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**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**ELECTED OFFICIALS**

Mayor  
Councilmember  
Councilmember  
Councilmember  
Councilmember  
Councilmember

Greg Mitchell  
Larry Watkins  
Donald L. Parker  
Anna Bales Turnage  
Leavern Guy, Sr.  
Jerry Bounds

**APPOINTED OFFICIALS**

City Manager (August 1, 2006 to present)  
City Manager (October 13, 2004 to June 30, 2006)  
City Clerk (October 1, 2006 to present)  
City Clerk (March 1, 2006 to September 30, 2006)

Ed Pinero  
Reggie Frierson  
Ed Pinero  
Linda Caston

# WRIGHT CPA GROUP, PLLC



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

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## INDEPENDENT AUDITORS' REPORT

February 13, 2008

Honorable Mayor, Members of the  
City Council, and City Manager  
City of Picayune  
Picayune, 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 Picayune, 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 management of the City of Picayune, Mississippi. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Picayune, Mississippi, as of September 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2008, on our consideration of the City of Picayune, 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

Honorable Mayor, Members of the  
City Council, and City Manager  
City of Picayune, Mississippi  
Picayune, Mississippi  
February 13, 2008

the result 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 budgetary comparison information listed as Schedules 1 and 2 is not a required part of the basic financial statements but is considered supplementary information required by 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 supplementary information. However, we did not audit the information an express no opinion on it.

The City of Picayune, Mississippi, has not presented Management's Discussion and Analysis, which is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Picayune, Mississippi's basic financial statements. The accompanying financial information and statements listed as Schedule A in the table of contents are presented for purposes of additional analysis and are not required as part of the basic financial statements of the City of Picayune, Mississippi. The accompanying schedule of expenditures of federal awards (Schedule I) 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 Nonprofit Organizations, and is also not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**WRIGHT CPA GROUP, PLLC**  
**Certified Public Accountants**  
**Hattiesburg, Mississippi**

**CITY OF PICAYUNE, MISSISSIPPI**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2006**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,121,322	892,744	3,014,066
Receivables, net	2,698,635	435,179	3,133,814
Internal balances	1,265,122	(1,265,122)	-
Notes receivable	1,458,180		1,458,180
Inventories	480,434	285,457	765,891
Prepaid expenses	26,212	15,156	41,368
Restricted assets			
Cash and cash equivalents	4,950,358	1,128,941	6,079,299
Capital assets			
Land and construction in progress	5,458,867	1,848,748	7,307,615
Other capital assets, net of accumulated depreciation	16,376,904	4,417,529	20,794,433
Unamortized debt issuance costs	171,246	47,210	218,456
Total assets	<u>35,007,280</u>	<u>7,805,842</u>	<u>42,813,122</u>
<b>LIABILITIES</b>			
Accounts payable	407,262	310,149	717,411
Other accrued liabilities	232,550	4,891	237,441
Deferred revenue	1,851,641	38,473	1,890,114
Bonds payable, current	309,500	25,500	335,000
Notes payable, current	133,857	43,286	177,143
Capital leases payable, current	59,517	17,699	77,216
Compensated absences	157,773	52,262	210,035
Bonds payable, noncurrent	6,474,822	445,902	6,920,724
Notes payable, noncurrent	3,270,762	733,765	4,004,527
Payable from restricted assets			
Customer deposits		555,705	555,705
Capital leases payable, noncurrent		38,108	38,108
Total liabilities	<u>12,897,684</u>	<u>2,265,740</u>	<u>15,163,424</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	11,646,830	4,886,961	16,533,791
Restricted for			
Debt service	542,291		542,291
Other purposes	4,408,067		4,408,067
Unrestricted	5,512,408	653,141	6,165,549
Total net assets	<u>\$ 22,109,596</u>	<u>5,540,102</u>	<u>27,649,698</u>

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

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

**CITY OF PICAYUNE, MISSISSIPPI  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2006**

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Economic Development Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 952,707	-	650,806	535,413	2,138,926
Receivables	2,507,599	118,735	72,301		2,698,635
Due from other funds	2,037,878	-	171,524	13,227	2,222,629
Inventories	-	8,806	471,628		480,434
Notes receivable	409,984				409,984
Prepaid Expenses	23,695	2,517	-		26,212
Restricted assets					-
Cash and cash equivalents	<u>4,787,138</u>	<u>-</u>	<u>158,220</u>	<u>5,000</u>	<u>4,950,358</u>
Total assets	<u>\$ 10,719,001</u>	<u>130,058</u>	<u>1,524,479</u>	<u>553,640</u>	<u>12,927,178</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 346,157	75,738	7,631	5,532	435,058
Other accrued liabilities	227,859	-	-	-	227,859
Deferred revenue	1,851,638	-	-	-	1,851,638
Due to other funds	<u>180,183</u>	<u>598,049</u>	<u>2,258</u>	<u>177,017</u>	<u>957,507</u>
Total liabilities	<u>2,605,837</u>	<u>673,787</u>	<u>9,889</u>	<u>182,549</u>	<u>3,472,062</u>
Fund balances					
Unreserved	2,916,042	(543,729)	821,587	366,091	3,559,991
Reserved for purpose restrictions	5,197,122		404,023	5,000	5,606,145
Reserved for debt service			<u>288,980</u>		<u>288,980</u>
Total fund balances	<u>8,113,164</u>	<u>(543,729)</u>	<u>1,514,590</u>	<u>371,091</u>	<u>9,455,116</u>
Total liabilities and fund balances	<u>\$ 10,719,001</u>	<u>130,058</u>	<u>1,524,479</u>	<u>553,640</u>	<u>12,927,178</u>

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

**CITY OF PICAYUNE, MISSISSIPPI  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006**

**Total governmental fund balances (Exhibit C)** \$ 9,455,116

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

Capital assets used in governmental activities are not current financial resources. Therefore, they are not recorded in the governmental funds balance sheet.

Governmental capital assets	\$ 42,174,841	
Less: accumulated depreciation	<u>(20,339,070)</u>	21,835,771

Other long term assets are not current financial resources. Therefore, they are not recorded in the governmental funds balance sheet.

Bond issue costs	193,710	
Less: accumulated amortization	<u>(22,464)</u>	171,246

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Note receivable for sale of capital asset used in governmental activities that is not a current financial resource and, therefore, not recorded in the governmental funds balance sheet.		1,048,196
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Other long-term assets not available to pay current period expenditures and, therefore, deferred

Intergovernmental revenues		5,498
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Governmental bonds payable		(6,784,322)
Governmental notes payable		(3,404,619)
Governmental capital leases payable		(59,517)
Compensated absences		<u>(157,773)</u>

**Net assets of governmental activities (Exhibit A)** \$ 22,109,596

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

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

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Economic Development Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes	\$ 2,388,350		-	-	2,388,350
Licenses and permits	613,983		-		613,983
Intergovernmental					-
Local			-		-
State	110,303			2,230	112,533
Federal	414,689	235,149		128,701	778,539
Sales tax	5,708,624		461,491		6,170,115
Charges for services	835,346			217,603	1,052,949
Interest	148,832		9,992	16,608	175,432
Fines and forfeitures	360,375				360,375
Rental income	5,076	62,839	34,119		102,034
Sale of fuel	-	293,129			293,129
Sale of lots	-		108,994		108,994
Miscellaneous	107,987	35,000		21,068	164,055
Total revenues	<u>10,693,565</u>	<u>626,117</u>	<u>614,596</u>	<u>386,210</u>	<u>12,320,488</u>
<b>EXPENDITURES</b>					
General government	2,552,360				2,552,360
Public safety	4,572,008			20,744	4,592,752
Public works	1,786,096				1,786,096
Culture and recreation	42,955		5,929		48,884
Economic development	-	253,009	163,556		416,565
Support to other organizations	26,500				26,500
Debt service					-
Principle payments	241,027	83,865	115,000	110,000	549,892
Interest and fiscal charges	93,501	21,831	139,525	9,350	264,207
Capital outlay	1,083,362	512,928		85,996	1,682,286
Total expenditures	<u>10,397,809</u>	<u>871,633</u>	<u>424,010</u>	<u>226,090</u>	<u>11,919,542</u>
Excess (deficiency) of revenues over expenditures	<u>295,756</u>	<u>(245,516)</u>	<u>190,586</u>	<u>160,120</u>	<u>400,947</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from issuance of debt	3,574,091	120,948			3,695,039
Transfers in	294,467		-	-	294,467
Transfers out	(158,276)			(2,800)	(161,076)
Total other financing sources (uses)	<u>3,710,282</u>	<u>120,948</u>	<u>-</u>	<u>(2,800)</u>	<u>3,828,430</u>
Net changes in fund balances	4,006,038	(124,568)	190,586	157,320	4,229,376
Fund balances - beginning	4,204,890	(419,208)	1,175,046	363,265	5,323,993
Prior period adjustments	(97,764)	47	148,958	(149,494)	(98,253)
Fund balances - beginning, restated	<u>4,107,126</u>	<u>(419,161)</u>	<u>1,324,004</u>	<u>213,771</u>	<u>5,225,740</u>
Fund balances - ending	<u>\$ 8,113,164</u>	<u>(543,729)</u>	<u>1,514,590</u>	<u>371,091</u>	<u>9,455,116</u>

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

**CITY OF PICAYUNE, MISSISSIPPI  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

<b>Net chane in fund balances - total governmental funds (Exhibit D)</b>	\$	4,229,376
<p>Amounts reported for governmental activities in the statement of activities are different because of the following:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated usefull lives and reported as depreciation expense.</p>		
Capital outlay	\$	1,682,286
Depreciation expense		<u>(1,686,898)</u>
Excess of capital outlay over depreciation expense		(4,612)
Proceeds from new borrowings is revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.		(3,695,039)
Repayment of debt principle is and expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		549,892
Miscellaneous revenues		<u>(58,785)</u>
<b>Change in net assets of governmental activities (Exhibit B)</b>	\$	<u><u>1,020,832</u></u>

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

**CITY OF PICAYUNE, MISSISSIPPI**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2006**

	Enterprise Funds		
	Utility Fund	Cemetery Fund	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 823,944	68,800	892,744
Accounts receivable, net	371,163	24,016	395,179
Due from other governments	40,000	-	40,000
Due from other funds	2,151	11,554	13,705
Inventory	96,817	188,640	285,457
Prepaid expenses	15,091	65	15,156
Total current assets	<u>1,349,166</u>	<u>293,075</u>	<u>1,642,241</u>
Capital assets			-
Land and construction in progress	1,845,172	3,576	1,848,748
Other capital assets, net of accumulated depreciation	4,406,957	10,573	4,417,530
Unamortized debt issuance costs	47,209	-	47,209
Restricted assets			
Cash and cash equivalents	891,286	237,655	1,128,941
Total noncurrent assets	<u>7,190,624</u>	<u>251,804</u>	<u>7,442,428</u>
Total assets	<u>8,539,790</u>	<u>544,879</u>	<u>9,084,669</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	306,307	3,842	310,149
Interest payable	4,891	-	4,891
Due to other funds	1,278,612	215	1,278,827
Bond payable	25,500	-	25,500
Notes payable	43,286	-	43,286
Capital leases payable	17,699	-	17,699
Payable from restricted assets:			
Customer deposits	555,705	-	555,705
Total current liabilities	<u>2,232,000</u>	<u>4,057</u>	<u>2,236,057</u>
Noncurrent liabilities			
Compensated absences payable	52,262	-	52,262
Bond payable	445,902	-	445,902
Notes payable	733,765	-	733,765
Capital leases payable	38,108	-	38,108
Deferred revenue	-	38,473	38,473
Total noncurrent liabilities	<u>1,270,037</u>	<u>38,473</u>	<u>1,308,510</u>
Total liabilities	<u>3,502,037</u>	<u>42,530</u>	<u>3,544,567</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,886,961		4,886,961
Unrestricted	150,792	502,349	653,141
Total net assets	<u>\$ 5,037,753</u>	<u>502,349</u>	<u>5,540,102</u>

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

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

	<b>Enterprise Funds</b>		
	<b>Utility Fund</b>	<b>Cemetary Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 4,105,957	605	4,106,562
Sale of lots	-	71,409	71,409
Miscellaneous	81,916	134	82,050
Total operating revenues	4,187,873	72,148	4,260,021
<b>OPERATING EXPENSES</b>			
Personnel services	951,074	107,052	1,058,126
Supplies	252,391	10,869	263,260
Other services and charges	945,594	4,354	949,948
Bad debt	238,958		238,958
Gas purchased	2,561,803	-	2,561,803
Depreciation and amortization	271,621	1,582	273,203
Total operating expenses	5,221,441	123,857	5,345,298
<b>GAIN (LOSS) FROM OPERATIONS</b>	<b>(1,033,568)</b>	<b>(51,709)</b>	<b>(1,085,277)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest earnings	24,771	10,933	35,704
Interest expense	(75,802)	-	(75,802)
Total nonoperating revenues (expenses)	(51,031)	10,933	(40,098)
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
	(1,084,599)	(40,776)	(1,125,375)
Capital contributions	32,451	-	32,451
Transfers in	66,276	92,000	158,276
Transfers out	(291,667)	-	(291,667)
<b>CHANGE IN NET ASSETS</b>	<b>(1,277,539)</b>	<b>51,224</b>	<b>(1,226,315)</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>6,313,399</b>	<b>456,618</b>	<b>6,770,017</b>
Prior period adjustments	1,893	(5,493)	(3,600)
<b>TOTAL NET ASSETS - BEGINNING (restated)</b>	<b>6,315,292</b>	<b>451,125</b>	<b>6,766,417</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 5,037,753</b>	<b>502,349</b>	<b>5,540,102</b>

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

**CITY OF PICAYUNE, MISSISSIPPI  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<b>Enterprise Funds</b>		
	<b>Utility Fund</b>	<b>Cemetary Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 4,015,054	72,014	4,087,068
Payments for goods and services	(2,132,725)	(32,428)	(2,165,153)
Payments to employees	(951,074)	(107,052)	(1,058,126)
Other receipts	77,916	134	78,050
Net cash provided by operating activities	<u>1,009,171</u>	<u>(67,332)</u>	<u>941,839</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers out	(291,667)	-	(291,667)
Transfers in	66,276	92,000	158,276
Net cash provided by (used in) noncapital financing activities	<u>(225,391)</u>	<u>92,000</u>	<u>(133,391)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases and construction of capital assets	(551,939)	-	(551,939)
Proceeds from issuance of capital debt	100,000	-	100,000
Principle paid on capital debt	(96,516)	-	(96,516)
Interest paid on capital debt	(75,802)	-	(75,802)
Proceeds from capital grants	32,451	-	32,451
Net cash provided by capital and related financing activities	<u>(591,806)</u>	<u>-</u>	<u>(591,806)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Customer deposits	137,368	-	137,368
Interest received	24,771	10,933	35,704
Net cash provided by investing activities	<u>162,139</u>	<u>10,933</u>	<u>173,072</u>
Net Increase (decrease) in cash and cash equivalents			
Cash and cash equivalents:	354,113	35,601	389,714
Beginning of the year	<u>1,361,117</u>	<u>270,854</u>	<u>1,631,971</u>
End of the year	<u>\$ 1,715,230</u>	<u>306,455</u>	<u>2,021,685</u>
<b>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES</b>			
Gain (Loss) from operations	\$ (1,033,568)	(51,709)	(1,085,277)
Adjustments to reconcile gain (loss) from operations to net cash provided			
Depreciation and amortization expense	271,621	1,582	273,203
Bad debt expense	238,958		238,958
(Increase) decrease in current assets			
Accounts receivable	(91,160)	1,298	(89,862)
Due from other funds	159,011	(4,109)	154,902
Inventory	157,376		157,376
Increase (decrease) in current liabilities			-
Accounts payable	20,760	3,494	24,254
Due to other funds	1,216,313	(5,515)	1,210,798
Other liabilities	73,860	(21,746)	52,114
Deferred revenue		9,373	9,373
Net cash used in operating activities	<u>\$ 1,013,171</u>	<u>(67,332)</u>	<u>945,839</u>

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

**CITY OF PICAYUNE, MISSISSIPPI  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
SEPTEMBER 30, 2006**

		<u><b>Tax Collector Fund</b></u>
<b>ASSETS</b>		
Cash and cash equivalents	\$	<u>54,634</u>
Total assets		<u><u>54,634</u></u>
 <b>LIABILITIES</b>		
Amounts held for others		
Other liabilities		<u>(54,634)</u>
Total liabilities		<u>(54,634)</u>
 <b>NET ASSETS</b>		
	\$	<u><u>-</u></u>

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

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**I. Introduction**

The City of Picayune, Mississippi, (City) incorporated under the laws of the State of Mississippi and situated in Pearl River County, operates under the council-manager form of government and provides the following services as authorized by its charter: Public Safety (Police and Fire), Public Works, Health and Welfare, Culture and Recreation, and General Administrative Services.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2006.

**II. Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. The criteria for including as component units of the City consist of oversight responsibility, special financing relationships and scope of public services. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the City has no component units.

*Related Organizations*

The Picayune 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 Picayune. 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.

*Joint Ventures and Jointly Governed Organizations*

Additionally during its evaluation of potential component units, management identified one joint venture, Partners for Pearl River County, and one jointly governed organization, Municipal Gas Authority of Mississippi.

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the costs, risk, and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients.

A jointly governed organization is similar in nature to a joint venture in that they provide goods and services to the citizenry of two or more governments. However, they do not meet the definition of a joint venture because there is no ongoing significant financial interest or responsibility by the participating governments.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**III. Government -Wide and Fund Financial Statements**

*Government -Wide Financial Statements*

The government -wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report financial information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business -type activities, which rely to a significant extent on fees and charges for support. The statement of activities demonstrates the degree of which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. Taxes and other items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government -wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**(A) Basis of Accounting**

The City complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities, and as prescribed by the Governmental Accounting Standards Board (GASB). GASB is accepted standard -setting body for governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which, GASB prevails.

The government -wide financial statements report using the economic resources measurements focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers revenues to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Major revenue sources susceptible to accrual include: property taxes, licenses, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received by the City.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note 2 for information describing restricted assets.

**(B) Fund Types and Major Funds**

*Governmental Funds*

The City reports the following major governmental funds:

**General Fund** – The general fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Airport Fund** – This capital project fund accounts for the financial resources used for the acquisition, construction, and maintenance of the City operated airport.

**Economic Development Fund** – This special revenue fund accounts for the proceeds from the Tourism Sales Tax, sales of land in the industrial park that are used for economic development.

*Proprietary Funds*

The City reports the following major proprietary funds:

**Utility Fund** – The utility fund accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing water, sewer, and gas services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Cemetery Fund** - The cemetery fund accounts for the activities and operations of the City operated cemetery.

*Other Fund Types*

The City also reports the following fund types:

**Special Revenue Fund** – The special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

**Debt Service Funds** – The debt service funds are used to account for the servicing of long-term general obligation debt of the governmental funds.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

*Other Fund Types (Continued)*

**Fiduciary Fund** – The tax collector fund is used to account for assets held by the City in a trustee capacity or as an agent for other governmental units.

**(C) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**V. Assets, Liabilities, and Net Assets or Equity**

**(A) Cash and Investments**

The City's cash and cash equivalents are primarily considered to be cash on hand and amounts held in demand deposits. For purposes of the statement of cash flows, short-term investments held in proprietary funds with a maturity date within three months of the date acquired by the City, if any, are considered to be cash equivalents.

State statutes authorize the City to invest in (1) direct obligations of the United States government, the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit when insured or secured by acceptable collateral and (3) obligations of the State of Mississippi, or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court. Investments are recorded at costs, which approximated fair value.

**(B) Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. An allowance has been provided in the general fund and the utility fund for estimated uncollectible ad valorem taxes receivable and utility charges. In the general fund, the allowance amount is estimated based on collections history. The allowance in the utility fund is estimated using accounts receivable past due 90 days or more. As of September 30, 2006 the allowance for uncollectible utility and general fund receivables is \$1,453,300.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTES 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**V. Assets, Liabilities, and Net Assets or Equity (Continued)**

**(C) Prepaid Items**

Payments made to vendors for services that will benefit periods beyond September 30, 2006, are recorded as prepaid items.

**(D) Inventories**

Inventories consists of natural gas stored with the City's supplier, cemetery plots, aviation fuel at the Picayune Municipal Airport, and parcels of land at the City's industrial park. Inventories are stated at cost utilizing the average cost valuation method for natural gas and aviation fuel and at historical cost for cemetery plots and land.

**(E) Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws. Restricted assets in the debt service fund are restricted for the payment of debt service. Restricted assets in the special revenue funds are restricted for economic development, recreation and for certain purposes as stated in the grant agreements. Restricted assets in the enterprise funds represent utility customer deposits subject to refund and amounts restricted for improvements. When both restricted and non restricted assets are available for use, the policy is to use restricted assets first.

**(F) Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), net of depreciation are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City generally capitalizes assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest cost was capitalized during the current fiscal year.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	20 years
Public domain infrastructure	50 years
Utility system infrastructure	10-50 years
Machinery and equipment	3-15 years

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPALS (Continued)**

**V. Assets, Liabilities, and Net Assets or Equity (Continued)**

**(G) Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond issuance costs and bond premiums and discounts are capitalized and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**(H) Compensated Absences**

The City's policy allows employees to accumulate all unused vacation and sick leave. Full-time employees are granted vacation from 12 to 24 days per year depending on the employee's length of service. Retiring and terminating employees are paid for unused vacation up to a maximum of 240 hours. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. In the fund financial statements, a liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours multiplied by the employee's hourly rate at September 30, 2006. The resulting liability is then increased to include social security and retirement contributions that the City is required to pay upon liquidation of the liability.

**(I) Fund Equity**

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The economic development fund reports reservations of fund balance for amounts resulting from tourism taxes exclusively restricted for economic development activities. Designations of fund balance represent tentative management plans that are subject to change.

**(J) Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 2: CASH AND INVESTEMENTS**

**(A) Cash**

A summary of cash and cash equivalents (including restricted cash) as of September 30, 2006, follows:

	<u>Cash on Hand</u>	<u>Checking and Savings Accounts</u>	<u>Certificates of Deposit</u>	<u>Total</u>
<b>Governmental Activities</b>				
Major Funds				
General Fund	\$ 1,050	5,716,007	22,788	5,739,845
Airport Fund	29	(17,633)		(17,604)
Economic Development	-	659,026	150,000	809,026
Other Governmental Funds	-	441,833	98,580	540,413
Total governmental activities	<u>1,079</u>	<u>6,799,233</u>	<u>271,368</u>	<u>7,071,680</u>
<b>Business-Type Activities</b>				
Enterprise Funds				
Utility Fund	250	1,353,710	361,270	1,715,230
Cemetery Fund	-	71,455	235,000	306,455
Total business-type activities	<u>250</u>	<u>1,425,165</u>	<u>596,270</u>	<u>2,021,685</u>
<b>Fiduciary Fund</b>				
Tax Collector	-	54,636		54,636
Total cash and cash equivalents	<u>\$ 1,329</u>	<u>8,279,033</u>	<u>867,638</u>	<u>9,148,001</u>

The City maintained the following restricted assets as of September 30, 2006:

**Governmental Activities**

Cash and cash equivalents	
Restricted for debt service	\$ 542,291
Restricted for other purposes	4,408,067
Total restricted assets - governmental activities	<u>4,950,358</u>

**Business-Type Activities**

Cash and cash equivalents	
Restricted for capital improvements	149,308
Restricted for utility customer deposits	166,646
Restricted for sewer improvements	575,332
Total restricted assets - business-type	<u>891,286</u>
Total restricted assets - government-wide	<u>\$ 5,841,644</u>

Mississippi statutes allow municipalities to select depositories on the basis of competitive bid. Depositories must be insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in an amount equal to 105% of the uninsured deposit. The collateral is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code. Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposit 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 FDIC. By using the multiple financial institution collateral pool, all of the City's deposits at September 30, 2006 fall into the risk category of "Insured or collateralized with securities held by the entity or its agent in the entity's name."

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 2: CASH AND INVESTMENTS (Continued)**

**(B) Investments**

Mississippi municipalities may invest surplus funds in certificates of deposit with qualified depositories and in bonds and direct obligations of the United States of America; or the State of Mississippi; or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery clerk.

At September 30, 2006, the City did not hold any certificates of deposit with maturity dates longer than three months.

**NOTE 3: RECEIVABLES**

Receivables at September 30, 2006 consist of the following

	Governmental Activities	Business-type Activities	Total Government-wide
Ad valorem taxes	\$ 1,610,897	-	1,610,897
Sales tax	850,063	-	850,063
Tourism sales tax	68,235		68,235
Intergovernmental	169,440	40,000	209,440
Accounts receivable, gross		1,848,223	1,848,223
Other		256	256
Total receivables, gross	2,698,635	1,888,479	4,587,114
Less: allowance for doubtful accounts		(1,453,300)	(1,453,300)
Total receivables, net	\$ 2,698,635	435,179	3,133,814

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Deferred revenue at September 30, 2006 consists primarily of unearned grant revenue.

**(A) Property Taxes**

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Pearl River County and Hancock County tax assessors from the information extracted from the County assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1. Taxes on real and personal property are levied by the City Council at the first regular meeting in September. The City's tax assessment roll is then approved by the City Council after a series of public hearings to receive the citizens' objections. Such taxes are billed and collected by the City.

In accordance with Mississippi Code of 1972, as amended for code section 27-39-321, the Board may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding three years. For purposes of the computation, taxes collected in the current year resulting from the property added to the tax assessment roll are excluded from the computation.

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2006 was 25.5 mills or \$25.50 per \$1,000 of assessed valuation.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 3: RECEIVABLES (Continued)**

The assessed valuations of the City for the year ended September 30, 2006 are as follows:

Real property	\$	43,003,633
Personal property		11,770,783
Public utilities		2,730,015
Automobiles		<u>11,093,583</u>
Totals	\$	<u>68,598,014</u>

The tax levies for the City for the years ended September 30, 2007, 2006, and 2005 are as follows:

2007	2006	2005
23.50	23.50	21.25
2.00	2.00	2.00
25.50	25.50	23.25

**(B) Management Fees**

The City's utility fund (proprietary fund type) pays a management fee to the general fund to cover various costs such as administrative salaries, insurance, occupancy costs, etc. Such fees totaled \$291,667 for the year ended September 30, 2006. The fees were included in general government "fees, fines, and charges for service" program revenue on the Statement of Activities and were included in "charges of services" revenue in the general fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds. The corresponding expenditure was included in the utility "expenses" on the Statement of Activities and was included in "contractual services" expenditures in the utility fund on the Statement of Revenues, Expenditures, and Changes in Net Assets – Proprietary Funds.

**(C) Notes Receivable**

*Brockway Building*

On May 3, 2005 the City entered into an agreement with Farmer Fresh Produce International, LLC for the sale of the City's Brockway Building. The sale price of the building was \$1,100,000 at 2% interest per annum for a period of thirty years. Monthly payments of \$4,066 are due on the first day of each month. The sale is financed by the City. The agreement includes a special provision that the City incur \$35,000 to repair and modernize the Brockway Building's administrative offices. The City and the buyer agree that the special provision will be met by the buyer not paying the first 8 payments and reducing the ninth payment. The net note receivable of \$1,048,196 is included in "notes receivable" in the Statement of Net Assets.

*Centraplex*

On May 26, 2005, the City accepted the transfer and assignment of the Foundation for Civic Development's (Foundation) Centraplex real estate in fee simple determinable and subject to a trust for the benefit of the citizens of Picayune. The City is required to establish by municipal ordinance a Civic Center Management Board, which shall be responsible for developing policies for the management of the property as a civic center. The transfer and assignment included a mortgage financed by Hancock Bank with a remaining balance of \$72,168. On June 22, 2005, the City entered into a taxable negotiable note, Series 2005, with

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 3: RECEIVABLES (Continued)**

**(C) Notes Receivable (Continued)**

Trustmark Bank for payment of the Hancock Bank mortgage. The \$72,168 negotiable note is included in “notes payable, current and noncurrent” in the Statement of Net Assets.

The City also accepted the transfer and assignment of the Foundation’s interest in the real estate purchase and finance agreements of August 5, 1997 and February 3, 1998 between the Foundation and National Home Furnishings for parcels A and B of the Centraplex real estate. The assignment and transfer include both the right to receive payments under that agreement, as well as all reversionary interests it creates in the Foundation. The Centraplex real estate, net of parcels A and B, is included in “other capital assets, net of accumulated depreciation” in the Statement of Net Assets.

In August 5, 1997 notes receivable balance when transferred to the City was \$136,341 with monthly payments of \$1,464 at 8% with 146 payments remaining. The February 3, 1998 note receivable balance when transferred to the City was \$322,006 with monthly payments of \$3,101 at 7% interest with 159 payments remaining. The balance of the notes receivable at September 30, 2006 is \$128,227 and \$303,835 respectively and is included in “notes receivable” and “restricted for other purposes” in the Statement of Net Assets.

**NOTE 4: DUE FROM OTHER GOVERNMENTS**

Due from other governments at September 30, 2006 consists of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Grants	\$ <u>169,440</u>	<u>40,000</u>	<u>209,440</u>

**CITY OF PICAYUNE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**NOTE 5: CAPITAL ASSETS**

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

	<b>Balance 10/1/05</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/06 per Report</b>
<b>Governmental Activities</b>					
Capital assets, not being depreciated					
Land	1,716,204	133,000		400,503	2,249,707
Construction in progress	4,939,673	512,928	(63,501)	(2,179,940)	3,209,160
Total Capital assets, not being depreciated	<u>6,655,877</u>	<u>645,928</u>	<u>(63,501)</u>	<u>(1,779,437)</u>	<u>5,458,867</u>
Capital assets, being depreciated					
Buildings and improvements	2,479,178	532,000		(219,293)	2,791,885
Machinery and equipment	952,328	207,667	(71,258)	(340,347)	748,390
Improvements other than buildings	2,278,792			11,714	2,290,506
Infrastructure	28,382,456			(245,311)	28,137,145
Vehicles	2,580,740	296,691	(130,196)	813	2,748,048
Total capital assets, being depreciated	<u>36,673,494</u>	<u>1,036,358</u>	<u>(201,454)</u>	<u>(792,424)</u>	<u>36,715,974</u>
Less accumulated depreciation for:					
Buildings and improvements	(507,831)	(57,885)	71,288	(465,711)	(960,139)
Machinery and equipment	(558,919)	(53,254)		194,815	(417,358)
Improvements other than buildings	(510,745)	(148,068)		13,094	(645,719)
Infrastructure	(11,560,625)	(1,252,853)		(3,745,942)	(16,559,420)
Vehicles	(1,724,374)	(174,838)	130,166	12,612	(1,756,434)
Total accumulated depreciation	<u>(14,862,494)</u>	<u>(1,686,898)</u>	<u>201,454</u>	<u>(3,991,132)</u>	<u>(20,339,070)</u>
Total capital assets, being depreciated, net	<u>21,811,000</u>	<u>(650,540)</u>		<u>(4,783,556)</u>	<u>16,376,904</u>
Total governmental activities capital assets, net	<u>28,466,877</u>	<u>(4,612)</u>	<u>(63,501)</u>	<u>(6,562,993)</u>	<u>21,835,771</u>
<b>Business-Type Activities</b>					
Capital assets, not being depreciated:					
Land	172,599				172,599
Construction in progress	1,120,064	551,939		4,146	1,676,149
Total Capital assets, not being depreciated	<u>1,292,663</u>	<u>551,939</u>		<u>4,146</u>	<u>1,848,748</u>
Capital assets, being depreciated					
Buildings and improvements	47,730				47,730
Machinery and equipment	839,491		(17,988)	(209,822)	611,681
Infrastructure	11,388,388				11,388,388
Vehicles	496,142		(13,693)	(76,168)	406,281
Total capital assets, being depreciated	<u>12,771,751</u>	<u>-</u>	<u>(31,681)</u>	<u>(285,990)</u>	<u>12,454,080</u>
Less accumulated depreciation for:					
Buildings and improvements	(21,341)	(1,559)		(4,551)	(27,451)
Machinery and equipment	(588,312)	(35,431)		185,323	(438,420)
Infrastructure	(7,055,343)	(218,168)		78,696	(7,194,815)
Vehicles	(404,758)	(18,045)		46,938	(375,865)
Total accumulated depreciation	<u>(8,069,754)</u>	<u>(273,203)</u>		<u>306,406</u>	<u>(8,036,551)</u>
Total capital assets, being depreciated, net	<u>4,701,997</u>	<u>(273,203)</u>	<u>(31,681)</u>	<u>20,416</u>	<u>4,417,529</u>
Total business-type activities capital assets, net	<u>5,994,660</u>	<u>278,736</u>	<u>(31,681)</u>	<u>24,562</u>	<u>6,266,277</u>

Adjustments:

Balances were adjusted to the balances accepted by the City of Picayune through a fixed asset inventory conducted by an outside contractor hired by the City.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 5: CAPITAL ASSETS (Continued)**

Construction in progress at September 30, 2006 consists primarily of roadway expansion on Memorial Boulevard, expansion at Friendship Park, a water and wastewater infrastructure improvements project, a water well rehabilitation project, and installation of an automated weather observing system (AWOS) and new taxiway lighting at the Airport.

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

<b>Governmental Activities</b>	
General government	\$ 37,375
Public safety	127,886
Public works	1,247,693
Culture and recreation	26,494
Economic Development	<u>247,450</u>
Total governmental activities depreciation expense	<u><u>1,686,898</u></u>
<b>Business-Type Activities</b>	
Utility	271,621
Cemetery	<u>1,582</u>
Total business-type activities depreciation expense	<u><u>\$ 273,203</u></u>

**NOTE 6: LONG – TERM DEBT**

Changes in long – term debt during the year ended September 30, 2006 are as follows:

	October 1, 2005	Additions	Payments/ Reductions	September 30, 2006	Due within One Year
<b>Governmental Activities</b>					
Bonds	\$ 5,930,522	1,200,000	(346,200)	6,784,322	309,500
Notes	1,032,323	2,495,039	(122,743)	3,404,619	133,857
Capital leases	140,665		(80,949)	59,717	59,717
Compensated absences	157,773			157,773	
Total governmental activities	<u>\$ 7,261,283</u>	<u>3,695,039</u>	<u>(549,892)</u>	<u>10,406,431</u>	<u>503,074</u>
<b>Business-Type Activities</b>					
Bonds	\$ 494,478		(23,076)	471,402	25,500
Notes	715,054	100,000	(38,003)	777,051	43,286
Capital leases	91,244		(35,437)	55,807	17,699
Compensated absences	52,262			52,262	
Total business-type activities	<u>\$ 1,353,038</u>	<u>100,000</u>	<u>(96,516)</u>	<u>1,356,522</u>	<u>86,485</u>

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 6: LONG – TERM DEBT (Continued)**

**(A) Bonds Payable**

At September 30, 2006, the City's outstanding bonds payable are described as follows:

General Obligation Public Improvement Bonds, 2004, dated March 1, 2004, \$1,500,000 amount, variable interest currently at 2.875% that increases over the life of the bonds to 3.8%, payable in annual installments beginning at \$75,000 on March 1, 2005, and increasing annually thereafter up to \$130,000 until maturity on March 1, 2019.	\$ 1,350,000
Special Obligation Bonds, 2004, dated April 15, 2004, \$3,500,000 amount, variable interest currently at 4.0% that increases over the life of the bonds to 4.625%, payable in annual installments beginning at \$110,000 on July 1, 2005, and increasing annually thereafter up to \$260,000 until maturity on July 1, 2024.	3,275,000
General Obligation Public Improvement Bonds, 2005, dated August 15, 2005, \$1,500,000 amount, variable interest currently at 3.3% that increases over the life of the bonds to 3.6%, payable in annual installments beginning at \$70,000 on July 1, 2006, and increasing annually thereafter up to \$135,000 until maturity on July 1, 2020.	959,322
General Obligation Public Improvement Bonds, 2006, dated July 7, 2006, \$1,200,000 amount, fixed interest rate at 4.30%, payable in annual installments beginning at \$60,000 on May 1, 2007, and increasing thereafter up to \$105,000 until maturity on May 1, 2021.	<u>1,200,000</u> \$ <u>6,784,322</u>

	<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
Government Activities:	2007	\$ 309,500	256,555	566,055
	2008	327,800	255,166	582,966
	2009	337,800	243,649	581,449
	2010	351,100	231,577	582,677
	2011	369,400	218,790	588,190
	2012-2016	2,104,900	866,722	2,971,622
	2017-2021	2,258,822	425,819	2,684,641
	2022-2024	<u>725,000</u>	<u>650,090</u>	<u>1,375,090</u>
	Total	\$ <u>6,784,322</u>	<u>3,148,368</u>	<u>9,932,690</u>
Business-type Activities:	2007	\$ 25,500	16,953	42,453
	2008	27,200	16,111	43,311
	2009	27,200	15,186	42,386
	2010	28,900	14,261	43,161
	2011	30,600	13,279	43,879
	2012-2016	175,100	49,480	224,580
	2017-2021	<u>156,902</u>	<u>15,812</u>	<u>172,714</u>
	Total	\$ <u>471,402</u>	<u>141,082</u>	<u>612,484</u>

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 6: LONG TERM DEBT (Continued)**

**(B) Notes Payable**

At September 30, 2006 the City's outstanding notes payable are described as follows:

	<u>Original Amount</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Note payable to Mississippi Department of Environmental Quality (MDEQ) for Sewer Outfall Line, dated July 7, 1998, bearing interest at 4.5%, maturing February 1, 2018.	\$ 648,088		446,880
Note payable to Mississippi Development Authority (MDA) for Drainage Project, dated September 5, 1999, bearing interest at 3%, maturing September 1, 2014.	332,072	185,412	
Note payable to MDA for Airport Project, dated July 1, 2000, bearing interest at 3%, maturing September 30, 2010.	479,550	208,967	
Note payable to MDA for Drainage Project, dated July 1, 2000, bearing interest at 4.65%, maturing January 1, 2015.	73,000	48,515	
Note payable to MDA for Airport Project, dated April 1, 2001, bearing interest at 3%, maturing April 1, 2011.	227,548	122,167	
Note payable to MDA for Airport Infrastructure Project, dated May 16, 2001, bearing interest at 3%, maturing June 1, 2022.	269,850	222,150	
Note payable to MDA for Airport Infrastructure Project, dated February 28, 2001, bearing interest at 3%, maturing June 1, 2022.	66,317	55,180	
Note payable to Mississippi State Department of Health (MSDH) for Drinking Water Systems Improvements Revolving Loan, dated May 14, 2002, bearing interest at 3.5% beginning July 2003, maturing July 2023.	253,005		230,171
Taxable Negotiable Note payable, Series 2005 to Trustmark Bank for Centraplex building, dated June 22, 2005, bearing interest at 4.93%, maturing June 22, 2010.	72,168	59,089	
Note Payable for MDB - Katrina Relief Loan	250,000	150,000	100,000
Note Payable to MDA for Airport Project	129,048	129,048	
Note Payable - Special Community Disaster Loan	<u>2,224,091</u>	<u>2,224,091</u>	
Total	<u>\$ 5,016,637</u>	<u>3,404,619</u>	<u>777,051</u>

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 6: LONG-TERM DEBT (Continued)**

**(B) Notes Payable (Continued)**

Principal and interest maturities will be as follows:

Governmental Activities:	Year Ending September 30,	Principal	Interest	Total
	2007	\$ 133,857	100,216	234,073
	2008	142,893	91,896	234,789
	2009	147,603	87,185	234,788
	2010	152,432	82,353	234,785
	2011	2,308,664	77,361	2,386,025
	2012-2016	254,503	58,257	312,760
	2017-2021	179,934	28,019	207,953
	2022-2026	84,733	5,928	90,661
	Total	<u>\$ 3,404,619</u>	<u>531,215</u>	<u>3,935,834</u>
Business-Type Activities:				
	2007	43,286	33,000	76,286
	2008	46,303	28,494	74,797
	2009	48,267	26,531	74,798
	2010	50,305	24,492	74,797
	2011	52,432	22,365	74,797
	2012-2016	297,394	76,593	373,987
	2017-2021	177,556	21,964	199,520
	2022-2026	61,508	3,004	64,512
		<u>777,051</u>	<u>236,443</u>	<u>1,013,494</u>

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**(B) Unamortized Debt Issuance Costs**

The following details unamortized debt issuance costs included in other assets at September 30, 2006:

	Debt Issuance Costs	Accumulated Amortization	Net Book Value
<b>Governmental Activities</b>			
Public improvement bonds issued for general purposes in the original amount of \$1,500,000, dated March 1, 2004, amortized over the life of the bonds of 180 months.	\$ 39,206	(6,752)	32,454
Special obligation bonds issued for Friendship Park expansion in the original amount of \$3,500,000, dated April 15, 2004, amortized over the life of the bonds of 243 months.	115,000	(13,961)	101,039
Public improvement bonds issued for general purposes in the original amount of \$1,500,000, of which \$1,005,522 is allocated for governmental activities, dated August 15, 2005, amortized over the life of the bonds of 178.5 months.	18,522	(1,401)	17,121
General Obligation building bonds issued for purchase of Arizona Chemical Building in the original amount of \$1,200,000, dated July 7, 2006, amortized over the life of the bond of 166 months.	20,982	(350)	20,632
Total	\$ 193,710	(22,464)	171,246
<b>Business-Type Activities</b>			
Note payable to MDEQ for Sewer Outfall Line in the original amount of \$648,088, dated July 7, 1998 amortized over the life of the loan of 237 months.	\$ 46,650	(18,629)	28,021
Note payable to MSDH for Drinking Water Systems Improvements Revolving Loan in the amount of \$253,005, dated May 14, 2002, to be amortized over the life of the loan of 237 months when the project is complete.	15,524	(1,975)	13,549
Public improvement bonds issued for general purposes in the original amount of \$1,500,000 of which \$494,478 is allocated for business-type activities, dated August 15, 2005, amortized over the life of the bonds of 178.5 months.	6,100	(461)	5,639
Total	\$ 68,274	(21,065)	47,209

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**(D) Conduit Debt**

In October 2001, the City issued \$1,000,000 and \$1,770,000 of Taxable Industrial Revenue Bonds (Magnolia Air I, LLC Project), Series 2001A and 2001B, respectively. The proceeds of the bonds were deposited with a trustee and used by Magnolia Air I, LLC, to finance the construction, installation and equipping of a facility for the equipping, maintenance and re-manufacturing of aircraft on the City's property and to pay certain costs of issuing the bonds. The bonds and interest thereon are limited obligations of the City payable solely from revenues derived from the lease agreements and sub-lease agreement dated May 24, 2001 between Magnolia Air I, LLC, and Chevron, U.S.A., Inc. Thus, the bonds are not reported as liabilities in the accompanying financial statements. Base rent under the sub-lease agreement equals \$528,000 per year, payable in monthly installments of \$44,000. The net amount available to pay debt service on the bonds is \$522,000 per year. Until the principal and interest on the outstanding bonds are paid in full, all sub-lease rentals will be applied to debt service. The aggregate principal amount payable at September 30, 2006 is \$2,282,500.

**(B) Capital Leases**

At September 30, 2006, the City had the following outstanding capital leases:

	Original Amount	Governmental Activities	Business-Type Activities
Capital lease payable to bank, dated December 7, 1999, secured by an aerial ladder and chassis, bearing an interest rate of 4.82%, payable in annual installments of \$69,301 through September 22, 2007.	\$ 449,876	59,717	
Capital lease payable to bank, \$132,234 dated February 6, 2001, secured by a boring machine and trailer, bearing and interest rate of 5.02%, payable in annual installments of \$20,501 through February 15, 2009.	132,234		55,807
Total	\$ 582,110	59,717	55,807

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2005, were as follows:

September 30,	Governmental Activities	Business-Type Activities
2007	\$ 69,301	20,501
2008	-	20,501
2009	-	20,501
Total minimum lease payments	69,301	61,503
Less amount representing interest	(9,584)	(5,696)
Present value of minimum payments	\$ 59,717	55,807

As of September 30, 2006, the cost of the vehicles and equipment under capital leases was \$449,886 in the governmental funds and \$132,234 in the business-type funds accumulated amortization for those assets was \$146,210 in the governmental funds and \$72,728 in the business type funds. Amortization expense associated with the assets under capital leases in the governmental activities in fiscal year 2006 totaled \$22,494 and is included in the statement of activities, public protection expenses. Amortization expense in the business-type activities was \$13,224 included in utility expenses.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 6: LONG – TERM DEBT (Continued)**

**(B) Legal Debt Margin**

The City’s legal debt limit for general bonds is \$3,505,380. At September 30, 2006, the City’s legal debt margin, after reduction for outstanding general obligation notes of \$3,306,010 was \$3,411,781.

**NOTE 7: INTERFUND TRANSACTIONS**

**(B) Interfund Receivables and Payables**

Generally, outstanding balances between fund reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as “due to/from other funds” (i.e., the non-current portion of interfund loans).

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<u>Due To</u>	<u>Due From</u>	<u>Due to</u>	<u>Due From</u>
General County Fund	\$ (180,183)	2,037,878		
Police Drug Fund	(498)			
2006 G.O. Bond Fund		13,227		
Economic Development	(2,258)	171,524		
Friendship Park	(176,471)			
Airport	(598,049)			
Intermodal Transportation	(48)			
Utility Fund			(1,278,612)	2,151
Cemetery Fund			(14,310)	25,649
Total	<u>\$ (957,507)</u>	<u>2,222,629</u>	<u>(1,292,922)</u>	<u>27,800</u>

**(B) Interfund Transfers**

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between two columns appear in this statement. The following transfers were made between funds during the year ended September 30, 2006.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ (294,467)	158,276		
Police Drug Fund		2,800		
Utility Fund			(66,276)	291,667
Cemetery Fund			(92,000)	
Total	<u>\$ (294,467)</u>	<u>161,076</u>	<u>(158,276)</u>	<u>291,667</u>

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 8: DEFICIT FUND NET ASSETS**

At September 30, 2006, there is a deficit fund balance in the Airport Fund of \$681,742. Grant revenues received after year-end will provide for the deficiency.

**NOTE 9: JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION**

*Joint Venture*

Partners for Pearl River County (PFPRC) is a joint venture between the City, the City of Poplarville, and Pearl River County. PFPRC was organized to promote and develop the industrial, commercial, and economic welfare of Pearl River County. PFPRC is funded primarily by contributions received from its members. In fiscal year 2006, the City provided \$85,000 in support which was reported in economic development "expenses" on the Statement of Activities and on the Statement of Revenues, Expenditures, and Changes in fund Balances – Governmental Funds. Each year the City determines the amount of support to be provided to PFPRC based on availability of City resources. Consequently, any potential future financial benefit or burden to the City resulting from activities performed by PRPRC is not determinable at this time.

*Jointly Governed Organization*

The City is a member of the Municipal Gas Authority of Mississippi (MGAM, created as a local distribution company by Mississippi State Code Section 77-6-1 for the purpose of assisting municipal gas systems in the acquisition, transportation and management of adequate, dependable and economic natural gas supplies. Membership of MGAM at September 30, 2006, consisted 17 municipalities or natural gas districts, all located in the State of Mississippi. Each voting member appoints one commissioner to MGAM's Board of Commissioners who has oversight responsibility of the operation of MGAM. The primary source of revenue for MGAM is from gas supply contracts with each of its members which require the members to take their entire gas supply or a fixed portion from MGAM and require MGAM to provide that supply. MGAM is considered to be a jointly governed organization since no member can unilaterally control the financial or operating policies of MGAM and its members do not have an ongoing financial responsibility. The City entered into a gas supply contract for purchases of gas effective April 1, 2001, for a term of ten years at a price based on a spot price index minus a discount of \$.05 per MMBtu. For the fiscal year ended September 30, 2006, payments to MGAM for gas purchases amounted to \$2,350,097. The payments are included in utility "expenses" on the Statement of Activities and are included in "gas purchased" on the Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.

**NOTE 10: RETIREMENT PLANS**

**(A) Public Employees' Retirement System**

The City participates in a retirement system administered by the Public Employees' Retirement System of Mississippi (PERS). The system is a defined benefit plan and includes a multi-employer, cost-sharing pension plan as described below:

*Plan Description and Provisions*

Substantially all of the City's full-time employees participate in PERS, a multi-employer, cost-sharing, defined benefit public employee pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 10: RETIREMENT PLANS (Continued)**

*Description of Funding Policy*

PERS members are required to contribute 7.25% of their annual covered salary and the City, is required to contribute at an actuarially determined rate. The rate of annual covered payroll was 11.30% through June 2005 and 11.85% from July through September 2005. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ending September 30, 2006, 2005, and 2004, were \$538,352, \$511,640, and \$484,389 respectively, equal to the required contributions for each year.

**(B) Deferred Compensation Plan**

The City, through PERS, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The requirements of Internal Revenue Code Section 457(g) prescribes that the City does not own the amounts deferred by employees, including the related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and the liability for compensation deferred by plan participants, including earnings on plan assets, are not included in the City's financial statements.

**NOTE 11: COMMITMENTS AND CONTINGENCIES**

**(A) Litigation**

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel the resolution of these matters will not have a material effect on the financial condition of the City.

**(B) Grants and Awards**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally federal and state governments. Any disallowed expenses, including amounts already collected, might constitute a liability of the applicable funds. The City does not believe any contingent liabilities are material.

**(C) Lease Agreement**

In March 2001, the City entered into a lease agreement (amended on October 1, 2001) with Magnolia Air I, LLC (lessee). The City is leasing land and improvements totaling \$2,533,831 to the lessee for an original lease term of 15 years with automatic renewals for up to 65 years. During the preliminary term of the lease (construction period), the lessee paid a total of \$500. Subsequently, the lessee is paying \$500 per month for the first five years after which the rent will be increased to reflect any increases in the Consumer Price Index. The City recorded \$8,800 in lease revenue for the year ending September 30, 2006. The lease revenues were included in general government "fees, fines, and charges for services" program revenue on the Statement of Activities and were included in "rental income" in the airport fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**(D) Memorandum of Agreement**

In September 2002, the City entered into a memorandum of agreement with a company that purchased land from the City in the Industrial Park. The agreement requires the City to apply for a Community Development Block Grant to secure the location or expansion of the company and to construct a rail spur for approximately \$180,000 at the Industrial Park within eighteen months of funding notification. In June 2005, the City extended the period of notification for one year pursuant to an irrevocable letter of credit and appropriate surety bond. Construction activity had not yet begun as of September 30, 2006.

**(E) Operating Lease**

In February 2003, the City entered into a twenty year lease agreement with the Picayune City School District for exclusive rights to operate and maintain Snyder Park. The lease agreement requires the City to pay the School District \$5,425 annually on March 3<sup>rd</sup> for ten years. In 2013, the School District will have the property reappraised and will adjust the annual rent accordingly. The City may cancel the lease at any time provided that they give the School District sixty days notice prior to the lease anniversary date.

**(F) State Auditor's Investigation**

In June 2005, the City requested that the State Auditor's Office investigate certain allegations of wrong doing in the Court Department. An investigation is currently underway. On August 1, 2007, Debi W. Cox, Special Agent for the Mississippi Office of the State Auditor, took possession of Picayune General Fund Receipt Warrant Books covering the time period of 10/25/2002 through 5/31/2005. No preliminary report on the findings has been made to date and, therefore, the potential affect of the investigation on financial statements is unknown.

**NOTE 12: RISK MANAGEMENT**

**(A) Self-Insurance – Workers Compensation Fund**

The City is one of approximately 255 members in the Mississippi Municipal Workers' Compensation Group, Inc. This non-profit corporation is a self-insurance worker's compensation fund organized under the non-profit laws of the State of Mississippi. The group is self-insured under statutory workers compensation protection. Members are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

**(B) Self-Insurance – Liability Fund**

The City is one of approximately 245 members in the Mississippi Municipal Liability Plan. The Plan is a private non-profit corporation organized under the laws of the State of Mississippi. The Plan provides liability and tort claims insurance for its members according to limits established by the Mississippi Tort Claims Act. The Plan is totally self-insured with claims and expenses paid out of the premiums and the members are jointly and severally liable for any claims and expenditures beyond the premium base. The possibility of additional liability exists, but that amount, if any, cannot be determined.

**NOTE 13: SUBSEQUENT EVENTS**

**Litigation**

None

**Contracts**

None

**CITY OF PICAYUNE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 13: SUBSEQUENT EVENTS (continued)**

**Funding**

*Grants*

*Bond Issue and Debt Proceeds*

In November 2006, the City accepted a Special Community Disaster Loan from the Federal Emergency Agency in the amount of \$1,011,727 at 2.93% annual interest rate. The purpose of the loan is to allow the City Perform its existing governmental functions. The principal and interest, less any cancelled amounts, are due at the end of a deferred five year term and may be extended.

In January 2007, the City entered into a Capital Improvements Loan with the Mississippi Development Authority in an amount not to exceed \$300,000 at 3% annual interest rate for the construction of t-hangars at the Picayune Municipal Airport. Payments of approximately \$1,663 per month will begin 30 days following the completion of the project and will continue for 240 months.

**NOTE 14: PRIOR PERIOD ADJUSTMENTS**

A Prior period adjustment was made in the financial statements to reflect the following:

**Governmental Activities:**

1) Correction of prior year fixed assets	\$ (6,562,993)
2) Correction of prior year accruals	<u>(426,345)</u>
Total Governmental activities	<u><u>\$ (6,989,338)</u></u>

**Business-type Activities:**

1) Correction of prior year fixed assets	\$ 24,562
2) Correction of prior year accruals	<u>(7,347)</u>
Total Business-type activities	<u><u>\$ 17,215</u></u>

SCHEDULE 1

CITY OF PICAYUNE, MISSISSIPPI  
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Taxes	\$ 2,061,574	2,260,838	2,217,675	(43,163)
Licenses and permits	563,000	573,878	613,983	40,105
Intergovernmental	4,046,175	7,064,397	6,417,773	(646,624)
Charges for services	702,500	730,009	768,360	38,351
Interest	32,035	94,563	139,110	44,547
Fines and forfeitures	338,600	373,519	330,849	(42,670)
Miscellaneous	83,980	548,640	254,651	(293,989)
Total revenues	<u>7,827,864</u>	<u>11,645,844</u>	<u>10,742,400</u>	<u>(903,444)</u>
<b>EXPENDITURES</b>				
General government				
Personnel services	938,010	2,465,590	1,087,822	1,377,768
Supplies	29,200	1,056,153	76,985	979,168
Other services and charges	367,245	865,227	693,596	171,631
Capital outlay	1,000	974,450	-	974,450
Total general government	<u>1,335,455</u>	<u>5,361,420</u>	<u>1,858,403</u>	<u>3,503,017</u>
Public safety				
Police				
Personnel services	2,104,250	2,357,344	2,347,830	9,514
Supplies	156,200	252,803	201,987	50,816
Other services and charges	155,910	294,752	244,538	50,214
Capital outlay	207,603	281,616	-	281,616
Total police	<u>2,623,963</u>	<u>3,186,515</u>	<u>2,794,355</u>	<u>392,160</u>
Fire				
Personnel services	1,605,000	1,605,000	1,641,364	(36,364)
Supplies	50,050	94,127	64,403	29,724
Other services and charges	58,950	76,450	60,320	16,130
Capital outlay	532,803	572,643	-	572,643
Total fire	<u>2,246,803</u>	<u>2,348,220</u>	<u>1,766,087</u>	<u>582,133</u>
Total public safety	<u>4,870,766</u>	<u>5,534,735</u>	<u>4,560,442</u>	<u>974,293</u>
Public works				
Personnel services	855,005	848,005	830,164	17,841
Supplies	246,300	257,800	227,779	30,021
Other services and charges	814,950	810,450	765,177	45,273
Capital Outlay	711,150	784,085	-	784,085
Total public works	<u>2,627,405</u>	<u>2,700,340</u>	<u>1,823,121</u>	<u>877,219</u>
Culture and recreation				
Personnel	40,660	16,160	123	16,037
Supplies	17,000	12,640	5,240	7,400
Other charges and services	9,000	37,860	42,769	(4,909)
Capital outlay	20,000	70,000	1,123,767	(1,053,767)
Total culture and recreation	<u>86,660</u>	<u>136,660</u>	<u>1,171,899</u>	<u>(1,035,239)</u>

SCHEDULE 1 (Continued)

CITY OF PICAYUNE, MISSISSIPPI  
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

<b>EXPENDITURES, (Continued)</b>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Support to other organizations	32,750	32,750	20,500	12,250
Debt service	266,643	266,643	334,528	(67,885)
Total expenditures	<u>11,843,642</u>	<u>17,219,063</u>	<u>12,563,247</u>	<u>4,655,816</u>
Deficiency of revenues over expenses	(4,015,778)	(5,573,219)	(1,820,847)	3,752,372
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital contributions	-	3,374,646	3,574,091	199,445
Transfers in	350,000	294,467	294,467	(0)
Transfers out	<u>(742,457)</u>	<u>(826,431)</u>	<u>(90,860)</u>	<u>735,571</u>
Total other financing sources (uses)	<u>(392,457)</u>	<u>2,842,682</u>	<u>3,777,698</u>	<u>935,016</u>
Net change in fund balances	(4,408,235)	(2,730,537)	1,956,851	<u>4,687,388</u>
Fund balances - beginning, budget basis	<u>3,583,022</u>	<u>3,541,200</u>	<u>3,541,200</u>	
Fund balances - ending, budget basis	<u>\$ (825,213)</u>	<u>810,663</u>	5,498,051	
Reconciliation to GAAP basis:				
Change in accrued revenues			<u>2,615,113</u>	
Fund balance - ending, GAAP basis			<u>\$ 8,113,164</u>	

See note to budgetary comparison schedule.

**CITY OF PICAYUNE, MISSISSIPPI  
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)  
ECONOMIC DEVELOPMENT FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Intergovernmental - sales tax	\$ 295,000	\$ 520,000	\$ 461,491	\$ (58,509)
Interest	5,500	9,993	23,241	13,248
Rent	30,053	34,119	-	(34,119)
Sale of lots	40,000	108,994	125,797	16,803
Total revenues	370,553	673,106	610,530	(62,576)
<b>EXPENDITURES</b>				
Economic development				
Other services	125,000	155,254	151,175	4,079
Total economic development	125,000	155,254	151,175	4,079
Tourism				
Other services	6,000	6,000	5,929	71
Debt service	254,768	254,768	254,525	243
Total tourism	260,768	260,768	260,454	314
CDBG Railspur				
Capital outlay	195,216	195,216	8,653	186,563
Total CDBG Railspur	195,216	195,216	8,653	186,563
Total expenditures	580,984	611,238	420,281	190,957
Deficiency of revenues over expenditures	(210,431)	61,868	190,249	(128,381)
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital contributions	179,935	179,935	-	(179,935)
Transfers out	55,000	25,000	-	25,000
Transfers in	-	-	-	-
Total other financing sources (uses)	234,935	204,935	-	(154,935)
Net change in fund balances	24,504	266,803	190,249	\$ <u>76,554</u>
Fund balances - beginning, budget basis	891,649	1,247,337	1,247,337	
Fund balances - ending, budget basis	\$ 916,153	\$ 1,514,140	1,437,586	
Reconciliation to GAAP basis:				
Change in accrued revenues			77,004	
Fund balance - ending, GAAP basis			\$ 1,514,590	

See note to budgetary comparison schedule.

**CITY OF PICAYUNE, MISSISSIPPI**  
**NOTE TO BUDGETARY COMPARISON SCHEDULES (NON-GAAP BASIS)**  
**GENERAL FUND AND ECONOMIC DEVELOPMENT FUND**  
**FOR YEAR ENDED SEPTEMBER 30, 2006**

**NOTE A: BUDGETARY DATA**

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

1. Prior to August 1, the City Manager submits to the City Council a propose operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than September 15, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all Governmental and Proprietary Fund types.
5. Budgets are adopted on a cash basis as required by State statute. All budgeted amounts presented in the accompanying financial statements are as originally adopted or as amended by the City Council. Accordingly, actual figures have also been presented on a cash basis.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require approval of the City Council. The legal level of budgetary controls is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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

Covered	Surety Company	Coverage Amount
Mayor	RLI Surety	\$ 100,000
Council Members	RLI Surety	100,000
City Manager	RLI Surety	50,000
City Clerk	RLI Surety	50,000
Deputy City Clerk	Fidelity and Deposit Company	50,000
Accounts Payable Clerk	RLI Surety	5,000
City Inspector	RLI Surety	5,000
Police Chief	RLI Surety	50,000
Police Department - Blanket Bond	RLI Surety	25,000
All Other Employees - Blanket Bond	Fidelity and Deposit Company	20,000

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

February 13, 2008

Honorable Mayor, Members of the  
City Council and City Manager  
City of Picayune, Mississippi  
Picayune, 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 Picayune, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City of Picayune, Mississippi's basic financial statements and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### *Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the City of Picayune, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Picayune, Mississippi's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1 through 06-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider 06-1, 06-3 and 06-5 to be material weaknesses.

Honorable Mayor, Members of the  
City Council, and City Manager  
City of Picayune, Mississippi  
Picayune, Mississippi  
February 13, 2008

*Compliance and Other Matters*

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

This report is intended solely for the information and use of management, the City Council, 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.

**WRIGHT CPA GROUP, PLLC**  
**Certified Public Accountants**  
**Hattiesburg, Mississippi**

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

February 13, 2008

Honorable Mayor, Members of the  
City Council and City Manager  
City of Picayune, Mississippi  
Picayune, Mississippi

### *Compliance*

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

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

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

Honorable Mayor, Members of the  
City Council and City Manager  
City of Picayune, Mississippi  
Picayune, Mississippi  
February 13, 2008

*Internal Control Over Compliance*

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

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

This report is intended for the information of management, the City Council, 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.

**WRIGHT CPA GROUP, PLLC**  
**Certified Public Accountants**  
**Hattiesburg, Mississippi**



**CITY OF PICAYUNE, MISSISSIPPI**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards is included in the federal grant activity of the City of Picayune, Mississippi, (the City) and is presented on the modified 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*.

**NOTE 2: NON-CASH AWARDS**

The City did not receive any non-cash awards during the fiscal year ended September 30, 2006.

**NOTE 3: SPECIAL DISASTER LOAN**

The City received a special disaster loan from the FEMA Special Community Disaster Loan Program in August of 2006. A total of \$2,224,091 was received, however, there were no expenditures during the year ended September 30, 2006.

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

**SECTION I: Summary of Auditors' Results**

**Financial Statements:**

- |                                                                                    |                    |
|------------------------------------------------------------------------------------|--------------------|
| 1. Type of auditors' report issued                                                 | <u>Unqualified</u> |
| 2. Internal control over financial reporting:                                      |                    |
| a. Material weakness(es) identified?                                               | <u>Yes</u>         |
| b. Reportable condition(s) identified that are not considered material weaknesses? | <u>Yes</u>         |
| 3. Noncompliance material to financial statements noted?                           | <u>No</u>          |

**Federal Awards:**

- |                                                                                           |                    |
|-------------------------------------------------------------------------------------------|--------------------|
| 4. Type of auditors' report issued on compliance for major federal programs:              | <u>Unqualified</u> |
| 5. Internal control over major programs:                                                  |                    |
| a. Material weakness(es) identified?                                                      | <u>No</u>          |
| b. Reportable conditions(s) identified that are not considered to be material weaknesses? | <u>No</u>          |
| 6. Any audit finding(s) reported as required by Section .510(a) of Circular A-133?        | <u>Yes</u>         |

7. Federal programs identified as major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.036	<i>U.S. Department of Homeland Security Domestic Preparedness Equipment Disaster Public Assistance</i>
20.106	<i>U.S. Department of Treasury Airport Improvement Program</i>

- |                                                                                                                                                                                                                                    |                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| 8. Dollar threshold used to distinguish between type A and type B programs:                                                                                                                                                        | <u>\$ 300,000</u> |
| 9. Auditee qualified as a low-risk auditee?                                                                                                                                                                                        | <u>No</u>         |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section .315(b) of OMB Circular A-133? | <u>Yes</u>        |

**CITY OF PICAYUNE, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**SECTION II – Financial Statement Findings**

**2006-1 Finding**

Condition

The City has a contract with Meter Reading Specialist to read the City's utility meters, process billing and collection of accounts, and to provide the City with monthly reports. These reports are necessary for the City to maintain adequate control of the utility's operations and results. Meter Reading Specialist, however, has not been providing the required reports.

Criteria

Internal controls should be implemented to ensure that the required reports are being delivered in a timely manner.

Effect

Without proper reporting the City cannot monitor the utility operations and this increases the risk of fraud or material errors occurring and not being detected.

Recommendation

The City should notify the management of Meter Reading Specialists of the noncompliance with the applicable contract provisions and if the conditions are not corrected, assume control of the utilities operations.

**2006-2 Finding**

Condition

The City changed accounting software during 2006 and as a result had unposted entries for payroll for approximately six weeks.

Criteria

In planning any sort of software or data conversions, adequate safeguards must be put into the conversion process to assure the converted data's integrity.

Effect

The City could have underpaid payroll taxes and other obligations resulting in penalties and interest being assessed by the Internal Revenue Service.

Recommendation

In future conversions the City may want to parallel process for a month to insure that all data was transferred and the new system is operating properly.

**2006-3 Finding**

Condition

Bank Reconciliations contained errors and outstanding items (checks and withdrawals) with no resolution. Reconciliations were not done in a timely manner and were not consistently reconciled to the general ledger.

**CITY OF PICAYUNE, MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**SECTION II – Financial Statement Findings**

In addition, there was often no evidence of the name of the preparer or the date that the reconciliation was performed.

Criteria

Internal controls should be implemented to ensure that the bank reconciliations are accurately and timely prepared by an experienced person and that they are reviewed by an appropriate level of management.

Effect

Without proper internal controls over the cash reconciliation process, there exists a risk that fraud and errors in cash accounts may not be detected.

Recommendation

Procedures should be implemented that require a timely review of bank reconciliations by an appropriate level of management.

**2006-4 Finding**

Condition

The City has to use general journal entries in large numbers to correct posting errors in the accounting system. This indicates a lack of understanding of accounting principles or inadequate control of the accounts payable, cash receipts, and tax collection functions.

Criteria

Journal entries should only be used to correct an unusual error or to record a transaction that cannot be recorded through the normal cash receipts and disbursements cycles. Large numbers of journal entries indicate that there is a problem with the day to day accounting systems.

Effect

Excessive journal entries make transactions much harder to follow through the accounting system and increase the risk of fraud or material errors going undetected.

Recommendation

Journal entries should only be made by an appropriate level of management and signed off on by the City Manager.

**2006-5 Finding**

Condition

The City has an outside contractor inventory and maintain fixed asset listings. However, the City does not record this information on its accounting records.

Criteria

Internal controls should be implemented to insure that the City maintains adequate records regarding fixed assets and infrastructure.

**CITY OF PICAYUNE, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**SECTION II – Financial Statement Findings**

Effect

By not maintaining in-house records regarding fixed assets and infrastructure, the City has no means by which to judge the accuracy of the fixed asset reports maintained by the outside contractor.

Recommendation

The City should acquire fixed asset software and use it to maintain inventory records for comparison to reports compiled by the outside contractor.

**2006-6 Finding**

Condition

Interfund transactions are not being reconciled on a monthly basis.

Criteria

All interfund loans and transfers should be reconciled monthly.

Effect

The failure to reconcile interfund transactions could result in errors going undetected and increase the chance of fraud.

Recommendation

Assign the reconciliation of interfund accounts to the appropriate accounting personnel.

**2006-7 Finding**

Condition

Property tax collections are not being properly allocated to the appropriate revenue or liability accounts upon collection.

Criteria

The City could inaccurately distribute taxes due to other entities which could result in litigation and ill will.

Recommendation

We recommend that the City negotiate with Pearl River County to assume the tax collection duties.

*Views of Responsible Officials and Planned Corrective Actions*

See Corrective Action Plan

**SECTION III – Federal Award Finding**

**2006-8 Finding**

Program: *U. S. Department of Homeland Security; Disaster Public Assistance Grant; CFDA No. 97.036*  
*U.S. Department of Transportation; Airport Improvement Program; CFDA No. 20.106*

**CITY OF PICAYUNE, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**SECTION III – Federal Award Finding (continued)**

Criteria or Specific Requirement

OMB Circular A-133, Section \_\_.320, requires that audit reports be submitted within nine months of the entity's year-end.

Condition

The City has not submitted the audit report for the year ended September 30, 2006, to the Clearinghouse by the required deadline. This condition existed in 2005 and 2004.

Questioned Costs

There are no questioned costs associated with this finding.

Effect

Non-compliance could result in a loss of funding.

Cause

The City has experience d delays as a result of Hurricane Katrina and the resulting misplacement of data.

Recommendation

We recommend the City devote more employee time to prepare for the annual audit.

*Views of Responsible officials and Planned Corrective Actions*

See Corrective Action Plan



Mayor  
Greg Mitchell

City Manager  
Ed Pintero, Jr.

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Council  
Larry Watkins  
Donald L. Parker  
Anna Bales Turnage  
Leavern Guy, Sr.  
Jerry Bounds

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
SEPTEMBER 30, 2006

Finding 2005-1

Condition: Bank reconciliations contained clerical errors and old, outstanding items and were not reconciled to the general ledger.

Status: Finding was resolved in September of 2007.

Finding 2005-2

Condition: City was unable to reconcile the amount of natural gas purchased to the amount consumed and in inventory.

Status: The City is currently reacquiring the operations of the City's utilities from Meter Reading Specialists and hope that this will correct the condition.

Finding 2005-3

Condition: The City has not submitted the audit report in the nine months required by OMB Circular A-133. This condition existed for the year ended September 30, 2004.

Status: The City is working to ensure that the staff is given sufficient time to prepare for the annual audit.



**Mayor**  
Greg Mitchell

**City Manager**  
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Jerry Bounds

**CORRECTIVE ACTION PLAN  
FEBRUARY 7, 2008**

Finding 2006-1

The City is currently taking action to terminate its contract with Meter Reading Specialists and to assume the operations of the City's utilities.

Finding 2006-2

In future conversions the City will implement adequate review processes to insure data integrity.

Finding 2006-3

The City has implemented internal controls to correct problems with bank reconciliations. However, this was done after September 30, 2007, so this finding may appear in that audit.

Finding 2006-4

The City has restricted the use of general journal entries and is implementing controls at the recording level to prevent the necessity of these entries.

Finding 2006-5

The City will reconcile the outside contractor's report to its own internal records.

Finding 2006-6

The City will reconcile interfund transactions monthly.

Finding 2006-7

The City will study the effect of contracting tax collection services with the County.

Finding 2006-8

The City will make a concerted effort to allow staff adequate time to prepare for annual audits.

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

February 13, 2008

Honorable Mayor, Members of the  
City Council, and City Manager  
City of Picayune, Mississippi  
Picayune, Mississippi

We have audited the basic financial statements of the City of Picayune as of and for the year ended September 30, 2006, and have issued our report thereon dated February 13, 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 material instances of noncompliance with state laws and regulations. Our findings and recommendations are as follows:

### *Fixed Assets*

The City did not reconcile the inventory of fixed assets to the City's fixed asset listing. The State Auditor's office requires an annual fixed asset inventory and adjustment of the fixed asset listing for the result of the inventory. The City hired a consultant to perform the inventory. During our audit we noted that many assets that were on the City's fixed asset listing were not on the inventory listing. However, the City maintains that such assets are in fact in the City's possession and should still be on the City's records.

We recommend that the City resolve all discrepancies between the 2006 inventory listing and the City's listing with the consultant and reconcile all future physical inventories with the City's listing.

### *Municipal Compliance Questionnaire*

The City did not complete the municipal compliance questionnaire for their 2006 fiscal year. The Mississippi Audit and Accounting Guide requires that municipalities complete a Municipal Compliance Questionnaire at the end of their fiscal year and enter it into the official minutes at the next regular meeting of the governing authorities.

Honorable Mayor, Members of the  
City Council, and City Manager  
City of Picayune, Mississippi  
February 13, 2008

*Municipal Compliance Questionnaire (continued)*

We recommend that the City institute policies and procedures to ensure that the Municipal Compliance Questionnaire is completed and accepted by the council in a timely manner. We also recommend that the City review the Mississippi Audit and Accounting Guide to ensure future compliance.

The instances of noncompliance of the prior year have been corrected by management unless it is specifically stated otherwise in the findings and recommendations noted above.

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

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

**WRIGHT CPA GROUP, PLLC**  
**Certified Public Accountants**  
**Hattiesburg, Mississippi**