mississippi as of and for the year ended September 30, 2006, and have issued our report dated March 14, 2008. 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 basic financial statements disclosed the following instance of noncompliance with state laws and regulations. Our findings and recommendations and management's responses are as follows:

I MUNICIPAL COURT RECEIVABLES

Finding

During our audit of accounts receivable, we noticed that the trial balance does not include an accounts receivable for fines and fees. Upon inquiry of City personnel, it was determined that records are not being kept for fines and fees owed to the City. Per section 21-23-11 of the Mississippi Code as described in the Mississippi Municipal Audit and Accounting Guide issued by the Mississippi Office of the State Auditor, a court clerk is to keep records relating to fines and fees as well as administer the collection of the aforementioned fines and fees.

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Recommendation

We recommend that the City ensure that there is a court clerk in place, update records on current receivables, and institute procedures to ensure that adequate records are kept in the future.

Response

A change in police department administration resulted in a lapse in procedure. Corrective actions are being 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.

Walfe, Mr. Dufl / Oppie

Pascagoula, Mississippi
March 14, 2008

SCHEDULE OF FINDINGS & QUESTIONED COSTS

CITY OF MOSS POINT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. In our report, our opinion on the basic financial statements was qualified.
2. There are no significant deficiencies relating to the audit of the financial statements reported in the Report on Compliance and Internal Control Over Financial Reporting.
3. There have not been any instances of noncompliance material to the financial statements of the City of Moss Point reported in the Report on Compliance and Internal Control Over Financial Reporting.
4. There was a significant deficiency relating to the audit of major federal award programs that is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance. This significant deficiency is reported as a material weaknesses.
5. The auditor's report on compliance for major federal award programs for the City of Moss Point expresses a qualified opinion.
6. There was an audit finding relative to the major federal award programs for the City of Moss Point that is reported in Part C of this schedule.
7. The major programs tested were:

Federal Emergency Management Agency - Public Assistance Grants - CFDA No. 97.036
Department of Homeland Security - Community Disaster Loans - CFDA No. 97.030
8. The dollar threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Moss Point was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

CITY OF MOSS POINT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS
AUDIT**

**Questioned
Costs**

DEPARTMENT OF HOMELAND SECURITY

Community Disaster Loan - CFDA No. 97.030

9/2006 - 1

Condition and Criteria: During our audit, we found that the Community Disaster Loan expenditures were not being tracked separately. The proceeds were deposited into the general fund and the expenditures were not easily identifiable.

Effect: Expenditures were not tracked, making Single Audit testing impossible to perform.

Cause: Federal Award tracking requirements were not followed.

Population and Items Tested: The expenditures could not be traced to the award, therefore a sample could not be derived for testing. Expenditures related to the award in the amount of \$2,529,114 could not be traced, resulting in questioned costs of the entire amount. \$ 2,529,114

Auditor's Recommendation: We recommend that the City trace the expenditures related to the Community Disaster Loan and retain the documentation applicable to program expenditures. In the future, all expenditures associated with Federal Grant Awards should be tracked in a separate fund.

Grantee Response: At the time of loan delivery, the City was not informed of the need to separate loan funds from general funds, therefore no separation was made. Henceforth, the City will take steps to segregate funds.

Total - Department of Homeland Security \$ 2,529,114

CITY OF MOSS POINT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

None.