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CITY OF PETAL, MISSISSIPPI

FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**CITY OF PETAL
FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the
Board of Aldermen and City Clerk
City of Petal, 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 Petal, Mississippi, as of and for the year ended September 30, 2010, 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 Petal, 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, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Petal, Mississippi, as of September 30, 2010, 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 June 15, 2011, on our consideration of the City of Petal, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

Accounting principles generally accepted in United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 12 and 54 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

The Other Supplemental Information section which includes the Schedule of Surety Bonds for Municipal Officials is presented for the purposes of additional analysis as required by the Mississippi Department of State Auditor and is not a required part of the basic financial statements. 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 and, accordingly, we express no opinion on it.

Wright CPA Group, PLLC

WRIGHT CPA GROUP, PLLC
Certified Public Accountants
Hattiesburg, Mississippi

June 15, 2011

CITY OF PETAL, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2010

CITY OF PETAL, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2010

This Discussion and Analysis of The City of Petal's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2010 were as follows:

Total assets increased approximately \$930,015,725 or 2.30% from 2009.

Total liabilities decreased approximately \$(1,002,148) or -3.58% from 2009.

Total net assets increased approximately \$1,932,163 or 15.51% as a result of this year's operations.

The governmental revenue exceeded expenses by approximately \$1,164,698. The City's business-type revenues exceeded related expenses by approximately \$587,277.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (pages 14 and 15) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these financial statements explain the financing of these services, plus they report the City's operations in more detail by providing information on the City's most significant funds.

Reporting the City of Petal as a Whole

The City's analysis as a whole will begin on page 8. A question often asked: "Is the City as a whole better or worse off as a result of the 2010 activities?" To help with the answer to this question, a look at the Statement of Net Assets and the Statement of Activities will provide the answer. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The current year's revenues and expenses are all taken into account regardless of when cash is received or paid.

These statements report the City's net assets and any changes to those assets. The change in assets tells the reader whether the City's financial position as a whole has diminished or improved. Non-financial information such as changes in the tax base and the condition of the capital assets will also need to be evaluated.

CITY OF PETAL, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2010

The Statement of Net Assets and the Statement of Activities are divided into two kinds of activities:

Governmental activities - Basic services are reported here. These include police, fire, public works, recreation departments and the general administration. These are financed mainly by property taxes, franchise fees and state and federal grants.

Business-type activities - Water, sewer, and solid waste are reported here. These fees will cover most, if not all, of the expenses of these activities.

Reporting the City's Most Significant Funds

On page 9 is a comparative summary of the City's operations by fund type. Some funds are required by state law or bonds covenants. Many of the other funds established to control and manage money for particular projects or to meet certain legal responsibilities are set up by the City Board. The two kinds of funds the City uses are governmental and proprietary and do not use the same accounting approaches.

Governmental funds - Most of the City's basic services are reported in this fund type, which show the money flowing in and out of those funds and then the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. These fund statements provide a detailed short-term view of the general government operations and the basic service it provides. This information also helps you determine whether there are more or fewer financial resources available to be used in the near future to finance the City's programs. The differences between governmental activities and governmental funds are described in reconciliations adjacent to the fund financial statements. The detail financial statements for the governmental funds are on pages 17-20.

Proprietary funds - When the customers are charged for the provided services these services are generally reported as proprietary funds. These funds are also known as "business-type activities" or "enterprise funds". These funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows. The detail financial statements for the propriety funds are on pages 21-24.

**CITY OF PETAL, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2010**

Table 1 shows the Changes in Assets and Liabilities for the September 30, 2010 year end. A comparative analysis of government-wide data is as follows:

**The City as a Whole
Table 1
Net Assets - 2010**

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)	Percentage Change
	2010	2009	2010	2009	2010	2009		
Current and other assets	\$ 6,904,272	\$ 7,008,860	\$ 3,350,509	\$ 4,284,634	\$ 10,254,781	\$ 11,293,494	\$ (1,038,713)	-9.20%
Capital assets	13,954,373	13,416,572	17,181,680	15,750,753	31,136,053	29,167,325	1,968,728	6.75%
Total assets	20,858,645	20,425,432	20,532,189	20,035,387	41,390,834	40,460,819	930,015	2.30%
Long-term debt	7,885,304	8,452,437	14,102,051	14,499,834	21,987,355	22,952,271	(964,916)	-4.20%
Other liabilities	4,212,352	4,372,494	797,725	674,815	5,010,077	5,047,309	(37,232)	-0.74%
Total liabilities	12,097,656	12,824,931	14,899,776	15,174,649	26,997,432	27,999,580	(1,002,148)	-3.58%
Net assets:								
Invested in capital assts, net of debt	5,941,560	4,964,135	2,629,256	1,250,919	8,570,816	6,215,054	2,355,762	37.90%
Restricted	-	-	1,036,235	2,663,774	1,036,235	2,663,774	(1,627,539)	-61.10%
Unrestricted	2,819,429	2,636,366	1,966,922	946,045	4,786,351	3,582,411	1,203,940	33.61%
Total net assets	\$ 8,760,989	\$ 7,600,501	\$ 5,632,413	\$ 4,860,738	\$ 14,393,402	\$ 12,461,239	\$ 1,932,163	15.51%

The City's total assets increased \$930,015 during 2010 with governmental activities showing an increase of \$433,213 and business-type activities showing an increase of \$496,802. The major changes were a \$1,631,739 decrease in bond proceeds and the related increase of \$1,430,927 in capital assets for the expansion of water and sewer system.

The City's total liabilities decreased \$(1,002,148) due mainly to the reduction of bonds and notes payable.

The City's net assets increased \$1,932,163 due mainly to net excess revenues for both governmental and business-type activities.

**CITY OF PETAL, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2010**

Table 2 shows the Changes in Net Assets for the September 30, 2010 year end. A comparative analysis of government-wide data is as follows:

**Table 2
Changes in Net Assets - 2010**

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)	Percentage Change
	2010	2009	2010	2009	2010	2009		
Program Revenues:								
Charges for Services	\$ 507,255	\$ 819,970	\$ 3,131,610	\$ 3,401,799	\$ 3,638,865	\$ 4,221,769	\$ (582,904)	-13.81%
Grants and Donations	1,158,715	1,173,841	412,057	65,880	1,570,772	1,239,721	331,051	26.70%
General Revenues:								
Property Taxes	3,482,861	3,458,655	196,405	-	3,679,266	3,458,655	220,611	6.38%
Sales Taxes	2,139,738	1,988,808	-	-	2,139,738	1,988,808	150,930	7.59%
Other Taxes and Other	608,787	565,694	16,661	32,855	625,448	598,549	26,899	4.49%
Sale of Capital Assets	(6,778)	2,132	-	-	(6,778)	2,132	(8,910)	-417.92%
Total Revenues	7,890,578	8,009,100	3,756,733	3,500,534	11,647,311	11,509,634	137,677	1.20%
Program Expenses:								
General Government	614,501	734,723	-	-	614,501	734,723	(120,222)	-16.36%
Court	273,904	515,901	-	-	273,904	515,901	(241,997)	-46.91%
Public Safety	3,455,076	3,527,640	-	-	3,455,076	3,527,640	(72,564)	-2.06%
Public Works	1,143,514	1,153,321	-	-	1,143,514	1,153,321	(9,807)	-0.85%
Culture & Recreation	964,527	776,522	-	-	964,527	776,522	188,005	24.21%
Interest and Other Charges	274,358	262,066	-	-	274,358	262,066	12,292	4.69%
Water and Sewer	-	-	2,327,690	2,363,775	2,327,690	2,363,775	(36,085)	-1.53%
Solid Waste	-	-	841,766	775,110	841,766	775,110	66,656	8.60%
Total Expenses	6,725,880	6,970,173	3,169,456	3,138,885	9,895,336	10,109,058	(213,722)	-2.11%
Increase(decrease) in net assets before transfers	1,164,698	1,038,927	587,277	361,649	1,751,975	1,400,576	351,399	25.09%
Net transfers	-	2,320	-	(2,320)	-	-	-	
Change in Net Assets	\$ 1,164,698	\$ 1,041,247	\$ 587,277	\$ 359,329	\$ 1,751,975	\$ 1,400,576	\$ 351,399	25.09%

The City's governmental activities continue to be primarily funded by property taxes and sales taxes, which made up 71% of the total governmental revenues. The major expense activity was public safety, which comprises 51% of total governmental expenses. Providing the services our residents expect is our continued commitment.

While business-type activities are accounted for similarly to businesses and are primarily supported by user fees, the City attempts to keep these fees as low as possible.

CITY OF PETAL, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2010

THE CITY'S FUNDS

As the year ended, the city's governmental funds reported a combined fund balance of \$2,744,443, which is \$66,156 less than last year's total of \$2,810,599.

General Fund Budgeting Highlights

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

During 2010, the City's general fund budget was amended. All recommendations for a change come from the department heads to the City Clerk for review before going to the Mayor and Board of Aldermen for consideration. The City does not allow budget changes that modify line items within any department without Board approval. The General Fund is closely monitored for possible revenue shortfalls or over spending, since it supports so many departments. The General Fund original budgeted revenues were \$6,437,880; with the final budgeted amount being \$6,813,407; and with \$6,788,267 in actual revenue collections. The General Fund's original budgeted expenditures of \$6,532,438 were amended to \$6,930,912, with actual expenditures of \$6,174,892. The main reason for the savings was the postponing of street department projects and the general reduction of expenses for all departments.

**CITY OF PETAL, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2010**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2010, the City has over \$30,000,000 invested in a large range of capital assets, including police and fire equipment, water and sewer lines, roads, and buildings.

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)	Percentage Change
	2010	2009	2010	2009	2010	2009		
Land	\$ 592,995	\$ 592,995	\$ 21,994	\$ 21,994	\$ 614,989	\$ 614,989	\$ -	0%
Construction in progress	-	895,613	-	191,976	-	1,087,589	(1,087,589)	-100.00%
Buildings and improvements	4,522,494	4,659,239	551,113	577,415	5,073,607	5,236,654	(163,047)	-3.11%
Equipment	1,650,586	1,578,742	454,132	388,018	2,104,718	1,966,760	137,958	7.01%
Infrastructure	7,060,788	6,436,785	15,704,068	14,100,396	22,764,856	20,537,181	2,227,675	10.85%
Totals	\$ 13,826,863	\$ 14,163,374	\$ 16,731,307	\$ 15,279,799	\$ 30,558,170	\$ 29,443,173	\$ 1,114,997	3.79%

Additional information about the City's capital assets can be found in Note 5 of this report.

Debt

At year-end, the City had \$21,987,000 in bonds, notes, and leases outstanding versus \$22,952,000 last year - a decrease of \$(965,000).

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)	Percentage Change
	2010	2009	2010	2009	2010	2009		
General Obligation Bonds	\$ 6,885,000	\$ 7,245,000	\$ -	\$ -	\$ 6,885,000	\$ 7,245,000	\$ (360,000)	-4.97%
Limited & Special Obligation Bonds	210,000	275,000	13,866,400	14,211,400	14,076,400.00	14,486,400.00	(410,000.00)	-2.83%
Short-Term and Negotiable Notes	350,454	520,489	-	-	350,454.00	520,489.00	(170,035.00)	-32.67%
Other Loans	-	-	235,651	285,942	235,651.00	285,942.00	(50,291.00)	-17.59%
Capital Leases	439,850	411,948	-	2,492	439,850.00	414,440.00	25,410.00	6.13%
Totals	\$ 7,885,304	\$ 8,452,437	\$ 14,102,051	\$ 14,499,834	\$ 21,987,355	\$ 22,952,271	\$ (964,916)	-4.20%

New debt consisted of \$200,000 in draws for new police cars. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

Not included above but reported as long-term debt in the financial statements is the accumulated employee leave time that would be paid as employees take leave or retire. Under GAAP reporting, this liability must be reported as a compensated absence at year-end, due to contract language to the effect that the employee has "earned" this compensation and thus is "owed" to them.

CITY OF PETAL, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2011 budget, tax rates, and fees that will be charged for the business-type activities. In an effort to maximize City efficiency and fiscal responsibility, the City Board did not increase tax rates for 2011.

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it received. If you have any questions about this report or need additional financial information, contact the Mayor and City Clerk at 102 West 8th Avenue, Petal, MS 39465.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PETAL
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

Exhibit A

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS AND OTHER DEBITS			
Cash and cash equivalents	\$ 2,568,370	\$ 1,368,765	\$ 3,937,135
Receivables, net of allowance for uncollectibles	181,594	233,344	414,938
Due from other funds	-	10,001	10,001
Other receivables	318,457	16,919	335,376
Unbilled revenue	-	190,466	190,466
Inventory, at cost	-	10,000	10,000
Property taxes receivable	3,835,811	205,000	4,040,811
Restricted Assets			
Cash Bond Proceeds	-	909,801	909,801
Cash Bond Reserves	-	126,434	126,434
Customer deposits	-	279,779	279,779
Capital assets, net	13,826,864	16,731,307	30,558,171
Capitalized interest and bond costs (net)	<u>127,549</u>	<u>450,373</u>	<u>577,922</u>
Total Assets	<u>\$ 20,858,645</u>	<u>\$ 20,532,189</u>	<u>\$ 41,390,834</u>
LIABILITIES AND OTHER CREDITS			
Accounts Payable	\$ 261,569	\$ 153,619	\$ 415,188
Due to other funds	-	\$ 10,001	\$ 10,001
Other payables	38,270	24,460	62,730
Customer deposits	-	241,947	241,947
Accrued interest	32,987	153,367	186,354
Deferred revenue	3,835,811	205,000	4,040,811
Compensated absences	43,715	9,331	53,046
Noncurrent liabilities:			
Debt due within one year	734,939	417,601	1,152,540
Debt due in more than one year	<u>7,150,365</u>	<u>13,684,450</u>	<u>20,834,815</u>
Total Liabilities	<u>12,097,656</u>	<u>14,899,776</u>	<u>26,997,432</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,941,560	2,629,256	8,570,816
Restricted for debt covenants	-	1,036,235	1,036,235
Unrestricted	<u>2,819,429</u>	<u>1,966,922</u>	<u>4,786,351</u>
Total Net Assets	<u>\$ 8,760,989</u>	<u>\$ 5,632,413</u>	<u>\$ 14,393,402</u>

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

**CITY OF PETAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Exhibit B

EXHIBIT B

City of Petal
Statement of Activities
For the Year Ended September 30, 2010

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 614,501	\$ -	\$ 36,126	\$ -	\$ (578,375)	\$ -	\$ (578,375)
Court	273,904	321,948	-	-	48,044	-	48,044
Public safety	3,455,076	18,554	178,945	-	(3,257,577)	-	(3,257,577)
Public works	1,143,514	95,504	339,467	554,177	(154,366)	-	(154,366)
Culture & recreation	964,527	71,249	-	50,000	(843,278)	-	(843,278)
Interest/other charges on long-term debt	274,358	-	-	-	(274,358)	-	(274,358)
Total governmental activities	<u>6,725,880</u>	<u>507,255</u>	<u>554,538</u>	<u>604,177</u>	<u>(5,059,910)</u>		<u>(5,059,910)</u>
Business-type activities							
Water & Sewer	2,327,690	2,311,505	-	412,057	-	395,872	395,872
Solid Waste	841,766	820,105	-	-	-	(21,661)	(21,661)
Total business-type activities	<u>3,169,456</u>	<u>3,131,610</u>	<u>-</u>	<u>412,057</u>		<u>374,211</u>	<u>374,211</u>
Total	<u>\$ 9,895,336</u>	<u>\$ 3,638,865</u>	<u>\$ 554,538</u>	<u>\$ 1,016,234</u>	<u>(5,059,910)</u>	<u>374,211</u>	<u>(4,685,699)</u>
General revenues:							
Property taxes					3,482,861	196,405	3,679,266
Sales taxes					2,139,738	-	2,139,738
Franchise taxes and privilege licenses					571,350	-	571,350
Grants and contributions not restricted to specific programs					-	-	-
Unrestricted investment earnings					23,955	16,661	40,616
Other					13,482	-	13,482
Gain/loss on sale of assets					(6,778)	-	(6,778)
Total general revenues					<u>6,224,608</u>	<u>213,066</u>	<u>6,437,674</u>
Change in net assets					1,164,698	587,277	1,751,975
Net assets - beginning					7,600,501	4,860,738	12,461,239
Prior period adjustment					(4,210)	184,398	180,188
Net assets - ending					<u>\$ 8,760,989</u>	<u>\$ 5,632,413</u>	<u>\$ 14,393,402</u>

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

FUND FINANCIAL STATEMENTS

CITY OF PETAL
BALANCE SHEET-GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

Exhibit C

	General Fund	Road Maintenance Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS				
Cash and other deposits	\$ 810,004	\$ 515,330	\$ 1,219,239	\$ 2,544,573
Franchise fees receivable	143,805	-	-	143,805
Fines receivable, net of \$1,475,000	37,789	-	-	37,789
Due from other governments	205,940	-	-	205,940
Due from other funds	111,049	-	-	111,049
Other receivables	1,297	-	171	1,468
	<u>1,309,884</u>	<u>-</u>	<u>171</u>	<u>1,480</u>
Total Assets	<u>\$ 1,309,884</u>	<u>\$ 515,330</u>	<u>\$ 1,219,410</u>	<u>\$ 3,044,624</u>
LIABILITIES AND OTHER CREDITS				
Accounts payable	\$ 251,084	\$ -	\$ 1,540	\$ 252,624
Other payables	8,746	-	1,022	9,768
Deferred revenue	37,789	-	-	37,789
	<u>297,619</u>	<u>-</u>	<u>2,562</u>	<u>300,181</u>
Total Liabilities	<u>297,619</u>	<u>-</u>	<u>2,562</u>	<u>300,181</u>
FUND BALANCES:				
Reserved				
Reserved for bond	-	-	455,906	455,906
Unreserved, undesignated reported in:				
General fund	1,012,265	-	24,290	1,036,555
Special revenue funds	-	515,330	72,293	587,623
Capital projects funds	-	-	664,359	664,359
	<u>1,012,265</u>	<u>515,330</u>	<u>1,216,848</u>	<u>2,744,443</u>
Total fund balances	<u>1,012,265</u>	<u>515,330</u>	<u>1,216,848</u>	<u>2,744,443</u>
Total liabilities and fund balances	<u>\$ 1,309,884</u>	<u>\$ 515,330</u>	<u>\$ 1,219,410</u>	<u>\$ 3,044,624</u>

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

**CITY OF PETAL
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Exhibit C-1

Total Fund Balance-Governmental Funds (Exhibit C)	\$ 2,744,443
---	--------------

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$7,448,873	13,826,863
--	------------

Other long-term assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds	37,789
--	--------

Bond issuance costs are deferred in the Statement of Net Assets and amortized over the term of the bonds	127,549
--	---------

Other long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds	
	Compensated absences (43,715)
	Accrued interest expense (32,987)

Long-term debt, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.	(7,885,304)
--	-------------

Unrestricted net assets from Internal Service Fund (Exhibit E)	(13,649)
--	----------

Total Net Assets-Governmental Activities (Exhibit A)	<u>\$ 8,760,989</u>
--	---------------------

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

CITY OF PETAL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Exhibit D

	General Fund	Road Maintenance Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ 2,789,177	\$ -	\$ 693,684	\$ 3,482,861
Licenses and fees	571,350	-	-	571,350
Intergovernmental revenue	2,846,987	339,467	111,999	3,298,453
Charges for services	498,357	-	-	498,357
Earnings on investments	1,876	1,233	20,846	23,955
Other	13,482	-	-	13,482
TOTAL REVENUE	<u>6,721,229</u>	<u>340,700</u>	<u>826,529</u>	<u>7,888,458</u>
EXPENDITURES				
General government	588,933	-	-	588,933
Court	272,702	-	-	272,702
Public safety	3,478,355	-	56,276	3,534,631
Public works	906,032	856,422	-	1,762,454
Culture & recreation	679,156	-	176,755	855,911
Debt service				
Principal	342,133	-	425,000	767,133
Interest	34,918	-	315,836	350,754
Other	10,050	-	19,953	30,003
Total expenditures	<u>6,312,279</u>	<u>856,422</u>	<u>993,820</u>	<u>8,162,521</u>
Excess (deficiency) of revenues over expenditures	<u>408,950</u>	<u>(515,722)</u>	<u>(167,291)</u>	<u>(274,063)</u>
Other financing sources (uses):				
Transfers in	50,000	1,031,052	135,650	1,216,702
Transfers out	(1,166,702)	-	(50,000)	(1,216,702)
Proceeds of capital lease	200,000	-	-	200,000
Sale of capital assets	11,332	-	-	11,332
Total other financing sources (uses)	<u>(905,370)</u>	<u>1,031,052</u>	<u>85,650</u>	<u>211,332</u>
Net change in fund balance	(496,420)	515,330	(81,641)	(62,731)
Fund Balances - Beginning	1,508,685	-	1,301,914	2,810,599
Prior Period Adjustment	-	-	(3,425)	(3,425)
Fund Balances - Ending	<u>\$ 1,012,265</u>	<u>\$ 515,330</u>	<u>\$ 1,216,848</u>	<u>2,744,443</u>

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

CITY OF PETAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Exhibit D-1

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

Net change in fund balances - total governmental funds (Exhibit D) \$ (62,731)

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

Capital Outlay	1,283,476
Depreciation	(712,644)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount that debt proceeds exceeded debt payments in the current period.

Debt proceeds	(200,000)
Debt payments	767,133

Governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the net effect of these differences in the treatment of long-term debt and related items.

(13,674)

Fine revenue recognized using the full accrual basis of accounting in the Statement of Activities do not provide current financial resources and are not reported as revenue in the funds.

8,898

Governmental funds report the entire sales proceeds from sale of assets as revenue. In contrast, the statement of activities reports only the gain or loss on disposal of assets. Thus, the change in net assets differs from the change in fund balance.

(18,110)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

92,404

Internal service fund is used by the City to charge the costs of auto and equipment maintenance to individual funds. The net revenue (cost) of the internal service fund is reported with governmental activities.

19,946

Change in Net Assets of Governmental Activities

\$ 1,164,698

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

**CITY OF PETAL
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010**

Exhibit E

	Business-type Activities - Enterprise funds			Internal Service
	Water and Sewer Fund	Solid Waste Fund	Totals	Central Fueling Station
ASSETS				
Cash and cash equivalents	\$ 806,517	\$ 562,248	\$ 1,368,765	\$ 23,797
Customer receivables, net of allowance	163,340	70,004	233,344	-
Due from other funds	-	10,001	10,001	-
Unbilled revenue	139,153	51,313	190,466	-
Other receivables	8,126	8,793	16,919	-
Inventory, at cost	10,000	-	10,000	-
Property taxes receivable	-	205,000	205,000	-
Restricted Assets				
Cash Bond Proceeds	909,801	-	909,801	-
Cash Bond Reserves	126,434	-	126,434	-
Customer deposits	279,779	-	279,779	-
Capital assets, net	16,517,249	214,058	16,731,307	6,380
Capitalized interest and bond costs (net)	450,373	-	450,373	-
Total Assets	<u>\$ 19,410,772</u>	<u>\$ 1,121,417</u>	<u>\$ 20,532,189</u>	<u>\$ 30,177</u>
LIABILITIES				
Accounts Payable	\$ 102,205	\$ 51,414	\$ 153,619	\$ 8,945
Due to other funds	23,733	-	23,733	28,353
Other payables	5,419	5,309	10,728	148
Customer deposits	241,947	-	241,947	-
Compensated absences	4,444	4,887	9,331	-
Accrued interest	153,367	-	153,367	-
Deferred revenue	-	205,000	205,000	-
Noncurrent liabilities:				
Capital related debt due within one year	417,601	-	417,601	-
Capital related debt due in more than one year	13,684,450	-	13,684,450	-
Total Liabilities	<u>14,633,166</u>	<u>266,610</u>	<u>14,899,776</u>	<u>37,446</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,415,198	214,058	2,629,256	6,380
Restricted for debt covenants	1,036,235	-	1,036,235	-
Unrestricted	1,326,173	640,749	1,966,922	(13,649)
Total Net Assets	<u>4,777,606</u>	<u>854,807</u>	<u>5,632,413</u>	<u>(7,269)</u>
Total Liabilities and Net Assets	<u>\$ 19,410,772</u>	<u>\$ 1,121,417</u>	<u>\$ 20,532,189</u>	<u>\$ 30,177</u>

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

CITY OF PETAL
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR YEARS ENDED SEPTEMBER 30, 2010

Exhibit F

	<u>Business-type Activities - Enterprise funds</u>			<u>Internal Service</u>
	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>	<u>Central Fueling Station</u>
Operating revenues:				
Sales	\$ 1,923,006	\$ 820,105	\$ 2,743,111	\$ 296,847
Other fees and charges	17,927	-	17,927	-
Property taxes	-	196,405	196,405	-
Other revenue	109,400	-	109,400	-
Sewer treatment charges	261,172	-	261,172	-
	<u>2,311,505</u>	<u>1,016,510</u>	<u>3,328,015</u>	<u>296,847</u>
Operating expenses:				
Personnel services	380,377	387,916	768,293	51,566
Supplies and materials	140,255	119,640	259,895	186,313
Other services and charges	572,423	256,744	829,167	30,070
Capital outlay expenses	538	-	538	5,030
Amortization	28,170	-	28,170	-
Depreciation	562,487	77,466	639,953	3,922
Total operating expenses	<u>1,684,250</u>	<u>841,766</u>	<u>2,526,016</u>	<u>276,901</u>
Operating income (loss)	627,255	174,744	801,999	19,946
Other sources (uses)				
Investment earnings	15,281	1,380	16,661	-
Grant revenue	412,057	-	412,057	-
Interest expense	(643,440)	-	(643,440)	-
	<u>(216,102)</u>	<u>1,380</u>	<u>(214,722)</u>	<u>-</u>
Net change in fund balance	411,153	176,124	587,277	19,946
Total net assets - beginning	4,233,368	627,370	4,860,738	(26,430)
Prior period adjustment	<u>133,085</u>	<u>51,313</u>	<u>184,398</u>	<u>(785)</u>
Total net assets - ending	<u>\$ 4,777,606</u>	<u>\$ 854,807</u>	<u>\$ 5,632,413</u>	<u>\$ (7,269)</u>

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

**CITY OF PETAL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2010**

Exhibit G

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
Cash flow from operating activities:			
Cash received from customers (excluding deposit)	\$ 2,386,596	\$ 1,042,370	\$ 3,428,966
Cash paid to suppliers	(712,458)	(376,384)	(1,088,842)
Cash paid to employees	<u>(377,678)</u>	<u>(387,916)</u>	<u>(765,594)</u>
Net cash provided (used) by operating activities	<u>1,296,460</u>	<u>278,070</u>	<u>1,574,530</u>
Cash flow from capital and related financing activities:			
Capital grants received	477,937	-	477,937
Principal paid on bonds	(345,000)	-	(345,000)
Principal paid on capital leases	-	(2,492)	(2,492)
Principal paid on notes	(50,291)	-	(50,291)
Interest paid	<u>(647,252)</u>	<u>-</u>	<u>(647,252)</u>
Net cash flows provided (used) by capital and related financing activities	<u>(564,606)</u>	<u>(2,492)</u>	<u>(567,098)</u>
Cash flow from investing activities:			
Purchase of fixed assets	(2,119,876)	(170,363)	(2,290,239)
Interest received	<u>15,281</u>	<u>1,380</u>	<u>16,661</u>
Net cash flows provided (used) by investing activities	<u>(2,104,595)</u>	<u>(168,983)</u>	<u>(2,273,578)</u>
Net increase (decrease) in cash for the year	(1,372,741)	106,595	(1,266,146)
Cash and restricted cash - October 1, 2009	<u>3,495,272</u>	<u>455,653</u>	<u>3,950,925</u>
Cash and restricted cash - September 30, 2010	<u>\$ 2,122,531</u>	<u>\$ 562,248</u>	<u>\$ 2,684,779</u>

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

**CITY OF PETAL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2010**

Exhibit G (continued)

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
Operating income (loss)	\$ 627,255	\$ 174,744	\$ 801,999
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization	28,170	-	28,170
Depreciation	562,487	77,466	639,953
(Increase) decrease in accounts receivable	23,879	10,233	34,112
(Increase) decrease in other assets	(1,323)	(8,141)	(9,464)
Increase (decrease) in other liabilities	17,034	10,196	27,230
Increase (decrease) in accounts payable	<u>38,958</u>	<u>13,572</u>	<u>52,530</u>
Net cash provided by operating activities	<u>\$ 1,296,460</u>	<u>\$ 278,070</u>	<u>\$ 1,574,530</u>
Other Required Disclosures:			
Interest paid	<u>\$ 647,252</u>	<u>\$ -</u>	

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

**CITY OF PETAL
STATEMENT OF NET ASSETS
FIDUCIARY FUND
SEPTEMBER 30, 2010**

Exhibit H

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 79,273
Other receivable	<u>862</u>
Total Assets	<u>\$ 80,135</u>
 LIABILITIES	
Due to other funds	<u>\$ 80,135</u>
Total Liabilities	<u>\$ 80,135</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Petal, Mississippi (the City) was incorporated in 1974. The City operates under Mayor, Alderman form of government and provides the following services:

- Public Safety
- Public Works
- Health and Welfare
- Culture and Recreation
- General Administration

A. FINANCIAL REPORTING ENTITY

The City of Petal is a municipal corporation governed by an elected mayor and five-member council. The accompanying financial statements present the government and its blended component unit, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended component unit.

The Petal Public Improvement Corporation is a tax exempt entity formed to finance the construction of a multi-purpose center to be leased to the City and to fund other city improvements. The Board of Directors of Petal Public Improvement Corporation is composed of the Mayor and Aldermen of the City of Petal. The Petal Public Improvement Corporation is reported as a governmental fund.

Excluded from the reporting entity.

The City's financial reporting entity does not include the following entities, which are not component units of the City: Petal Municipal Separate School District, Petal Area Chamber of Commerce, Pine Belt Regional Waste Authority, Petal Volunteer Fire Department, and Petal Police Auxiliary.

B. BASIS OF PRESENTATION

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units.

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.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific service, program or department and therefore clearly identifiable to a particular function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

The City reports the following major governmental funds:

General Fund – This is the City’s primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Road Maintenance Fund – This fund accounts for the proceeds of the road and bridge tax used for various street projects.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The City reports the following fund types:

GOVERNMENTAL FUNDS:

- Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.
- Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.
- Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

FIDUCIARY FUNDS:

- Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Additionally the City reports the following major proprietary funds:

Water and Sewer Enterprise Fund – This fund accounts for the activities of the City’s water and sewer operations.

Solid Waste Disposal – This fund accounts for the activities of the City’s solid waste collection and disposal operations.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict the guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer Enterprise Fund and of the City's Solid Waste Enterprise Fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. ACCOUNT CLASSIFICATION

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Municipalities* issued by the Office of the State Auditor.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

E. ENCUMBRANCES

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

F. CASH AND CASH EQUIVALENTS

The City deposits excess funds in the financial institutions selected by the board of alderman. State statues specify how these depositories are to be selected.

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less from the end of the fiscal year. Cash and cash equivalents are valued at cost.

G. INVESTMENTS

The city is allowed, by statue, to invest excess funds in any bonds or other direct obligations of the United States of America or the state of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved; or in interest-bearing time certificates of deposit or interest-bearing accounts with any financial institution approved for the deposit of state funds; or in any type of investment permitted by sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972).

For accounting purposes, demand deposits and short-term investments with maturities of three months or less from the end of the fiscal year are classified as cash and cash equivalents and are valued at cost.

H. RECEIVABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as with “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). 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 receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles.

The valuation allowance for the General Fund Police Fines is based on the City’s estimation of amounts that cannot be collected.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

I. INVENTORIES AND PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both governmental and fund financial statements. Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

J. RESTRICTED ASSETS

Certain proceeds from the Water and Sewer's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond contingent" account is used to report resources set aside to subsidize potential deficiencies from the Water and Sewer's operation that could adversely affect debt service payments. The "revenue bond current debt service account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond cushion" account is used to report resources set aside to make up potential fund deficiencies in the revenue bond current debt service account. The "revenue bond depreciation" account is used to report resources set aside to fund asset renewals and replacements, as well as to make up potential fund deficiencies in the revenue bond current debt service account.

K. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, drainage systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated life in excess of two years. The capitalization threshold for buildings and improvements other than buildings is \$50,000 and \$25,000, respectfully. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of the acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back-trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

No interest is capitalized on self-constructed capital assets of business-type activities because not capitalizing interest does not have a material effect on the City's financial statements.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives, with a full year's depreciation expense taken for all purchases and sales of capital assets during the year. Land is not depreciated.

<u>Asset</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	20
Public domain infrastructure (roads)	20
System infrastructure	20
Fire trucks	15
Heavy equipment	10
Furniture and fixtures	7
Vehicles and equipment	5
Computer equipment	3

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

L. COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The City's full liability in the amount of \$53,046 for accumulated unpaid personal leave is reported as a liability in the City's Statement of Net Assets. 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.

M. LONG-TERM LIABILITIES

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. EQUITY CLASSIFICATIONS

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

In the fund financial statements, government funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

O. PROPERTY TAX REVENUES

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Aldermen, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins October 1. Property taxes become a lien on January 1 of the current year, and are due on or before February 1. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

U. S. generally accepted accounting practices require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and motor home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

Section 35-57-1 et seq., Mississippi Code 1972, requires that the City levy and collect all taxes for and on behalf of the municipal separate school district. Section 39-3-7, Mississippi Code 1972, authorized the City to levy and collect a tax not in excess of three mills for the support of any public library system located within the municipality. Ad valorem taxes collected and settled in accordance with the above-noted statutory authorities are not recognized as revenues and expenditures of the City.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

The City of Petal entered into an inter-local agreement with Forrest County contracting for the County to bill and collect the City’s taxes. The County retains a 5% collection fee on automobile and mobile homes ad valorem and a 0.5% fee for real and personal property ad valorem collections. Lien dates for personal and real property are in August. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received. The millage rates levied were:

	<u>2009-2010</u>
<u>City of Petal</u>	
General Fund	34.28
1.2 M GO Bond Debt Service	1.39
2.5 M GO Bond Debt Service	2.43
5.0 M GO Bond Debt Service	4.59
Library	0.99
Solid Waste	<u>2.53</u>
Total City Mills	<u>46.21</u>
 <u>Petal Municipal Separate School District</u>	
District Maintenance	52.23
School Building Program	<u>2.81</u>
Total School District Mills	<u>55.04</u>

P. BUDGETS AND BUDGETARY ACCOUNTING

The annual budget is adopted by the Board of Aldermen and filed with the taxing authority. Amendments can be made on the approval of the Board of Aldermen. By Statute, the final budget and tax levy must be adopted on or before September 15 for the following fiscal year.

Formal budgetary integration is employed as a management control device during the year. Mississippi laws require that municipalities budget governmental fund types on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the modified accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principal.

Proprietary funds are budgeted on a modified accrual basis. Modifications to the accrual basis include budgeting for capital expenditures, debt principal payments and for depreciation.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Q. INTERGOVERNMENTAL REVENUES IN GOVERNMENTAL FUNDS

Intergovernmental revenues, consisting of grants, entitlements and shared revenues are usually recorded in Governmental Funds when measurable and available. However, the “available” criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

R. USE OF ESTIMATES

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

NOTE 2- CASH AND CASH EQUIVALENTS, AND INVESTMENTS

CASH AND CASH EQUIVALENTS.

The collateral for public entities’ deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity’s funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits.

In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the City’s deposits with financial institutions was \$5,332,422, and the bank balance was \$5,548,899.

Custodial Credit Risk-Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the city will not be able to recover deposits or collateral securities that are in the possession of an outside party. The city does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the town.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 3- ACCOUNTS RECEIVABLE AND ALLOWANCE ACCOUNT

Receivables as of the year end for the City's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water & Sewer Enterprise	Solid Waste Enterprise	Total
Receivables:				
Accounts	\$ 143,805	\$ 244,819	\$ 104,923	\$ 493,547
Court Fine Receivable	1,512,789	-	-	1,512,789
Other Receivable	112,517	8,126	8,793	129,436
Intergovernmental	205,940	-	-	205,940
Gross Receivables	1,975,051	252,945	113,716	2,341,712
Less: allowance for uncollectables	(1,475,000)	(81,479)	(34,919)	(1,591,398)
Total net receivables	<u>\$ 500,051</u>	<u>\$ 171,466</u>	<u>\$ 78,797</u>	<u>\$ 750,314</u>

NOTE 4- INTER-FUND TRANSACTIONS AND BALANCES

Timing differences between the payments of expenses and collection of revenues for other funds and the subsequent reimbursements are reflected in the inter-fund accounts.

Due to/from other funds

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Solid Waste Fund	Water and Sewer Enterprise Fund	10,001
Total		<u>\$ 10,001</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restrictive amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out:</u>	<u>Amount</u>
Road Maintenance Fund	General fund	\$ 1,031,052
Nonmajor Governmental Funds	General Fund	135,650
General fund	5.0 M Capital Projects Fund	50,000
		<u>\$ 1,216,702</u>

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 5- CAPITAL ASSETS

The following is a summary of changes in capital assets for governmental activities:

<u>Governmental Activities</u>	<u>Balance 10/1/2009</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2010</u>
Capital assets not being depreciated:					
Land and easements	\$ 592,995			-	592,995
Construction in Progress	895,613	(895,613)	-		-
Total assets not being depreciated	<u>1,488,608</u>	<u>(895,613)</u>	<u>-</u>	<u>-</u>	<u>592,995</u>
Capital assets being depreciated:					
Buildings	2,844,096	475,096	-	-	3,319,192
Improvements other than buildings	1,667,496	420,517	39,147	-	2,127,160
Equipment:					
Office & Other Equipment	216,849	(12,651)	-		204,198
Motor vehicles	1,987,899		225,000	181,098	2,031,801
Operating Equipment	1,214,846	12,651	162,907	-	1,390,404
Infrastructure	10,747,184	-	856,422		11,603,606
Total assets being depreciated	<u>18,678,370</u>	<u>895,613</u>	<u>1,283,476</u>	<u>181,098</u>	<u>20,676,361</u>
Totals at historical cost	<u>20,166,978</u>	<u>-</u>	<u>1,283,476</u>	<u>181,098</u>	<u>21,269,356</u>
Less accumulated depreciation					
Buildings	(394,266)		(76,099)		(470,365)
Improvements other than buildings	(354,586)	886	(99,793)		(453,493)
Equipment:					
Office & Other Equipment	(126,923)		(14,407)		(141,330)
Motor vehicles	(1,249,610)		(171,062)	(162,988)	(1,257,684)
Heavy Equipment	(464,319)		(118,864)	-	(583,183)
Infrastructure	(4,309,513)	(886)	(232,419)		(4,542,818)
Total accumulated depreciation	<u>(6,899,217)</u>	<u>-</u>	<u>(712,644)</u>	<u>(162,988)</u>	<u>(7,448,873)</u>
	<u>13,267,761</u>	<u>-</u>	<u>570,832</u>	<u>18,110</u>	<u>13,820,483</u>
Central Fueling Station:					
Capital assets being depreciated:					
Vehicles	13,063				13,063
Operating Equipment	5,500		3,500		9,000
Less accumulated depreciation					
Vehicles	(10,451)		(2,612)		(13,063)
Operating Equipment	(524)	(786)	(1,310)		(2,620)
Central Fueling Station capital assets, net	<u>7,588</u>	<u>(786)</u>	<u>(422)</u>	<u>-</u>	<u>6,380</u>
Governmental activities capital assets, net	<u>\$ 13,275,349</u>	<u>\$ (786)</u>	<u>\$ 570,410</u>	<u>\$ 18,110</u>	<u>\$ 13,826,863</u>

Adjustments were made to reconcile schedule to subsidiary records.

Depreciation expense was charged to the following governmental functions:

General government	\$ 9,288
Public Safety	234,564
Public Works, which includes the depreciation of general infrastructure assets	325,086
Culture and Recreation	143,706
Total governmental activities depreciation expense	<u>\$ 712,644</u>

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

The following is a summary of changes in capital assets for business-type activities:

<u>Business-type Activities</u>	Balance 10/1/2009	Adjustments	Additions	Deletions	Balance 9/30/2010
Water and Sewer:					
Land and easements	\$ 21,994	\$ -	\$ -	\$ -	\$ 21,994
Construction in Progress	191,976	(191,976)	-	-	-
Total assets not being depreciated	<u>213,970</u>	<u>(191,976)</u>	<u>-</u>	<u>-</u>	<u>21,994</u>
Capital assets being depreciated:					
Buildings	741,239		-	-	741,239
Improvements other than buildings	1,901		-	-	1,901
Office Furniture/Equipment	19,290		-	-	19,290
Water/Sewer systems	23,954,147	191,976	1,882,622	-	26,028,745
Vehicles	277,749	-	36,137	-	313,886
Operating Equipment	553,348		9,141	-	562,489
Total assets being depreciated	<u>25,547,674</u>	<u>191,976</u>	<u>1,927,900</u>	<u>-</u>	<u>27,667,550</u>
Totals at historical cost	<u>25,761,644</u>	<u>-</u>	<u>1,927,900</u>	<u>-</u>	<u>27,689,544</u>
Less accumulated depreciation					
Buildings	(163,824)		(26,302)		(190,126)
Improvements other than buildings	(1,891)		(10)		(1,901)
Office Furniture/Equipment	(18,890)		-		(18,890)
Water/Sewer systems	(9,861,767)		(470,472)		(10,332,239)
Vehicles	(183,638)		(16,403)	-	(200,041)
Operating Equipment	(380,584)	786	(49,300)		(429,098)
Total accumulated depreciation	<u>(10,610,594)</u>	<u>786</u>	<u>(562,487)</u>	<u>-</u>	<u>(11,172,295)</u>
Water and Sewer capital assets, net	<u>15,151,050</u>	<u>786</u>	<u>1,365,413</u>	<u>-</u>	<u>16,517,249</u>
Solid Waste:					
Capital assets being depreciated:					
Infrastructure	8,896		-		8,896
Operating Equipment	173,344		-		173,344
Vehicles	116,624		170,363		286,987
Total assets being depreciated	<u>298,864</u>	<u>-</u>	<u>170,363</u>	<u>-</u>	<u>469,227</u>
Less accumulated depreciation					
Infrastructure	(890)		(444)		(1,334)
Operating Equipment	(83,514)		(23,780)		(107,294)
Vehicles	(93,299)		(53,242)		(146,541)
Total accumulated depreciation	<u>(177,703)</u>	<u>-</u>	<u>(77,466)</u>	<u>-</u>	<u>(255,169)</u>
Solid Waste capital assets, net	<u>121,161</u>	<u>-</u>	<u>92,897</u>	<u>-</u>	<u>214,058</u>
Total Business-type activities	<u>\$ 15,272,211</u>	<u>\$ 786</u>	<u>\$ 1,458,310</u>	<u>\$ -</u>	<u>\$ 16,731,307</u>

Adjustments were made to reconcile schedule to subsidiary records.

Depreciation expense charged to the business-type activities totaled \$643,875.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 6- CAPITAL LEASES

As Lessee:

The City is obligated for capital equipment and automobiles acquired through capital leases as of September 30, 2010:

The following is a schedule by years of the total payments due as of September 30, 2010:

Capital Leases - Governmental activities				
	Principle		Interest	
2011	\$	119,485	\$	13,560
2012		269,757		8,667
2013		50,608		1,624
	\$	439,850	\$	23,851

NOTE 7- LONG-TERM LIABILITIES

GENERAL OBLIGATION BONDS

The City issues general bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$8,700,000 with no additional amount issued in the current year. General Obligation Bonds are direct obligations issued on a pledge the full faith and credit of the City. These bonds generally are issued as 20-year serial bonds. The outstanding balance as of September 30, 2010 was \$6,885,000.

SHORT TERM NOTES

In 2009, the City issued \$500,000 in three year notes to meet cash flow requirements. The outstanding balance as of September 30, 2010 is \$340,000.

NEGOTIABLE NOTE

The City may borrow for any purpose for which Bonds, Notes, or Certificates of Indebtedness are authorized by law (Small Issue Authority), provided the total indebtedness incurred under this authority does not exceed the greater of one percent of the assessed value or \$250,000. These loans are included in computing the statutory limitation upon indebtedness. The rate of interest on these loans may not exceed eleven percent and the loans must be repaid within five years. The outstanding balance of the loan issued by the City is \$10,454.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7- LONG-TERM LIABILITIES (continued)

LIMITED OBLIGATION (TIF) BONDS

TIF Bonds are used by the City to encourage economic development in a defined area by providing the necessary infrastructure for a development project. The City pledged the increased real and property taxes from the project and, Forrest County pledged the increased real taxes on the project, for payment of interest and principal on the bonds. The City does not pledge the full faith and credit of the City to repay the TIF bonds. The City is not obligated to repay the debt if the tax increment is insufficient to make the annual payment. These bonds carry a higher interest rate due to the risk of economic downturn or limited revenue growth in the defined TIF area. The City issued one \$600,000 TIF Bond in 2002. The outstanding balance as of September 30, 2010 is \$210,000.

REVENUE BONDS

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system. The Revenue Bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond covenants. The covenants provide that the revenue of the system is to be used first to pay operating and maintenance expense of the system and second to establish and maintain the Revenue Bond accounts. The original amount of revenue bonds issued in prior years was \$15,000,000 with no additional amount issued in the current year. The City is in compliance with all significant financial requirements as of September 30, 2010. The outstanding balance as of September 30, 2010 is \$13,866,400.

STATE LOANS

In 1995, the City made an \$807,757 loan through the State Water Pollution Control Revolving Loan Fund (SRF), which is 80% federally funded. The outstanding balance is \$235,651. This loan is secured solely by a special pledge of the City's sales tax revenues.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7- LONG-TERM LIABILITIES (cont)

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 10/1/2009	Additions	Deletions	Balance 9/30/2010	Amount Due Within One Year
<u>GENERAL OBLIGATION BONDS</u>					
\$5.0M G.O. Bonds, series 2006 5.125%-3.8%, matures 2026	\$ 4,500,000	\$ -	\$ (180,000)	\$ 4,320,000	\$ 190,000
\$2.5M G.O. Bonds, series 2004 4.0%-5.0%, matures 2024	\$ 2,080,000	\$ -	\$ (100,000)	\$ 1,980,000	\$ 100,000
\$1.2M G.O. Bonds, series 2001 5.20%-5.50%, matures 2016	\$ 665,000	\$ -	\$ (80,000)	\$ 585,000	\$ 85,000
	<u>\$ 7,245,000</u>	<u>\$ -</u>	<u>\$ (360,000)</u>	<u>\$ 6,885,000</u>	<u>\$ 375,000</u>
<u>SHORT TERM NOTE</u>					
\$500,000, taxable short term note series 2009 3.5%, matures 2012	\$ 500,000	\$ -	\$ (160,000)	\$ 340,000	\$ 165,000
	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ (160,000)</u>	<u>\$ 340,000</u>	<u>\$ 165,000</u>
<u>NEGOTIABLE NOTE</u>					
\$48,240 Katrina Lane, neg. note 4.18%, matures 2010	\$ 20,489	\$ -	\$ (10,035)	\$ 10,454	\$ 10,454
	<u>\$ 20,489</u>	<u>\$ -</u>	<u>\$ (10,035)</u>	<u>\$ 10,454</u>	<u>\$ 10,454</u>
<u>LIMITED OBLIGATION BONDS</u>					
\$600,000 Tax increment L. O. Bonds Series 2002, 3.5%-4.75%, matures 2013	\$ 275,000	\$ -	\$ (65,000)	\$ 210,000	\$ 65,000
<u>CAPITAL LEASES</u>					
Street Equipment Capital Lease 3.40%, matures Jul 2012, \$6,734.54 pmt	\$ 362,276	\$ -	\$ (69,575)	\$ 292,701	\$ 71,977
Police Car Lease matures Nov 2009	\$ 10,407	\$ -	\$ (10,407)	\$ -	\$ -
Police Car Lease 8 vehicles 3.21%, matures 1/2013	\$ -	\$ 200,000	\$ (52,851)	\$ 147,149	\$ 47,508
Police and Fire Vehicle Capital Lease 4.34%, matures 2/2010	\$ 39,265	\$ -	\$ (39,265)	\$ -	\$ -
	<u>\$ 411,948</u>	<u>\$ 200,000</u>	<u>\$ (172,098)</u>	<u>\$ 439,850</u>	<u>\$ 119,485</u>
TOTAL GOVERNMENTAL PURPOSE DEBT	<u>\$ 8,452,437</u>	<u>\$ 200,000</u>	<u>\$ (767,133)</u>	<u>\$ 7,885,304</u>	<u>\$ 734,939</u>

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7- LONG-TERM LIABILITIES (cont)

The following is a summary of changes in long-term liabilities and other obligations for proprietary activities:

	Balance <u>10/1/2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>9/30/2010</u>	Amount Due Within One <u>Year</u>
<u>REVENUE SPECIAL OBLIGATION BONDS</u>					
\$8.5M Water & Sewer, Series 2006 7.0%-4.0% interest, matures 2031	\$ 7,981,400	\$ -	\$ (200,000)	\$ 7,781,400	\$ 210,000
\$6.5 M Water & Sewer, Series 2007 5.0%-4.0% interest, matures 2032	<u>\$ 6,230,000</u>	<u>\$ -</u>	<u>\$ (145,000)</u>	<u>\$ 6,085,000</u>	<u>\$ 155,000</u>
	<u>\$ 14,211,400</u>	<u>\$ -</u>	<u>\$ (345,000)</u>	<u>\$ 13,866,400</u>	<u>\$ 365,000</u>
<u>CAPITAL LEASES</u>					
Solid Waste Equipment Capital Lease 3.9%, matures Oct 2009,	<u>\$ 2,492</u>	<u>\$ -</u>	<u>\$ (2,492)</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 2,492</u>	<u>\$ -</u>	<u>\$ (2,492)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>OTHER LOANS</u>					
\$807,757 State Revolving Loan 5.78% interest, matures 2014	<u>\$ 285,942</u>	<u>\$ -</u>	<u>\$ (50,291)</u>	<u>\$ 235,651</u>	<u>\$ 52,601</u>
	<u>\$ 285,942</u>	<u>\$ -</u>	<u>\$ (50,291)</u>	<u>\$ 235,651</u>	<u>\$ 52,601</u>
BUSINESS-TYPE ACTIVITY DEBT	<u>\$ 14,499,834</u>	<u>\$ -</u>	<u>\$ (397,783)</u>	<u>\$ 14,102,051</u>	<u>\$ 417,601</u>

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7- LONG-TERM LIABILITIES (cont)

The following is a schedule by years of the total payments due on this debt:

Governmental Activities:

General Obligation Bonds

	Principle		Interest
2011	\$ 375,000	\$	291,093
2012	395,000		273,625
2013	415,000		255,703
2014	435,000		237,578
2015	455,000		219,433
2016-2020	2,125,000		827,047
2021-2025	2,315,000		359,699
2026	370,000		14,800
	<u>\$ 6,885,000</u>	<u>\$</u>	<u>2,478,978</u>

SHORT TERM NOTES

	Principle		Interest
2011	\$ 165,000	\$	11,900
2012	175,000		6,125
	<u>\$ 340,000</u>	<u>\$</u>	<u>18,025</u>

Negotiable Notes

	Principle		Interest
2011	\$ 10,454	\$	437
	<u>\$ 10,454</u>	<u>\$</u>	<u>437</u>

Limited Obligation - Governmental

	Principle		Interest
2012	\$ 65,000	\$	8,094
2013	70,000		5,137
2014	75,000		1,781
	<u>\$ 210,000</u>	<u>\$</u>	<u>15,012</u>

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7- LONG-TERM LIABILITIES (cont)

Business Type Activities:

WATER & SEWER REVENUE BONDS

	Principle		Interest	
2011	\$	365,000	\$	348,018
2012		385,000		592,466
2013		405,000		660,676
2014		425,000		566,692
2015		450,000		549,080
2016-2020		2,615,000		2,390,898
2021-2025		3,375,000		1,771,135
2026-2030		4,360,000		946,107
2031-2032		1,486,400		87,831
	\$	13,866,400	\$	7,912,901

OTHER LOANS

	Principle		Interest	
2011	\$	52,601	\$	9,529
2012		55,017		7,113
2013		57,545		4,585
2014		60,189		1,941
2015		10,299		58
	\$	235,651	\$	23,225

COMPENSATED ABSENCES PAYABLE

As more fully explained in Note 1(P), compensated absences payable is adjusted on an annual basis. Compensated absences will be paid from the fund from which the employee's salaries were paid.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 8-LIMITATIONS ON INDEBTEDNESS

Presented below is Section 21-33-303 Mississippi Code:

No municipality shall hereafter issue bonds secured by a pledge of its full faith and credit for the purposes authorized by law in an amount which, when added to the then outstanding bonded indebtedness of such municipality, shall exceed either (a) fifteen percent (15%) of the assessed value of the taxable property within such municipality, according to the last completed assessment for taxation, or (b) ten percent (10%) of the assessment upon which taxes were levied for its fiscal year ending September 30, 1984, whichever is greater. In computing such indebtedness, there may be deducted all bonds or other evidences of indebtedness, heretofore or hereafter issued, for school, water, sewerage systems, gas, and light and power purposes and for the construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying the municipality's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case shall any municipality contract any indebtedness which, when added to all of the outstanding general obligation indebtedness, both bonded and floating shall exceed either (a) twenty percent (20%) of the assessed value of all taxable property within such municipality according to the last completed assessment for taxation or (b) fifteen percent (15%) of the assessment upon which taxes are levied for its fiscal year ending September 30, 1984, whichever is greater. Nothing herein contained shall be construed to apply to contract obligations in any form heretofore or hereafter incurred by any municipality which are subject to annual appropriations therefore, or to bonds heretofore issued by any municipality for school purposes, or to contract obligations in any form heretofore or hereafter incurred by any municipality which are payable exclusively from the revenues of any municipally-owned utility, or to bonds issued by any municipality under the provisions of Section 57-1-1 through 57-1-51 or to any special assessment improvement bonds issued by any municipality under the provisions of Sections 21-41-1 through 21-41-53, or to any indebtedness incurred under Section 55-23-8.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 8-LIMITATIONS ON INDEBTEDNESS (cont)

The following is a schedule of limitations on the indebtedness of the City at September 30, 2010:

Authorized Debt Limit	<u>15 Percent</u>	<u>20 Percent</u>
Assessed valuation at fiscal year ended September 30, 2010 (\$90,003,352)	\$ 13,500,503	\$ 18,000,670
Present debt subject to 15% limitation	(6,885,000)	-
Present debt subject to 20% limitation including debt subject to 15% limitation	<u>-</u>	<u>(7,445,454)</u>
Margin for further debt under respective limits	<u>\$ 6,615,503</u>	<u>\$ 10,555,216</u>

NOTE 9-DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION The City contributes to the Public Employee’s Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employee’s Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

FUNDING POLICY PERS members are required to contribute 9.00% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 12.00% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City’s contributions to PERS for the fiscal years ending September 30, 2010, 2009, and 2008 were \$400,989, \$410,120, and \$392,553, respectively, which equaled the required contributions for each year.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 10-CONTINGENCIES

FEDERAL GRANTS

The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these revenues are generally conditioned upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the city. No provision for any liability that may result has been recognized the city's financial statements.

LITIGATION

According to the City Attorney, the claims against the City at September 30, 2010 will be covered by insurance.

NOTE 11-RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Except as described below, the City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool:

The City participates in the Mississippi Municipal Liability Plan (MMLD), an insurance-purchasing pool. The City, along with other municipalities as a group, purchased insurance to insure against losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Settled claims resulting from these insured risks have not exceeded the City's insurance coverage since it joined the pool.

The City is a member of the Mississippi Municipal Workers Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the City's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$250,000. For a claim exceeding \$250,000, MMWCG has insurance, which will pay the excess up to the statutory limit. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The City has not had an additional assessment for excess losses incurred by the pool.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 12-MISSISSIPPI MUNICIPAL COMPLIANCE QUESTIONNAIRE

The Mississippi Compliance Questionnaire was completed and entered into the minutes as prescribed by law.

NOTE 13-PRIOR PERIOD ADJUSTMENT

Prior period adjustment of \$4,210 was made to decrease governmental activities net assets. The adjustment represents amounts not recorded as expenditures in the prior year. Prior period adjustment of \$184,398 was made to increase proprietary activities net assets. The adjustment mainly represents unbilled income that was not recorded in the previous fiscal year. Prior period adjustment of \$785 was made to decrease the internal service fund net assets.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF PETAL, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2010

<u>Federal Grantor/ Pass-through Garntor/Program Title</u>	<u>Federal CFDA #</u>	<u>Pass-through Agency #</u>	<u>Federal Expenditures</u>
Department of Transportation			
ARRA - Highway Planning and Construction	20.205	LPA/105751-701000 ARRA	438,115
Alcohol Open Container Requirements	20.607	09/10TA321	10,835
Occupant Protection Incentive Grant	20.602	09/10OP321	<u>5,993</u>
Total Department of Transportation			<u>454,943</u>
Department of Housing and Urban Development			
Community Development Block Grants	14.228	06-295-PF-01	<u>412,057</u>
Department of Agriculture and Rural Development			
Rural Business Enterprise Grant	10.769		<u>50,000</u>
Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1794	<u>23,581</u>
Department of Justice			
ARRA - Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Governments	16.804		11,287
Bulletproof Vest Partnership Program	16.607		<u>5,695</u>
Total Department of Justice			<u>16,982</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 957,563</u></u>

CITY OF PETAL, MISSISSIPPI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS
For the Fiscal Year Ended September 30, 2010

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Petal, Mississippi and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, financial statements of the governmental and business-type activities.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule 1A

CITY OF PETAL
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Property taxes	\$ 2,961,780	\$ 2,961,780	\$ 2,733,611	\$ -	\$ (228,169)
License and permits	591,000	\$ 595,000	667,202	4,000	72,202
Intergovernmental revenues	2,094,000	\$ 2,531,555	2,697,770	437,555	166,215
Charges for services	84,800	\$ 72,300	76,768	(12,500)	4,468
Fines and forfeitures	535,000	\$ 411,028	276,457	(123,972)	(134,571)
Other	171,300	\$ 241,744	336,459	70,444	94,715
TOTAL REVENUES	<u>6,437,880</u>	<u>6,813,407</u>	<u>6,788,267</u>	<u>375,527</u>	<u>(25,140)</u>
EXPENDITURES					
General Government	1,031,435	988,185	929,609	43,250	58,576
Police Department	1,844,410	1,901,982	1,821,311	(57,572)	80,671
Fire Department	1,389,050	1,383,733	1,353,882	5,317	29,851
Building Inspection	238,050	217,050	171,582	21,000	45,468
Street Department	996,500	1,394,255	906,032	(397,755)	488,223
Recreation/Senior Center	599,068	617,532	574,934	(18,464)	42,598
Civic Center	122,987	117,237	104,223	5,750	13,014
Debt service:					
Principal	310,938	310,938	313,319	-	(2,381)
Interest	-	-	-	-	-
TOTAL EXPENDITURES	<u>6,532,438</u>	<u>6,930,912</u>	<u>6,174,892</u>	<u>(398,474)</u>	<u>756,020</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(94,558)	(117,505)	613,375	774,001	730,880
Other Financing Sources (Uses)	-	-	(1,175,577)	-	71,000
NET CHANGE IN FUND BALANCE	<u>\$ (94,558)</u>	<u>\$ (117,505)</u>	(562,202)	<u>\$ 774,001</u>	<u>\$ 801,880</u>
Adjustments to GAAP Basis					
Revenue Accruals			194,294		
Expense Accruals			(128,512)		
NET CHANGE IN FUND BALANCE - GAAP BASIS			(496,420)		
FUND BALANCE-BEGINNING			<u>1,508,685</u>		
FUND BALANCE-ENDING			<u>\$ 1,012,265</u>		

Schedule 1B
CITY OF PETAL
BUDGETARY COMPARISON SCHEDULE FOR THE ROAD MAINTENANCE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Intergovernmental revenues	\$ 369,500	\$ 369,500	\$ 339,467	\$ -	\$ (30,033)
Other	-	-	1,233	-	1,233
TOTAL REVENUES	<u>369,500</u>	<u>369,500</u>	<u>340,700</u>	<u>-</u>	<u>(28,800)</u>
EXPENDITURES					
Public Works	369,500	369,500	856,607	-	(487,107)
	-	-	-	-	-
TOTAL EXPENDITURES	<u>369,500</u>	<u>369,500</u>	<u>856,607</u>	<u>-</u>	<u>(487,107)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(515,907)	-	(515,907)
Other Financing Sources (Uses)	-	-	1,031,052	-	71,000
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	515,145	<u>\$ -</u>	<u>\$ (444,907)</u>
Adjustments to GAAP Basis					
Revenue Accruals			185		
Expense Accruals			-		
NET CHANGE IN FUND BALANCE - GAAP BASIS			515,330		
FUND BALANCE-BEGINNING			-		
FUND BALANCE-ENDING			<u>\$ 515,330</u>		

**CITY OF PETAL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

BUDGETARY COMPARISON SCHEDULE

- 1) Basis of Presentation. The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the budget basis and variances between the final budget and the actual data.
- 2) The budget is adopted by the Board of Alderman. Amendments can be made of the approval of the Board. A budgetary comparison is presented for the major governmental funds consistent with accounting principles generally accepted in the United States of America
- 3) Section 21-35-15, Mississippi Code (Ann. 1972) explains that expenditures shall be kept within the budget “except for capital outlay.”

OTHER SUPPLEMENTAL INFORMATION

**CITY OF PETAL, MISSISSIPPI
SCHEDULE OF SURETY BONDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Presented below is Section 21-17-5 of Mississippi Code

Unless otherwise provided by law, before entering upon the duties of their respective offices, the alderman or councilmen of every municipality of this state shall give bond, with sufficient surety, to be payable, conditioned and approved as provided by law, in a penalty equal to five percent (5%) of the sum of all municipal taxes shown by the assessment tolls and the levies to have been collectible in the municipality for the year immediately preceding the commencement of the term of office of said alderman or councilman; however, such bond shall not exceed the amount of One Hundred Thousand Dollars (\$100,000.00)

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Hal Marx	Mayor	Scott Municipal Insurance	\$100,000
David Clayton	Alderman	Scott Municipal Insurance	\$100,000
Willie Hinton	Alderman	Scott Municipal Insurance	\$100,000
Tony Ducker	Alderman	Scott Municipal Insurance	\$100,000
Steve Stringer	Alderman	Scott Municipal Insurance	\$100,000
James Runnels	Alderman	Scott Municipal Insurance	\$100,000
Melissa Martin	City Clerk	Scott Municipal Insurance	\$50,000
Leonard Fuller	Police Chief	Scott Municipal Insurance	\$50,000
Blanket Bond	Various	Scott Municipal Insurance	\$50,000
Blanket Bond	Various	Scott Municipal Insurance	\$10,000

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

WRIGHT CPA GROUP, PLLC



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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

June 15, 2011

Honorable Mayor, Members of the Board of Aldermen, City Clerk
City of Petal, 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 Petal, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City of Petal, Mississippi's basic financial statements and have issued our report thereon dated June 15, 2011. 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 City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2010-1 and 2010-2) or significant deficiencies (2010-3 through 2010-5) in internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the City of Petal, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2010-2 through 2010-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Petal, Mississippi's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2010-1 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Petal, 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.

The City's response to the findings in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Board of Aldermen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wright CPA Group, PLLC

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

June 15, 2011

Honorable Mayor, Members of the Board of Aldermen, City Clerk
City of Petal, Mississippi

Compliance

We have audited the compliance of City of Petal, 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, 2010. 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 the City's 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 Petal complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the City of Petal, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

The City of Petal's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Aldermen, others within the entity, 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. However, this report is a matter of public record and its distribution is not limited.

Wright CPA Group, PLLC
WRIGHT CPA GROUP, PLLC
Certified Public Accountants
Hattiesburg, Mississippi

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|---|-------------|
| 1. Type of auditor's report issued on the primary government financial statements: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to the primary government financial statements? | No |

Federal Awards:

- | | |
|---|---------------|
| 4. Internal control over major programs: | |
| a. Material weakness identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 5. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. ARRA – Highway Planning and Construction CFDA # 20.205 | |
| b. Community Development Block Grants CFDA #14.228 | |
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | No |

- 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? No

Section II: Financial Statement Findings

2010-1 Finding (Repeated from 2009 audit findings)

Significant Deficiency- Material Weakness

The City's procedures covering fixed assets to ensure proper accounting and reporting of fixed assets are not sufficient to meet reporting and safeguarding requirements.

Criteria

Internal controls should be in place to ensure proper recording and inventorying additions and deletions to fixed assets.

Effect

Without proper procedures related to fixed assets inventory, there is an increased risk of fraud.

Recommendation

We recommend the City will follow the procedures prescribed by MAAG.

Response

The City hired a Fixed Assets Manager on October 1, 2010. A fixed asset inventory system is currently in place and fixed asset inventory is currently being verified per physical inspection. We plan to be in compliance with SAO requirements by September 30, 2011.

2010-2 Finding (Repeated from 2009 audit findings)

Significant Deficiency – Material Weakness

The City's monitoring and collection of franchise fees and auxiliary services (privilege licenses, court fees, building permits, water and sewer charges) are not sufficient to ensure the timely collection and deposit of City's revenues and proper reporting of receivables.

Criteria

Management should have better knowledge of this category of revenue and exercise more oversight of collection process.

Effect

The lack of management's oversight of collection of these revenues may lead to undetected fraud and to misstated receivables

Recommendation

We recommend that management update current procedures over auxiliary services to reduce the level of uncollected revenue. This includes review of monthly reports by management and developing expectations of future revenue based on current economic situation of the City and the area. The City Clerk should have a copy of the franchise agreements with all entities subject to franchise tax and current list of businesses subject to privilege license.

Response

The City will obtain copies of our franchise agreements and monitor compliance with these in the future. The Mayor currently reviews privilege licenses and court fines on a monthly basis. We will continue improving the oversight and monitoring of these auxiliary revenue sources.

2010-3 Finding (Repeated from 2009 audit findings)

Significant Deficiency

The City management does not have formal risk assessment process established and implemented.

Criteria

Formal risk assessment process is required by Governmental Audit Standards.

Effect

Absence of formal risk assessment process exposes the City to possible errors or fraud.

Recommendation

The City consultant should conduct risk assessment sessions with those charged with governance.

Response

The City's Board of Aldermen, along with the City Consultant, will perform risk assessment procedures annually. These procedures will be performed during the budget process and will be in place by September 30, 2011.

2010-4 Finding

Significant Deficiency

The City has a high volume of journal entries. No documentation to provide explanation, underlying calculations, and management approval is retained with journal entries.

Criteria

Reason for and approval of journal entries should be properly documented.

Effect

Financial statements may contain errors and/or misstatements.

Recommendation

The City should develop an adequate system of initiating and approval of journal entries.

Response

The City will improve documentation on journal entries. The City Clerk will be responsible for making all journal entries and maintaining underlying documentation for the adjustments. The City Consultant will review the journal entries and underlying documentation on a periodic basis.

2010-5 Finding

Significant Deficiency

The City does not have an adequate system of control over small purchases and travel expenses.

Criteria

Internal controls should be in place to ensure proper processing of expenses turned in for reimbursement.

Effect

Possible overstatement of reimbursable expenses.

Recommendation

Internal controls should be in place to ensure that purchase order is approved for all purchases and all paid invoices are stamped "paid" when they are processed for payment and that all reimbursed mileage is reviewed and approved by management.

Response

The City's current policy is to stamp all paid invoices as "paid". We will improve the monitoring of this process to ensure that it is done. Reimbursed mileage will be reviewed and approved by the appropriate persons and compared to the preapproved amounts.

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

June 15, 2011

Honorable Mayor, Board of Aldermen, City Clerk
City of Petal, Mississippi

We have audited the basic financial statements of the City of Petal as of and for the year ended September 30, 2010, and have issued our report thereon dated June 15, 2011. 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:

Surety Bonds

Persons handling cash in recreation department and in building department do not have adequate surety bonds.

We recommend that bond limits are increased to state requirements for all personas handling cash.

(City Response: Surety bond limits have been raised to meet state requirements, effective July 1, 2011).

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

WRIGHT CPA GROUP, PLLC
Certified Public Accountants
Hattiesburg, Mississippi

MANAGEMENT LETTER

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June 15, 2011

Honorable Mayor, Board of Aldermen, City Clerk
City of Petal, Mississippi

We have completed our audit of the basic financial statements of the City of Petal, Mississippi as of September 30, 2010 and for the year then ended and have issued our report dated June 15, 2011, thereon. During the course of our audit we noted following matters that we feel should be brought to the City's attention.

1. The City does not have a formal risk assessment procedure established. This may lead to risks not being identified and corrective procedures not being implemented to mitigate the risk. We suggest that the Board of Aldermen set up a risk assessment committee and, on a yearly basis, perform an analysis of internal and external risk that might affect the City's financial accounting and reporting system and review internal controls designed to mitigate the risk and implementation of those controls.
2. The City does not have a formal procedure for monitoring the implementation of internal control policies and procedures. This may result in a situation when policies and procedures exist but are not followed. The City should develop a procedure of monitoring the implementation of policies and procedures adopted by the City.
 - a) For example, the City has a policy of pre-approval of travel expenses. However, when travel expenses are turned in for reimbursement, there is no evidence that they all were properly reviewed by management, and pre-approval and actual mileage were verified.
 - b) Another example is collection of franchise fees and privilege licenses. The monitoring of this source of revenue improved in fiscal year ended September 30, 2010. However, city management should develop better knowledge of revenue base and not just monitor receipts but also should know how close actual receipts are to expected revenue.
 - c) The City's general ledger shows a high volume of journal entries made to correct posting errors. Management should establish procedures for processing journal entries, such as review and approval on underlying documentation for adjustments by another person in accounting department.

3. During the fiscal year ended September 30, 2010, the City made a significant progress on building the records of fixed assets and inventoriable assets. However, this work was not completed as of September 30, 2010, which may cause errors in financial reporting. City management should monitor this work to make sure that complete and accurate records are maintained for fixed assets.
4. Municipal Audit and Accounting Guide issued by the Office of Mississippi State Auditor in July 2010, stipulates that for all municipalities with a population more than 2,000 according to the latest federal decennial census, the amount of bond shall not be less than \$50,000 for anyone handling money. The City has only \$10,000 bonds for clerks handling money in building and recreation departments. We recommend that the City increase the amount of bonds for these clerks to \$50,000 as soon as possible.

We wish to express our appreciation to you and all your staff for all the courtesy and assistance we received during this year's audit. Your cooperation of giving serious consideration to our findings and recommendations is a strong indication of your desire to enhance the City's financial management function and achieve your goals toward your stewardship over the City's resources and assets. We hope this year's comments and recommendations will further assist you in these efforts.

Wright CPA Group, PLLC

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