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**City of Brookhaven
Brookhaven, Mississippi
Audit Report of Financial Statements
September 30, 2006**

PATRICK E. LOWERY AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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

CONTENTS

	PAGE
<u>INDEPENDENT AUDITORS' REPORT</u>	1
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4
<u>BASIC FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	12
Statement of Activities	13
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet of Government Funds To the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances Government Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Fund Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Assets – Fiduciary Funds	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	24
Notes to the Financial Statements	25
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual	36

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

CONTENTS – (CONTINUED)

SUPPLEMENTAL INFORMATION:

Surety Bond Schedule	39
Combined Schedule of Long-Term Debt	40
Schedule of Expenditures of Federal Awards	41
Notes to Schedule of expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43
 REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	 45
 REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	 48
 INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH MISSISSIPPI STATE LAWS AND REGULATIONS	 50

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
City of Brookhaven
Brookhaven, MS 39601

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Brookhaven, Mississippi as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Brookhaven, Mississippi's management. Our responsibility is to express an opinion 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.

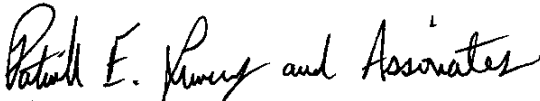
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2007 on our consideration of Brookhaven, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 36 through 37 are not required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

We have included a surety bond schedule and a combined schedule of long-term debt as additional supplemental information. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Brookhaven, Mississippi's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of City of Brookhaven, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Patrick E. Lowery & Associates
Certified Public Accountants
Brookhaven, Mississippi
June 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF BROOKHAVEN
MISSISSIPPI**

P. O. BOX 560

ZIP 39602-0560

"HOMESEEEKERS' PARADISE"

MICHAEL JINKS, CITY CLERK

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JOHN E. "BUDDY" ALLEN

ROBERT V. "BOB" MASSENGILL, MAYOR

ARLUSTRA "PAF" HENDERSON, CHIEF OF POLICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Brookhaven's financial performance provides an overall narrative review of the City's financial activities for the fiscal year ended September 30, 2006. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. To the extent this discussion contains any forward-looking statements of the City's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein. The discussion focuses on the City's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

Financial Highlights

The City's assets exceeded its liabilities by \$28,864,785 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$25,864,671.

Total net assets are comprised of the following:

(1) Capital assets, net of related debt, of \$20,502,363 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.

(2) Net assets of \$3,412,597 are restricted by constraints imposed from outside the city such as debt covenants, grantors, laws, or regulations.

(3) Unrestricted net assets of \$4,949,825 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

The City's governmental funds reported total ending fund balance of \$5,700,699 this year. This compares to the prior year ending fund balance of \$4,655,809 showing an increase of \$1,044,890 during the year. Unreserved fund balance of \$4,693,581 for fiscal year 2006 shows a \$960,184 increase from the prior year.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,110,326 or 48.61% of total General Fund expenditures including transfers and 43.26% of total General Fund revenues including transfers.

Total liabilities of the City decreased by \$387,062 to \$12,130,514 during the fiscal year.

Overview of the financial statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, culture and recreation. Business-type activities include water utilities and solid waste management. Fiduciary activities such as Separate School District Fund are not included in the government-wide statements since these assets are not available to fund City programs.

The City's financial reporting includes the funds of the City (primary government) and organizations for which the City is accountable (component units). Some of these legally separate organizations operate like City departments. This type organization is blended into the primary government for financial reporting purposes. An example of a blended organization would be the Brookhaven Airport Authority. Other component units operate more independently or provide services directly to the citizens though the City remains accountable for their activities. These organizations, such as the City of Brookhaven Parks and Recreation Commission are reported separately from the primary government though included in the City's overall reporting entity. More comprehensive information about the City's component units can be found in Note 1A.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund

financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with funds statements providing a distinctive view of the City's governmental funds. These statements focus on spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's current financial requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the City's operations.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliations to the government-wide statements to assist in understanding the differences between these two perspectives. These reconciliations are on pages 16 and 19 respectively.

Budgetary comparison statements are included in the basic financial statements for the general fund and major special revenue fund. Budgetary comparison schedules for other special revenue funds and the debt service fund can be found in a later section of this report. These statements and schedules demonstrate compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the water department and the solid waste department. Internal service funds provide services and charge fees to customers within the City organization such as equipment services (repair and maintenance of City vehicles). The City of Brookhaven does not maintain any internal service funds.

Proprietary fund statements and statements for discretely presented component units (reporting is similar to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds and individual component units.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the City's programs. The accrual basis of accounting is used for fiduciary funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on pages 23-24.

Note to the financial statements

The accompanying notes to the financial statements provide information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-34 of this report.

Major funds and component units are reported in the basic financial statements as discussed. Combining and individual statements and schedules for non-major and internal service funds are presented in a subsequent section of this report.

Financial Analysis of the City as a Whole

The City's net assets at fiscal year-end are \$28,864,785. This is a \$3,000,114 increase over last year's net assets of \$25,864,671. The following table provides a summary of the City's net assets for the fiscal year ended September 30, 2006

The following tables provide a summary of the City's changes in net assets:

	Summary of Net Assets					
	Governmental Activities		Business-type Activities		Totals	
	9/30/2005	9/30/2006	9/30/2005	9/30/2006	9/30/2005	9/30/2006
Current and other assets	\$ 5,120,612	\$ 6,079,331	\$ 3,504,750	\$ 3,303,418	\$ 8,625,362	\$ 9,382,749
Capital assets	17,156,000	18,432,485	12,600,885	13,180,065	29,756,885	31,612,550
Total assets	22,276,612	24,511,816	16,105,635	16,483,483	38,382,247	40,995,299
Long-term liabilities	4,361,343	4,587,277	5,923,374	5,237,323	10,284,717	9,824,600
Other liabilities	1,181,682	1,186,153	1,051,177	1,119,761	2,232,859	2,305,914
Total liabilities	5,543,025	5,773,430	6,974,551	6,357,084	12,517,576	12,130,514
Net Assets:						
Invested in capital assets, net of related debt	12,265,302	13,245,856	6,032,278	7,256,507	18,297,580	20,502,363
Restricted	896,295	973,724	2,614,999	2,438,873	3,511,294	3,412,597
Unrestricted	3,571,990	4,518,806	483,807	431,019	4,055,797	4,949,825
Total net assets	\$16,733,587	\$18,738,386	\$ 9,131,084	\$ 10,126,399	\$25,864,671	\$28,864,785

Summary of Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	9/30/2005	9/30/2006	9/30/2005	9/30/2006	9/30/2005	9/30/2006
Revenues:						
Program revenues						
Charges for services	\$ 169,747	\$ 285,576	\$2,698,049	\$3,144,553	\$ 2,867,796	\$ 3,430,129
Grants and Contributions	373,257	917,562	78,833	532,676	452,090	1,450,238
General revenues						
Property taxes	2,201,458	2,331,997	337,927	350,660	2,539,385	2,682,657
Penalties and interest	59,227	348,563			59,227	348,563
License and Permits		77,677				77,677
In lieu taxes	60,007	58,512			60,007	58,512
Franchise tax	404,087	473,255			404,087	473,255
Grand Gulf Nuclear	160,165	154,139			160,165	154,139
Plant						
Sales tax	4,181,903	4,991,826			4,181,903	4,991,826
Gasoline tax	16,820	16,820			16,820	16,820
Homestead	109,558	120,129	22,440	22,882	131,998	143,011
reimbursement						
Fire protection allocation		50,147				50,147
Miscellaneous	241,600	223,051		22,381	241,600	245,432
Donated assets		334,000				334,000
Gain on Sale of equipment				19,327		19,327
Interest income	94,186	230,052	48,421	106,760	142,607	336,812
Rent		19,800				19,800
Transfers	(473,054)	(464,504)			(473,054)	(464,504)
Total revenues	7,598,961	10,168,602	3,185,670	4,199,239	10,784,631	14,367,841
Expenses:						
General government	1,680,860	1,641,882			1,680,860	1,641,882
Police administration	1,499,670	1,792,389			1,499,670	1,792,389
Police court	123,290	116,980			123,290	116,980
Police special services	77,546	79,903			77,546	79,903
Animal control		2,225				2,225
Fire administration	1,822,015	1,818,619			1,822,015	1,818,619
Building inspection	124,130	94,510			124,130	94,510
City streets	1,171,990	1,202,061			1,171,990	1,202,061
Traffic department	58,584	81,439			58,584	81,439
Airport	107,736	188,703			107,736	188,703
Cemetery	178,323	150,006			178,323	150,006
Shop and city barn	34,957	19,263			34,957	19,263
Industrial park		5,393				5,393
Debt service						
Employment fund						
Interest on long term debt	210,814	257,374			210,814	257,374
Disposal of assets	11,842	459,543			11,842	459,543
Support appropriations	238,705	253,513			238,705	253,513
Water and sewer			2,120,332	2,214,451	2,120,332	2,214,451
Solid waste			863,928	989,473	863,928	989,473
Total expenses	7,340,462	8,163,803	2,984,260	3,203,924	10,324,722	11,367,727
Change in net assets	258,499	2,004,799	201,410	995,315	459,909	3,000,114
Beginning net assets	16,475,088	16,733,587	8,929,674	9,131,084	25,404,762	25,864,671
Ending net assets	\$ 16,733,587	\$ 18,738,386	\$9,131,084	\$10,126,399	\$25,864,671	\$28,864,785

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$5,700,699. Of this year-end total approximately \$4,700,000 is unreserved indicating availability for continuing City service requirements. Reserved fund balances include \$973,724 committed to service debt.

The total ending fund balances of governmental funds show an increase of \$1,044,890 over the prior year.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased by \$966,589. The key factor contributing to this increase was increased sales tax collections being above anticipated amounts due to an increase in the population as a result of Hurricane Katrina.

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2006 was \$10,063,054. This was an increase of \$1,443,126 over the previous year amended budget. There were no amendments to the 2006 General Fund budget.

Capital Asset and Debt Administration (dollars are in thousands)

Capital assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of September 30, 2006 was \$18,432,485 and \$13,180,065 respectively. The total increase in this net investment was 6.93% for governmental and an increase of 4.39% for business-type activities. The overall increase was 5.87% for the City as a whole.

	Capital Assets Net of Accumulated Depreciation					
	Governmental Activities		Business-type Activities		Totals	
	9/30/2005	9/30/2006	9/30/2005	9/30/2006	9/30/2005	9/30/2006
Non Depreciable Assets:						
Land/Land Improvements	\$ 6,142,707	\$ 6,172,707	\$ 84,499	\$ 84,499	\$6,227,206	\$ 6,257,206
Depreciable Assets:						
Building	1,656,355	1,497,354			1,656,355	1,497,354
Improvements other than bldg	7,718,003	8,845,031	12,351,395	12,692,671	20,069,398	21,537,702
Machinery & equipment	1,638,935	1,917,393	164,991	402,895	1,803,926	2,320,288
Total	<u>\$17,156,000</u>	<u>\$ 18,432,485</u>	<u>\$12,600,885</u>	<u>\$ 13,180,065</u>	<u>\$29,756,885</u>	<u>\$ 31,612,550</u>

Long-term debt

At the end of the fiscal year, the City had total debt outstanding of \$11,110,187. Of this amount, \$5,341,555 is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by voter-approved property taxes. The other major component is \$5,768,632 supported by pledged revenue generated primarily by the business-type activities of the City (revenue bonds).

	Outstanding Bonds and Notes					
	Governmental Activities		Business-type Activities		Totals	
	9/30/2005	9/30/2006	9/30/2005	9/30/2006	9/30/2005	9/30/2006
General Obligation bonds and notes	\$4,575,333	\$ 4,108,825	\$1,545,909	\$1,232,730	\$6,121,242	\$ 5,341,555
Revenue bonds and notes	293,255	1,077,804	5,022,698	4,690,828	5,315,953	5,768,632
Total	\$4,868,588	\$5,186,629	\$6,568,607	\$5,923,558	\$11,437,195	\$11,110,187

Economic Factors and Next Year's Budgets and Rates

When creating the budget, the city leadership's primary objective was to provide city services while at the same time attempting to keep property tax rates low.

The City of Brookhaven is one of the vital commercial centers for Southwest Mississippi. Our economic base is dependent on retail sales to the people of this region. Because of this, the City is not dependent on any particular business to maintain its tax base. It has been able to see a growing tax base and to experience a stable economy from business development and employment growth.

The City of Brookhaven has the following projects underway that will be of benefit to the Municipality.

- 1) Annexation: The Supreme Court of the State of Mississippi has affirmed the lower court ruling extending the boundaries of the City of Brookhaven. The annexation will be effective July 1, 2007. The city is taking steps to implement the services and facilities plan presented during the annexation trial.
- 2) Multi-Modal Facility: The City still continues to deal with MDOT and the Federal Transportation Department concerning the Multi-modal Project. It appears that the project will begin late in the 06-07 fiscal year, if at all.
- 3) Linbrook Business Park: The property was purchased with bond funds from the city and county with some additional revenue coming from the Chamber Industrial Development Foundation. The City and County will in the 06-07 fiscal year issue bonds for the infrastructure and roads for the business park; this will include a new water well and elevated storage tank. The funds from the bond issues will be transferred to the Brookhaven-Lincoln County Economic Development Alliance as per an interlocal agreement.
- 4) Downtown Business District: The City completed the paving of the downtown-paving project in the 05-06 fiscal year.
- 5) Downtown Lighting and Signage: The City received a grant for downtown lighting and signage through Rural Development. The signs were put up in the 06-07 fiscal year and work continues on the downtown lighting and signage just off the Interstate 55 at exit 40.
- 6) There was a FAA grant for the completion of the fence at the airport. This will most likely be completed in the 06-07 fiscal year.

Requests for information

This report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City Clerk's office located in the Brookhaven/Lincoln County Government Complex at 301 S 1st Street Room 102, Brookhaven, Mississippi 39601.

STATEMENT OF NET ASSETS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
Cash and cash equivalents	\$ 5,556,935	\$ 2,886,718	\$ 8,443,653	\$ 143,230
Receivables	489,002	405,663	\$ 894,665	-
Inventories	33,394	11,037	44,431	-
Capital assets				
Land and other improvements	6,172,707	84,499	6,257,206	-
Other capital assets, net	12,259,778	13,095,566	25,355,344	-
Total assets	24,511,816	16,483,483	40,995,299	143,230
<u>LIABILITIES</u>				
Accounts payable	172,361	157,121	329,482	816
Deferred revenue	195,751	4,633	200,384	-
Customer deposits	-	135,355	135,355	-
Other accrued expenses	218,689	136,417	355,106	-
Long term liabilities - notes:				
Due within one year	599,352	686,235	1,285,587	-
Due within more than one year	4,587,277	5,237,323	9,824,600	-
Total liabilities	5,773,430	6,357,084	12,130,514	816
<u>NET ASSETS</u>				
Invested in capital assets net of debt	13,245,856	7,256,507	20,502,363	-
Restricted for debt services	973,724	2,438,873	3,412,597	-
Unrestricted	4,518,806	431,019	4,949,825	142,414
Total net assets	\$ 18,738,386	\$ 10,126,399	\$ 28,864,785	\$ 142,414

See accompanying notes to financial statements

STATEMENT OF ACTIVITIES
CITY OF BROOKHAVEN, MISSISSIPPI
YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental activities:					
General government	\$ 1,641,882	\$ 28,702	\$ -	\$ 491,406	\$ (1,121,774)
Police administration	1,792,389	-	57,162	88,755	(1,646,472)
Police court	116,980	-	-	-	(116,980)
Animal control	2,225	-	3,000	-	775
Police specialized services	79,903	-	-	-	(79,903)
Fire administration	1,818,619	2,625	-	-	(1,815,994)
Building inspection	94,510	-	-	-	(94,510)
City streets	1,202,061	-	13,570	-	(1,188,491)
Traffic department	81,439	-	-	-	(81,439)
Airport	188,703	228,649	25,000	235,669	300,615
Cemetery	150,006	25,600	3,000	-	(121,406)
Shop and city barn	19,263	-	-	-	(19,263)
Industrial park	5,393	-	-	-	(5,393)
Interest on long term debt	257,374	-	-	-	(257,374)
Disposal of assets	459,543	-	-	-	(459,543)
Support appropriations	253,513	-	-	-	(253,513)
Total governmental activities	8,163,803	285,576	101,732	815,830	(6,960,665)
Business-type activities:					
Water and sewer	2,214,451	2,417,449	-	474,839	677,837
Solid waste	989,473	727,104	-	57,837	(204,532)
Total business-type activities	3,203,924	3,144,553	-	532,676	473,305
Total primary government	\$11,367,727	\$ 3,430,129	\$ 101,732	\$ 1,348,506	\$ (6,487,360)
Component units:					
Parks and recreation commission	\$ 685,846	\$ 208,357	\$ 20,506	\$ -	\$ (456,983)
Total component units	\$ 685,846	\$ 208,357	\$ 20,506	\$ -	\$ (456,983)

See accompanying notes to the financial statements

STATEMENT OF ACTIVITIES (continued)**CITY OF BROOKHAVEN, MISSISSIPPI****YEAR ENDED SEPTEMBER 30, 2006**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Change in net assets:				
Net (expense) revenue	\$ (6,960,665)	\$ 473,305	\$ (6,487,360)	\$ (456,983)
General Revenues:				
Taxes:				
Property taxes	2,331,997	350,660	2,682,657	-
Penalties and interest	75,444	-	75,444	-
License and Permits	77,677	-	77,677	-
Fines and Forfeitures	273,119	-	273,119	-
In lieu taxes	58,512	-	58,512	-
Franchise tax	473,255	-	473,255	-
Grand Gulf Nuclear Plant	154,139	-	154,139	-
Sales tax	4,991,826	-	4,991,826	-
Gasoline tax	16,820	-	16,820	-
Homestead reimbursement	120,129	22,882	143,011	-
Fire protection allocation	50,147	-	50,147	-
Miscellaneous	223,051	22,381	245,432	-
Donated assets	334,000	-	334,000	-
Gain on sale of equipment	-	19,327	19,327	-
Interest income	230,052	106,760	336,812	436
Rent	19,800	-	19,800	-
Transfers	(464,504)	-	(464,504)	464,504
Total general revenues and transfers	8,965,464	522,010	9,487,474	464,940
Change in net assets	2,004,799	995,315	3,000,114	7,957
Net assets - beginning	16,733,587	9,131,084	25,864,671	134,457
Net assets - ending	\$ 18,738,386	\$ 10,126,399	\$ 28,864,785	\$ 142,414

See accompanying notes to financial statements

BALANCE SHEET
GOVERNMENTAL FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2006

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,783,480	\$ 1,773,455	\$ 5,556,935
Receivables:			
Sales tax	382,065	-	382,065
Special assessments	14,119	-	14,119
Property taxes	23,523	10,487	34,010
Federal receivable	18,698	-	18,698
Due from other funds	40,110	-	40,110
Inventories	33,394	-	33,394
Total assets	<u>4,295,389</u>	<u>1,783,942</u>	<u>6,079,331</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts payable	141,911	30,450	172,361
Due to other funds	-	762	762
Deferred revenue	-	195,751	195,751
Other accrued expenses	9,758	-	9,758
Total liabilities	<u>151,669</u>	<u>226,963</u>	<u>378,632</u>
<u>FUND BALANCES</u>			
Reserved for inventory	33,394	-	33,394
Undesignated, reported in	-	-	-
Debt service funds	-	973,724	973,724
Unreserved, undesignated	4,110,326	583,255	4,693,581
Total fund balances	<u>4,143,720</u>	<u>1,556,979</u>	<u>5,700,699</u>
Total liabilities and fund balances	<u>\$ 4,295,389</u>	<u>\$ 1,783,942</u>	<u>\$ 6,079,331</u>

See accompanying notes to financial statements

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENT FUNDS
TO THE STATEMENT OF NET ASSETS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2006

Total fund balance - total governmental funds	\$ 5,700,699
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$25,455,328, net of accumulated depreciation of \$7,022,843, are not financial resources and, therefore, are not reported in the funds.	18,432,485
Accrued compensated absences and accrued interest expense are not reported in the funds.	(208,169)
Notes and bonds payable are not included in the funds.	(5,186,629)
Net assets of governmental activities.	<u>\$ 18,738,386</u>

See accompanying notes to financial statements

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

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
General property taxes			
Current year	\$ 1,639,109	\$ 629,613	\$ 2,268,722
Prior year	18,956	44,319	63,275
Penalties and interest on			
Delinquent taxes	75,444	-	75,444
License and permits	77,677	-	77,677
Fines and penalties	273,119	-	273,119
In lieu taxes	58,512	-	58,512
Franchise taxes:			
Entergy	239,449	-	239,449
Southwest Mississippi EPA	8,226	-	8,226
Entex	133,416	-	133,416
Cable TV Companies	92,164	-	92,164
Intergovernmental Revenue:			
Federal sources	771,645	63,755	835,400
State sources:			
Grand Gulf Nuclear Plant	154,139	-	154,139
Sales tax	4,991,826	-	4,991,826
State gasoline tax	16,820	-	16,820
Homestead reimbursement	97,247	22,882	120,129
Law enforcement grants	4,945	-	4,945
Fire protection allocation	50,147	-	50,147
Airport grant	25,000	-	25,000
Charges for services:			
City clerk's office	28,702	-	28,702
Airport	228,649	-	228,649
Cemetery	25,600	-	25,600
Fire	2,625	-	2,625
Rent	19,800	-	19,800
Drug task force reimbursements	52,217	-	52,217
Interest	172,944	57,108	230,052
Miscellaneous	222,951	100	223,051
Sale of property and equipment	20,599	-	20,599
Total Revenues	\$ 9,501,928	\$ 817,777	\$ 10,319,705

See accompanying notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>EXPENDITURES</u>			
General Government	\$1,112,887	\$ -	\$ 1,112,887
Police Administration	1,790,847	-	1,790,847
Police Court	116,980	-	116,980
Police Specialized Services	77,684	-	77,684
Fire Administration	1,780,190	-	1,780,190
Building Inspection	107,689	-	107,689
City Streets	2,029,898	-	2,029,898
Traffic Department	73,310	-	73,310
Airport	484,253	-	484,253
Cemetery	145,446	-	145,446
Shop & City Barn	18,981	-	18,981
Support Appropriations	718,017	-	718,017
Industrial Park	-	5,393	5,393
Total Expenditures	<u>8,456,182</u>	<u>5,393</u>	<u>8,461,575</u>
Excess <deficiency> of revenues over expenditures	<u>1,045,746</u>	<u>812,384</u>	<u>1,858,130</u>
<u>OTHER FINANCING SOURCES <USES></u>			
Proceeds of bond sales	-	825,000	825,000
Equipment purchase	-	(58,011)	(58,011)
Infrastructure	-	(825,000)	(825,000)
Debt service	(79,157)	(676,072)	(755,229)
Net Other Financing Sources <Uses>	<u>(79,157)</u>	<u>(734,083)</u>	<u>(813,240)</u>
Net change in fund balances	966,589	78,301	1,044,890
Fund balances beginning	<u>3,177,131</u>	<u>1,478,678</u>	<u>4,655,809</u>
Fund balances ending	<u>\$4,143,720</u>	<u>\$ 1,556,979</u>	<u>\$ 5,700,699</u>

See accompanying notes to financial statements

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2006**

Net change in fund balances - total governmental funds \$ 1,044,890

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$2,139,963 exceeded depreciation of \$717,336 in the current period.	1,422,627
Repayment of debt principal is an expenditure in the governmental funds, but the expenditure reduces long-term liabilities in the statement of net assets.	506,959
Capital lease payments are an expenditure in the governmental funds, but the expenditure reduces lease liabilities in the statement of net assets.	22,110
Donated assets do not require the use of current financial resources and are not reported as expenditures in governmental funds.	334,000
The increase in compensated absences reported in the statement of activities does not require the use of current financial resources and are not reported as expenditures in governmental funds.	(11,541)
The disposal of obsolete equipment is not reported in the fund statements but is reported in the statement of activities.	(60,998)
Transfer of building to the County is not reported in the fund statements but is reported in the statement of activities	(419,144)
The increase in accrued interest expense is not reported in the fund statements, but it is reported in the statement of activities.	(9,104)
The new bond issue is a receipt in the government funds, but it increases long term debt in the statement of net assets.	(825,000)
Change in net assets of governmental activities.	<u><u>\$ 2,004,799</u></u>

See accompanying notes to financial statements

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

	<u>Water & Sewer</u> <u>Fund</u>	<u>Solid Waste</u> <u>Fund</u>	<u>Totals</u>
<u>ASSETS</u>			
Current assets:			
Cash and other deposits	\$ 2,623,068	\$ 263,650	\$ 2,886,718
Accounts receivable	285,214	-	285,214
Federal receivable	53,333	-	53,333
Due from water sewer	-	45,715	45,715
Special assessments receivable	16,754	-	16,754
Property taxes receivable	1,205	3,442	4,647
Inventory	11,037	-	11,037
Total current assets	<u>2,990,611</u>	<u>312,807</u>	<u>3,303,418</u>
Non-current assets:			
Capital assets:			
Land	84,499	-	84,499
Fixed assets net of depreciation	12,885,076	210,490	13,095,566
Total non-current assets	<u>12,969,575</u>	<u>210,490</u>	<u>13,180,065</u>
Total Assets	<u>15,960,186</u>	<u>523,297</u>	<u>16,483,483</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	59,070	52,336	111,406
Due to solid waste	45,715	-	45,715
Customer deposits	135,355	-	135,355
Accrued interest	113,558	-	113,558
Other accrued expenses	18,232	4,627	22,859
Deferred revenue	4,633	-	4,633
Current portion of long term debt	686,235	-	686,235
Total current liabilities	<u>1,062,798</u>	<u>56,963</u>	<u>1,119,761</u>
Non-current liabilities:			
Notes payable	317,323	-	317,323
Bonds payable	4,920,000	-	4,920,000
Total non-current liabilities	<u>5,237,323</u>	<u>-</u>	<u>5,237,323</u>
Total liabilities	<u>6,300,121</u>	<u>56,963</u>	<u>6,357,084</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	7,046,017	210,490	7,256,507
Restricted for debt service	2,438,873	-	2,438,873
Unrestricted	175,175	255,844	431,019
Total net assets	<u>\$ 9,660,065</u>	<u>\$ 466,334</u>	<u>\$ 10,126,399</u>

See accompanying notes to financial statements

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

	<u>Water & Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
<u>OPERATING REVENUES</u>			
Charges for services:			
Water / Sewer charges	\$ 2,375,479	\$ -	\$ 2,375,479
Garbage compost and rubbish fees	-	714,981	714,981
Tap fees and construction fees	41,970	-	41,970
Miscellaneous receipts	-	12,123	12,123
Total operating revenues	<u>2,417,449</u>	<u>727,104</u>	<u>3,144,553</u>
<u>OPERATING EXPENSES</u>			
Administrative expenses	295,645	-	295,645
Water and field maintenance	559,311	-	559,311
Waste water treatment expenses	330,070	-	330,070
Water wells and plant expenses	289,232	-	289,232
Solid waste expenses	-	613,124	613,124
Solid waste personal services	-	332,974	332,974
Depreciation expense	428,971	43,375	472,346
Total operating expenses	<u>1,903,229</u>	<u>989,473</u>	<u>2,892,702</u>
Operating income (loss)	<u>514,220</u>	<u>(262,369)</u>	<u>251,851</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Interest income	95,473	11,287	106,760
Grant revenue	474,839	57,837	532,676
Homestead reimbursement	5,721	17,161	22,882
Property taxes	90,884	259,776	350,660
Interest expense	(307,706)	-	(307,706)
Bond agent fees	(3,516)	-	(3,516)
Miscellaneous	22,381	-	22,381
Gain on sale of equipment	16,200	3,127	19,327
Total non-operating revenue (expenses)	<u>394,276</u>	<u>349,188</u>	<u>743,464</u>
Income before transfers	908,496	86,819	995,315
Transfers to other funds	-	-	-
Change in net assets	<u>908,496</u>	<u>86,819</u>	<u>995,315</u>
Total net assets beginning	8,751,569	379,515	9,131,084
Total net assets ending	<u>\$ 9,660,065</u>	<u>\$ 466,334</u>	<u>\$ 10,126,399</u>

See accompanying notes to financial statements

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

	Water & Sewer Fund	Solid Waste Fund	Totals
<u>Cash flows from operating activities:</u>			
Cash received from customers	\$ 2,452,019	\$ 701,798	3,153,817
Cash payments to suppliers for goods and services	(1,042,177)	(291,947)	(1,334,124)
Cash payments to employees and professional contractors for services	(457,665)	(647,594)	(1,105,259)
Other operating revenues	-	12,123	12,123
Net cash provided (used) by operating activities	<u>952,177</u>	<u>(225,620)</u>	<u>726,557</u>
<u>Cash flows from non-capital financing activities:</u>			
Cash received from taxes	99,566	284,853	384,419
Net cash provided by non-capital financing activities	<u>99,566</u>	<u>284,853</u>	<u>384,419</u>
<u>Cash flows from capital and related financing activities:</u>			
Acquisition and construction of capital assets	(933,881)	(103,342)	(1,037,223)
Principal paid on bonds and note obligations	(686,051)	-	(686,051)
Interest paid on bonds and note obligations	(320,829)	-	(320,829)
Bond agent fees	(3,516)	-	(3,516)
Sale of equipment	16,200	3,127	19,327
Donation	3,390	-	3,390
Capital grants received	474,829	57,837	532,666
Net cash provided (used) by capital and related financing activities	<u>(1,449,858)</u>	<u>(42,378)</u>	<u>(1,492,236)</u>
<u>Cash flows from investing activities:</u>			
Investment income	95,473	11,287	106,760
Net cash provided (used) by investing activities	<u>95,473</u>	<u>11,287</u>	<u>106,760</u>
Net increase (decrease) in cash and cash equivalents	(302,642)	28,142	(274,500)
Cash and cash equivalents at October 1, 2005	2,925,710	235,508	3,161,218
Cash and cash equivalents at September 30, 2006	<u>2,623,068</u>	<u>263,650</u>	<u>2,886,718</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>			
Operating income (loss)	514,220	(262,369)	251,851
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	428,971	43,375	472,346
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(34,570)	-	(34,570)
(Increase) decrease in special assessments	4,339	-	4,339
(Increase) decrease in inventories	12,702	-	12,702
(Increase) decrease receivable water/sewer	-	(13,183)	-
Increase (decrease) in accounts payable	3,526	7,199	10,725
Increase (decrease) payable water/sewer	13,183	-	13,183
Increase (decrease) in other accruals	2,186	(642)	1,544
Increase (decrease) in customer deposits	7,620	-	7,620
Total adjustments	<u>437,957</u>	<u>36,749</u>	<u>487,889</u>
Net cash provided by operating activities	<u>\$ 952,177</u>	<u>\$ (225,620)</u>	<u>\$ 726,557</u>

See accompanying notes to financial statements

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2006

	<u>Pension & Other Employee Benefits</u>	<u>Private Purpose Trust</u>	<u>Agency Funds</u>	<u>Total</u>
<u>RESTRICTED ASSETS</u>				
Cash in bank	\$ 958,802	\$ 93,778	\$ 446,157	\$ 1,498,737
Taxes receivable	-	-	130,170	130,170
Total assets	<u>958,802</u>	<u>93,778</u>	<u>576,327</u>	<u>1,628,907</u>
<u>LIABILITIES</u>				
Due to others	-	256	39,092	39,348
Payable school district	-	-	537,235	537,235
Payable Insurance Companies	<u>200,242</u>	<u>-</u>	<u>-</u>	<u>200,242</u>
Total liabilities	<u>200,242</u>	<u>256</u>	<u>576,327</u>	<u>776,825</u>
<u>NET FIDUCIARY ASSETS</u>	<u>\$ 758,560</u>	<u>\$ 93,522</u>	<u>\$ -</u>	<u>\$ 852,082</u>

See accompanying notes to financial statements

STATEMENT IN CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Pension & Other Employment Benefits</u>	<u>Private Purpose Trust</u>	<u>Total</u>
<u>ADDITIONS</u>			
Interest	\$ 31,865	\$ -	\$ 31,865
Receipts	949	6,662	7,611
Total additions	32,814	6,662	39,476
<u>DEDUCTIONS</u>			
Purchases and contracts	-	173	173
Health premiums and claims	(162,336)	-	(162,336)
Unemployment claims	741	-	741
Total deductions	(161,595)	173	(161,422)
<u>CHANGE IN NET ASSETS</u>	194,409	6,489	200,898
<u>NET ASSETS - BEGINNING</u>	564,151	87,033	651,184
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 758,560</u>	<u>\$ 93,522</u>	<u>\$ 852,082</u>

See accompanying notes to financial statements

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1: Summary of Significant Accounting Policies

The City of Brookhaven, Mississippi was incorporated in 1859. The City operates under a City Board form of government, with a Mayor and seven Aldermen serving as the governing body. Elected officials include the Mayor, seven Aldermen, Police chief, and City clerk. The present term of these elected officials expires June 30, 2009. Services provided by the City include: Public Safety – Police and Fire, Highways and Street, Sanitation, Health and Social Services, Culture and Recreation, Public Improvements, Planning and Zoning, and General Administrative Services. A public school system is available to residents of the City of Brookhaven but is not under the jurisdictions of the City government.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and APB opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

A. Reporting Entity

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

Included in the reporting entity:

City of Brookhaven Parks and Recreation Commission

The members of the commission are appointed by the City's Board of Aldermen, and serve at their will and pleasure. This component unit selects management staff, sets user charges, and controls all aspects of its daily activities. It prepares its own budget, which is then submitted to the board for approval and funding. Separate financial statements are prepared for the Parks and Recreation Commission and may be viewed at their offices.

Excluded from the reporting entity:

Brookhaven Separate School District

The Brookhaven Separate School district is appointed primarily by the City's governing body (three of the five members). The City does not hold title to the school's assets nor does it have any right to the school's surpluses. The City does not have the ability to exercise influence over the daily operations or approve budgets.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. These statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The city reports the following major government fund:

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

The city reports the following major enterprise funds:

Water and Sewer- The Water and Sewer fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Solid Waste - The Solid Waste fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Other non-major funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific expenditure purposes. The UDAG Fund and the Police Grant Fund are classified as Special Revenue Funds.

Debt Service Funds – 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. The primary revenue source is local property taxes levied specifically for Debt Service. Debt Service Funds are the City Bond and Interest Fund and the School bond and Interest Fund.

Capital Projects Funds – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and Trust Funds).

Pension and other employee benefits – Pension and other employee benefits funds are used to account for assets held by the City in trustee capacity or as an agent. The unemployment fund and the Health insurance funds are reported in supplemental information.

Private Purpose Trusts – Private purpose trusts are used to account for the principal and income for all other trust arrangements that benefit individuals, private organizations, or other governments. The private purpose trusts are the Depot restoration fund, the Rose hill Cemetery fund, the IDF fund and the Police Comfort Bear Fund and they are reported in supplemental information

Agency Funds – Agency Funds are used by a governmental entity to report assets that are held in a custodial relationship. The government receives assets, may temporarily invest those assets and then remits those assets to individuals, private organizations, or other governments. The agency funds are the Separate School District Fund and the Accounts Payable Clearing Fund and they are reported in supplemental information.

C. Assets, Liabilities, and Net Assets or Equity

Cash

The City holds cash in their respective funds or component unit. The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used.

Receivables

Enterprise receivables

Enterprise fund receivables include amounts due from customers primarily for utility services. There is no allowance for uncollectible accounts because these amounts have been immaterial based on prior experience.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

Receivables (continued)

Property taxes receivable

Taxes are levied annually on December 1 and are due for payment without penalty and interest by February 1. Major tax payments are received January through April. Taxes receivable represent delinquent taxes that are received within thirty days. Over time substantially all property taxes are collected.

Sales tax receivable

Sales tax receivable represents taxes that are received within thirty days from the State Tax Commission.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective fund. The costs or normal repairs and maintenance that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Long-term Debt

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities.

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

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available within thirty days. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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

F. Use of Estimates

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

G. Cash Equivalents

For purposes of the statement of cash flows for the proprietary funds, the City defines cash equivalents as short term, highly liquid investments with original maturity dates of three months or less.

H. Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market.

I. Uncollectible Receivables

Uncollectible accounts receivable are reviewed quarterly with management. The accounts, which are deemed uncollectible, are charged off via the direct method of accounting for bad debts every 90-120 days.

J. Encumbrances

Purchase commitments, as evidenced by contracts and purchase orders are not recorded as encumbrances. Difference in beginning and ending receivables is immaterial.

K. Inter-fund Loans

Short-term (due within one year) inter-fund loan receivables are reported as "due from other funds" and are considered available spendable resources.

L. Restricted Assets

Restricted assets are portions of fund balance that are legally segregated for a specific future use or are not available for current operations. The following is a description of fund reserves used by the City:

Restricted for debt service – An account that represents the fund balance for the debt service fund resources which are legally restricted for payment of general long-term debt principal and interest amounts maturing in future years.

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

NOTE 2: Cash and Cash Equivalents

The City's deposits with financial institutions was \$8,578,110 on September 30, 2006.

All cash and checking accounts are with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) which insures the account for \$100,000. The remaining \$8,478,110 of the collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 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 should be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note 1 L describing restricted assets.

NOTE 3: Inter-fund Receivable and Payable Balances

There were \$39,348 Fiduciary Fund payable and \$762 Special revenue funds payable to the General Fund at September 30, 2006

Due From:

Depot	\$ 35	\$ -
Rosehill Cemetery	64	-
Accounts Payable Clearing	38,893	-
Payroll Clearing	199	-
IDF	157	-
UDAG	762	-

Due To:

General Fund	-	40,110
	<u>\$ 40,110</u>	<u>\$ 40,110</u>

NOTE 4: Unemployment Compensation Fund

The City has elected to establish a revolving fund for unemployment compensation which is to be maintained in the amount of 2% of the first \$7,000 of employee wages paid in the preceding calendar year. The Unemployment Compensation Fund had a balance of \$38,272 and was fully funded at September 30, 2006.

NOTE 5: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 11.3% (10.75% prior to July 1, 2006) 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 of \$417,427 on covered wages of \$3,834,907 to PERS for the year ending September 30, 2006, equaled the required contribution.

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

NOTE 6: Changes in Capital Assets

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

	Primary Government			
	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land/Land Improvements	\$ 6,142,707	\$ 30,000	\$ -0-	\$ 6,172,707
Other capital assets				
Building	2,201,739	304,000	470,948	2,034,791
Improvements Other-Bldg.	12,357,284	1,600,413	-0-	13,957,697
Machinery & equipment:				
Street Department	1,157,160	119,855	96,791	1,180,224
Fire Department	1,017,334	-0-	700	1,016,634
Police Department	406,241	97,473	63,705	440,009
Specialized Services	6,139	-0-	-0-	6,139
Shop Department	22,261	-0-	19,441	2,820
City Clerk's Office	87,923	-0-	-0-	87,923
Mayor's Office	3,743	-0-	1,200	2,543
Building Inspector	5,144	15,216	-0-	20,360
City Court	21,829	-0-	-0-	21,829
Animal Control	18,209	-0-	-0-	18,209
Airport	51,704	328,725	-0-	380,429
Cemetery	64,138	16,971	-0-	81,109
JTAPP	5,162	-0-	-0-	5,162
Traffic Department	26,743	-0-	-0-	26,743
Total other capital assets at historical cost	17,452,753	2,482,653	652,785	19,282,621
Less accumulated depreciation for				
Buildings	(545,384)	(43,857)	51,804	(537,437)
Streets, gutters and drains	(3,002,130)	(289,781)	-0-	(3,291,911)
Concrete bridges	(123,222)	(5,601)	-0-	(128,823)
Airport	(433,809)	(40,200)	-0-	(474,009)
Other improvements	(1,080,120)	(137,803)	-0-	(1,217,923)
Equipment	(1,254,795)	(200,094)	82,149	(1,372,740)
Total accumulated depreciation	(6,439,460)	(717,336)	133,953	(7,022,843)
Other capital assets, net	11,013,293	1,765,317	518,832	12,259,778
Governmental activities capital Assets, net	\$ 17,156,000	\$ 1,795,317	\$ 518,832	\$ 18,432,485

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

NOTE 6: Changes in Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:

General Government	\$ 531,433
Street Department	64,751
Fire Department	33,362
Police Department	64,631
Special Services	306
Shop	282
Airport	11,196
Cemetery	4,888
JTAPP	516
Animal Control	1,821
Traffic	4,150

Total governmental activities depreciation expense	<u>\$ 717,336</u>
--	-------------------

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 84,499	\$ -0-	\$ -0-	\$ 84,499
Other Capital Assets:				
Plant and Systems	18,698,311	730,481	-0-	19,428,791
Machinery and Equipment	1,180,458	334,409	202,426	1,312,442
Total other capital assets				
At historical cost	19,878,769	1,064,890	202,426	20,741,233
Less accumulated depreciation for:				
Plant and Systems	(6,346,916)	(389,367)	163	(6,736,120)
Machinery and Equipment	(1,015,467)	(82,979)	188,899	(909,847)
Total accumulated depreciation	(7,362,383)	(472,346)	189,062	(7,645,667)
Other capital assets net	12,516,386	592,544	13,364	13,095,566
Business type activities				
Capital assets, net	<u>\$12,600,885</u>	<u>\$ 592,544</u>	<u>\$ 13,364</u>	<u>\$13,180,065</u>

Depreciation expense was charged to functions as follows:

Business-type activities:

Water and Sewer	\$ 428,971
Solid Waste	43,375
Total business type activities depreciation expense	<u>\$ 472,346</u>

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

NOTE 7: Long term liability activity for the year ended September 30, 2006

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities				
Bonds and notes payable:				
General obligation bonds	\$ 4,320,000	\$ -0-	\$ 445,000	\$ 3,875,000
General obligation notes	255,333	-0-	21,508	233,825
Revenue Bonds	-0-	825,000	-0-	825,000
Revenue notes	293,255	-0-	40,452	252,804
Total bonds and Notes payable	<u>\$ 4,868,588</u>	<u>\$ 825,000</u>	<u>\$ 506,960</u>	<u>\$ 5,186,629</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-type activities				
Bonds and notes payable				
Water and Sewer:				
General obligation debt	\$ 1,545,909	\$ -0-	\$ 313,179	\$ 1,232,730
Revenue debt	5,022,698	-0-	331,870	4,690,828
Total bonds and Notes payable	<u>\$ 6,568,607</u>	<u>\$ -0-</u>	<u>\$ 645,049</u>	<u>\$ 5,923,558</u>

All liabilities of the City of Brookhaven are secured by the full faith and credit of the municipality. Accrued compensated absences expire at year end and are classified as current liabilities.

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

<u>Year ending September 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	599,352	250,286	686,235	281,773
2008	291,714	277,044	742,742	240,161
2009	309,116	211,778	814,304	195,567
2010	321,611	196,897	530,923	160,852
2011	344,202	181,635	577,601	136,185
2012-2016	1,725,744	662,390	2,506,927	270,162
2017-2021	1,229,890	259,613	60,415	5,436
2022-2026	365,000	55,520	4,411	28
	<u>\$ 5,186,629</u>	<u>\$2,095,163</u>	<u>\$ 5,923,558</u>	<u>\$ 1,290,164</u>

Note: General Obligation Public Improvement Bonds, Series 2006, in the amount of \$2,200,000 were sold in December 2006 and are not reflected in the debt service requirements listed above.

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

NOTE 8: 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. 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 years.

NOTE 9: Subsequent Events

The Supreme Court of the State of Mississippi has affirmed the lower court ruling extending the boundaries of the City of Brookhaven. The annexation will be effective July 1, 2007. The city is taking steps to implement the services and facilities plan presented during the annexation trial.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET TO ACTUAL

CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Original Budget</u>	<u>Revisions</u>	<u>Final Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>REVENUES</u>					
General property taxes					
Current year	\$ 1,641,590	\$ 35,500	\$ 1,677,090	\$ 1,639,109	\$ (37,981)
Prior year	10,500	3,500	14,000	18,956	4,956
Penalties and interest on					
Delinquent taxes	65,000	(5,000)	60,000	75,444	15,444
Licenses and permits	65,000	2,500	67,500	77,677	10,177
In lieu taxes	55,500	-	55,500	58,512	3,012
Franchise taxes	400,000	50,000	450,000	473,255	23,255
Intergovernmental revenue:					
Federal sources					
Street Improvements	512,000	4,000	516,000	409,955	(106,045)
Multi-modal	925,000	(500,000)	425,000	40,583	(384,417)
MEMA	-	-	-	44,570	44,570
State sources:					
Grand Gulf Nuclear Plant	160,000	(5,860)	154,140	154,139	(1)
Sales tax	4,200,000	765,000	4,965,000	4,991,826	26,826
State gasoline tax	16,000	-	16,000	16,820	820
Homestead reimbursement	86,000	-	86,000	97,247	11,247
Law enforcement grants	7,500	(1,100)	6,400	4,945	(1,455)
Bi-Centennial Park	-	80,000	80,000	40,868	(39,132)
Airport grant	-	235,665	235,665	235,669	4
Fire protection allocation	45,000	5,000	50,000	50,147	147
Lincoln County - airport	25,000	-	25,000	25,000	0
Halbert Heights Ditch	-	467,500	467,500	-	(467,500)
Pearl River Basin Grant	-	136,500	136,500	-	(136,500)
Charges for services:					
City clerk's office	23,250	-	23,250	28,702	5,452
Airport	105,000	154,000	259,000	228,649	(30,351)
Cemetery	25,000	-	25,000	25,600	600
Fire	2,000	300	2,300	2,625	325
Drug task force reimbursements	52,500	(7,500)	45,000	52,217	7,217
Fines and forfeitures	250,000	-	250,000	273,119	23,119
Interest	70,000	80,000	150,000	172,944	22,944
Miscellaneous	161,854	38,691	200,545	222,951	22,406
Sale of property and equipment	15,000	2,500	17,500	20,599	3,099
Rent	1,800	18,000	19,800	19,800	0
Total Revenues	<u>\$ 8,920,494</u>	<u>\$ 1,559,196</u>	<u>\$ 10,479,690</u>	<u>\$ 9,501,928</u>	<u>\$ (977,762)</u>

See accompanying notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Original Budget</u>	<u>Revisions</u>	<u>Final Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>EXPENDITURES</u>					
General government	\$ 1,965,720	\$ 202,000	\$ 2,167,720	\$ 1,112,887	\$ 1,054,833
Police administration	2,031,790	(36,880)	1,994,910	1,790,847	204,063
Police court	128,044	(8,110)	119,934	116,980	2,954
Police specialized services	78,945	-	78,945	77,684	1,261
Fire administration	1,827,750	(23,650)	1,804,100	1,780,190	23,910
Building inspection	124,700	(8,950)	115,750	107,689	8,061
City streets	1,990,190	303,344	2,293,534	2,029,898	263,636
Traffic department	92,630	(2,050)	90,580	73,310	17,270
Airport	133,870	368,132	502,002	484,253	17,749
Cemetery	182,130	(34,260)	147,870	145,446	2,424
Shop and city barn	38,455	(14,955)	23,500	18,981	4,519
Support appropriations	715,209	9,000	724,209	718,017	6,192
Total expenditures	<u>9,309,433</u>	<u>753,621</u>	<u>10,063,054</u>	<u>8,456,182</u>	<u>1,606,872</u>
Excess <deficiency> of revenues over expenditures	<u>(388,939)</u>	<u>805,575</u>	<u>416,636</u>	<u>1,045,746</u>	<u>629,110</u>
OTHER FINANCING SOURCES <USES>					
Debt service	<u>78,660</u>	<u>-</u>	<u>78,660</u>	<u>79,157</u>	<u>(497)</u>
Net other financing sources <uses>	<u>78,660</u>	<u>-</u>	<u>78,660</u>	<u>79,157</u>	<u>(497)</u>
Excess <deficiency> of revenues and other financing sources over expenditures and other uses	<u>\$ (467,599)</u>	<u>\$ 805,575</u>	<u>\$ 337,976</u>	<u>\$ 966,589</u>	<u>\$ 628,613</u>
Fund balance beginning of year				<u>3,177,131</u>	
Fund balance ending of year				<u>\$ 4,143,720</u>	

See accompanying notes to financial statements

SUPPLEMENTARY INFORMATION

CITY OF BROOKHAVEN, MISSISSIPPI
SURETY BOND SCHEDULE
SEPTEMBER 30, 2006

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Michael Jinks	City Clerk	\$ 100,000
Stacy Leggett	Bookkeeper	50,000
Brenda Lee Smith	Payroll Clerk	50,000
Marsha G. Fairman	Deputy City Clerk	100,000
Patsy Wallace	Mayor's Secretary	5,000
Holly Slay	Clerk - Part Time	5,000
Jerrald Nations	City Judge	50,000
Kathy Allen	City Court's Clerk	50,000
Phyllis Watkins	City Court's Clerk	50,000
Marie Patton	Clerk-City Barn	25,000
Jennifer Peets	Computer Operator - Water Dept.	50,000
Salinda Hardy	Clerk - Water Dept.	50,000
Holly Smith	Clerk - Water Dept.	50,000
Jimmy Cooks	Foreman - Solid Waste	5,000
Willie Smith	Solid Waste Supervisor	5,000
Steve Moreton	Public Works Director	5,000
Walter Temple	Building Inspector	50,000
Renita Monegan	Building Inspector Clerk	50,000
Arlustra Henderson	Chief of Police	50,000
Barbara Allred	Dispatcher	25,000
Patricia Diamond	Secretary - Police	25,000
Larry Dale Burt	Dispatcher	25,000
George Lambright	Dispatcher	25,000
Marvin Nesmith	Dispatcher	25,000
Mrs. Jerry Wilson	Alderman	50,000
Terry Bates	Alderman	50,000
John Allen	Alderman	50,000
Les Bumgarner	Alderman	50,000
Dorsey Cameron	Alderman	50,000
Shirley Estes	Alderman	50,000
D W Maxwell	Alderman	50,000

Additionally, all policemen are bonded individually for a minimum of \$25,000.

The bonding company for the above scheduled bond is Western Surety Company.

CITY OF BROOKHAVEN, MISSISSIPPI
COMBINED SCHEDULE OF LONG-TERM DEBT
SEPTEMBER 30, 2006

<u>Date of Issue</u>	<u>Name of Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Balance Outstanding 10-1-05</u>
<u>General Obligation Bonds:</u>				
<u>General Long-Term Debt Fund</u>				
03-01-87	Renovation, Remodeling And Air Conditioning Brookhaven Schools	\$ 3,600,000	6.75 – 8.0	\$ 615,000
11-01-99	Renovation-Whitworth College	3,000,000	4.90 – 6.625	2,505,000
6-1-05	Industrial Park	1,200,000	5.3 – 6.0	1,200,000
<u>Water and Sewer Fund</u>				
12-01-88	Waste Water Plant	4,000,000	6.4 – 9.1	1,375,000
<u>Total General Obligation Bonds</u>				<u>\$ 5,695,000</u>
<u>Revenue Bonds:</u>				
4-1-06	TIF Bonds 2006 Ergon	825,000	4.65	\$ -0-
<u>Water and Sewer Fund</u>				
11-01-98	Sewer Improvements	3,960,000	3.65 – 6.10	3,125,000
03-01-00	Sewer Improvements Series 2000	2,225,000	5.50	1,670,000
<u>Total Revenue Bonds</u>				<u>\$ 4,795,000</u>
<u>Notes Payable (General Obligation):</u>				
12-06-95	Mississippi Department of Economic Development	55,800	4.25	4,496
02-11-97	Mississippi Department of Economic Development	584,910	3.7	293,254
06-18-02	Mississippi Department of Economic Development	303,789	4.0	250,837
11-12-02	Mississippi Department of Economic Development	200,000	3.0	170,909
<u>Notes Payable (Revenue):</u>				
01-07-97	Mississippi Department of Economic Development	459,373	3.7	227,698
<u>Total Notes Payable</u>				<u>\$ 947,194</u>
<u>Total Long – Term Debt</u>				<u>\$11,437,194</u>

<u>New Issued</u>	<u>Redeemed</u>	<u>Balance Outstanding 9-30-06</u>	<u>Maturities Next Period</u>	
			<u>Principal</u>	<u>Interest</u>
\$ -0-	\$ 295,000	\$ 320,000	\$ 320,000	\$ 10,400
-0-	120,000	2,385,000	120,000	120,829
-0-	30,000	1,170,000	35,000	65,501
-0-	305,000	1,070,000	330,000	63,350
<u>\$ -0-</u>	<u>\$ 750,000</u>	<u>\$ 4,945,000</u>	<u>\$ 805,000</u>	<u>\$ 260,080</u>
\$ 825,000	\$ -0-	\$ 825,000	\$ 65,000	\$ 35,698
-0-	170,000	2,955,000	180,000	127,920
-0-	130,000	1,540,000	135,000	78,930
<u>\$ -0-</u>	<u>\$ 300,000</u>	<u>\$ 5,320,000</u>	<u>\$ 380,000</u>	<u>\$ 242,548</u>
-0-	4,496	-0-	-0-	-0-
-0-	40,450	252,804	41,523	8,771
-0-	17,012	233,825	17,829	9,086
-0-	8,179	162,730	8,524	4,786
-0-	31,870	195,828	32,711	6,787
<u>\$ -0-</u>	<u>\$ 102,007</u>	<u>\$ 845,187</u>	<u>\$ 100,587</u>	<u>\$ 29,430</u>
<u>\$ 825,000</u>	<u>\$ 1,152,007</u>	<u>\$ 11,110,187</u>	<u>\$ 1,285,587</u>	<u>\$ 532,058</u>

PATRICK E. LOWERY AND ASSOCIATES
 CERTIFIED PUBLIC ACCOUNTANTS

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U. S. Department of Housing and Urban Development:			
Direct Program			
Community Development Block Grant	14.228		\$ 40,868
Federal Aviation Administration			
Direct Program			
Airport Improvement Program	20.106		235,669
U.S. Department of Agriculture			
Direct Program			
Watershed Protection and Flood Prevention	10.904		461,789
Federal Transit Administration			
Pass-through program from:			
Mississippi Department of Transportation			
Federal Transit Capital Investment Grants	20.500		40,583
Federal Highway Administration			
Pass-through program from:			
Mississippi Department of Transportation			
Highway Planning and Construction	20.205		409,955
U.S Department of Justice			
Pass-through program from:			
Mississippi Department of Public Safety			
Edward Byrne Memorial Justice Assistance	16.738		63,755
Federal Emergency Management Agency			
Pass-through program from:			
Mississippi Emergency Management Agency			
State Domestic Preparedness Equipment Support Program	97.004		115,457
 Total Expenditures of Federal Awards			 <u><u>\$1,368,076</u></u>

See accompanying notes to financial statements

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

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Brookhaven 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, the basic financial statements.

CITY OF BROOKHAVEN, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2006

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Brookhaven.
2. No reportable conditions were disclosed during the audit of the general purpose financial statements.
3. No instance of noncompliance material to the general purpose financial statements of the City of Brookhaven was disclosed during the audit.
4. There were no audit findings relative to major federal award programs for the City of Brookhaven.
5. The auditor's report on compliance for the major federal award programs for the City of Brookhaven expresses an unqualified opinion on all major federal programs.
6. The programs tested as major were:

<u>CFDA #</u>	<u>Program Name</u>
20.205	Highway Planning and Construction
10.904	Watershed Protection and Flood Prevention

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The City of Brookhaven was determined to be a high-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

There were no findings related to the financial statement audit.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS

There were no findings related to the federal award programs for the fiscal year ended 9/30/06.

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

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

Honorable Mayor and Board of Alderman
City of Brookhaven
Brookhaven, Mississippi 39601

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brookhaven, Mississippi, as of and for the fiscal year ended September 30, 2006, which collectively comprise the City of Brookhaven, Mississippi's basic financial statements and have issued our report thereon dated June 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Brookhaven internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other matters

As a part of obtaining reasonable assurance about whether City of Brookhaven, 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 test disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor and Board of Aldermen, others within the organization, the State Department of Audit, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Patrick E. Lowery and Associates".

Patrick E. Lowery and Associates
Certified Public Accountants
Brookhaven, Mississippi
June 15, 2007

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

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

Honorable Mayor and Board of Alderman
City of Brookhaven
Brookhaven, Mississippi 39601

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by 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 City of Brookhaven, Mississippi 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 City of Brookhaven, Mississippi's compliance with those requirements.

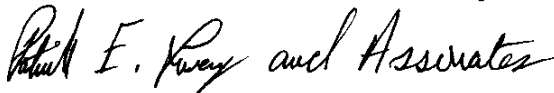
In our opinion, the City of Brookhaven, Mississippi complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of City of Brookhaven, Mississippi, is responsible to 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 City of Brookhaven, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor and Board of Alderman, others within the organization, State Department of Audit, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Patrick E. Lowery and Associates
Certified Public Accountants
Brookhaven, Mississippi
June 15, 2007

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

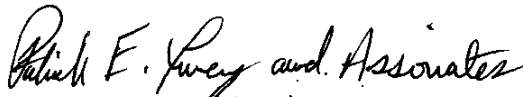
Honorable Mayor and Board of Alderman
City of Brookhaven
Brookhaven, Mississippi 39601

We have audited the financial statements of the City of Brookhaven as of and for the year ended September 30, 2006. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the basic financial statements disclosed no material instances of noncompliance with state laws and regulations.

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.



Patrick E. Lowery and Associates
Certified Public Accountants
Brookhaven, Mississippi
June 15, 2007