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CITY OF OKOLONA, MISSISSIPPI

Audited Financial Statements  
For the Year Ended September 30, 2006

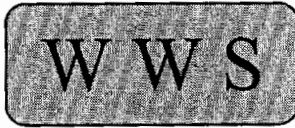
**WATKINS, WARD and STAFFORD, PLLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF OKOLONA, MISSISSIPPI

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CITY OF OKOLONA, MISSISSIPPI  
FINANCIAL AUDIT REPORT



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INDEPENDENT AUDITOR'S REPORT  
ON  
THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Mayor and Board of Aldermen  
City of Okolona, Mississippi

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

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 aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Okolona, Mississippi, as of September 30, 2006, and the respective changes in financial position, 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 27, 2007 on our consideration of the City of Okolona, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 and the Budgetary Comparison Schedule and corresponding notes on pages 38 through 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Okolona, Mississippi's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the 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. In addition, the schedule of surety bonds for city officials and the reconciliation of original ad valorem tax rolls to fund collections are presented for purposes of additional analysis and are not a required part 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.

*Watkins, Ward and Stafford, PLLC*

June 27, 2007

CITY OF OKOLONA, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS



CITY OF OKOLONA, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

The discussion and analysis of the City of Okolona's financial performance provides an overall narrative review of the city's financial activities for the years ended September 30, 2006 and 2005. The intent of this discussion and analysis is to look at the city's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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. Certain comparative information between the current year and the prior year is required to be presented.

#### FINANCIAL HIGHLIGHTS

- Total net assets increased \$494,320 which represents a 8.4 % increase from fiscal year 2005.
- General revenues account for \$1,380,415 in revenue, or 48% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,491,798 or 52 % of total revenues.
- The City had \$2,377,893 in expenses; only \$1,491,798 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$1,380,415 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$1,371,205 in revenues and \$1,451,063 in expenditures. The General Fund's fund balance decreased \$83,860 over the prior year. The Fire Protection Fund had \$27,879 in revenues and \$15,828 in expenditures. The Fire Protection Fund's fund balance increased \$8,306 over the prior year. The Home Grant Fund had \$109,833 in revenues and \$109,833 in expenditures.
- Capital assets, net of accumulated depreciation, increased by \$449,561.
- Long-term debt decreased by \$75,124. In addition, the liability for compensated absences increased by \$1,799 from the prior fiscal year.

#### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements 3) proprietary fund financial statements, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include police, fire, public works, parks & recreation, library, and general administration.

The government-wide financial statements can be found on pages 10 - 11 of this report.

**Fund financial statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds:** Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation that can be found on pages 13 and 15.

**Proprietary Funds.** When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's proprietary fund is the same as business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 36 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 38-40 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets:** Net assets may serve over time as a useful indicator of government's financial position. In the case of the City, assets exceeded liabilities by \$6,331,550 as of September 30, 2006 and by \$5,837,230 as of September 30, 2005.

The City's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the City's net assets for the fiscal year ended September 30:

	<u>2006</u>	<u>2005</u>
Current assets	\$ 1,096,795	1,293,764
Capital assets, net	<u>6,399,603</u>	<u>5,950,042</u>
<b>Total assets</b>	<u>7,496,398</u>	<u>7,243,802</u>
Current liabilities	266,595	363,719
Long-term debt outstanding	<u>898,253</u>	<u>1,042,857</u>
<b>Total liabilities</b>	<u>1,164,848</u>	<u>1,406,576</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	5,446,889	4,922,204
Restricted		
Unrestricted	<u>884,661</u>	<u>915,026</u>
<b>Total net assets</b>	<u>\$ 6,331,550</u>	<u>5,837,230</u>

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

- The principal retirement of \$75,124 of long-term debt.
- Increase in the liability for compensated absences in the amount of \$1,799.

**Changes in net assets:** The City's total revenues for the fiscal year ended September 30, 2006 and 2005 were \$2,872,213 and \$2,745,414. The total cost of all programs and services was \$2,377,893 and \$2,216,428. The following table presents a summary of the changes in net assets for the fiscal year ended September 30:

	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Program revenues	\$ 1,491,798	\$ 1,416,178
General revenues	<u>1,380,415</u>	<u>1,329,236</u>
<b>Total revenues</b>	2,872,213	2,745,414
<b>Expenses:</b>		
Governmental Activities	1,722,915	1,577,063
Business-type Activities	<u>654,978</u>	<u>639,365</u>
<b>Total expenses</b>	<u>2,377,893</u>	<u>2,216,428</u>
<b>Increase in net assets</b>	<u>\$ 494,320</u>	<u>\$ 528,986</u>

- **Governmental activities:**

The City of Okolona is very aggressive in its pursuit of federally approved projects, which result in the city receiving federal funds. Due to this pursuit, The City of Okolona has received federal funding for several projects during the current year. First of all, the City received a Home Grant from the U.S. Department of Agriculture in the amount of \$108,933 for the benefit of low-income housing. Secondly, the City received several Community Development Block Grants from the U.S. Department of Housing and Urban Development for the improvement of streets and utilities totaling \$329,540. Thirdly, the Okolona Municipal Richard Stovall Field Airport was allocated \$262,640 from the U.S. Department of Transportation for improvements.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$368,235, a decrease of \$69,652. \$368,235 or 100% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion.

The General Fund is the principal operating fund of the City. The decrease in fund balance in the General Fund for the fiscal year was \$83,860. The increase in fund balance in the Fire Protection Fund for the fiscal year was \$8,306. The fund balance in the Other Governmental (Non-Major funds) increased in the amount of \$5,902.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City revised the annual operating budget.

A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund and the Fire Protection Fund is provided in this report as required supplementary information. However, the Home Grant Fund is administered through Mississippi Development Authority and therefore was not budgeted.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of September 30, 2006, the City's total net capital assets were \$6,399,603 including land, buildings, improvements, infrastructure, vehicles, and furniture and equipment. This amount represents an increase of \$449,561 from the previous year.

Additional information of the City's capital assets can be found in Note 5 on page 30-31 of this report.

**Debt Administration.** At September 30, 2006, the City had \$952,714 in long-term debt outstanding, of which \$65,695 is due within one year. In addition, the liability for compensated absences increased by \$1,799 from the prior year.

Additional information of the City's long-term debt can be found in Note 7 on pages 31-35 of this report.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the City Clerk's Office at 215 Main Street, Okolona, MS 38860, telephone 662-447-5461.

CITY OF OKOLONA

FINANCIAL STATEMENTS

CITY OF OKOLONA  
Statement of Net Assets  
September 30, 2006

Exhibit 1

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and investments	\$ 421,996	419,585	841,581	504,915
Property tax receivable	6,128		6,128	
Accounts receivable, net		56,797	56,797	1,287,409
Conservation Loan Receivable			0	141,874
Materials and supplies			0	78,794
CSA Stockholder loan receivable			0	9,495
Intergovernmental receivables	52,257		52,257	
Other receivables, net	17,107	3,636	20,743	206,898
Internal balances		44,741	44,741	
Prepaid items			0	223,605
Bond issue cost, net of accumulated amort.			0	195,473
Restricted assets		74,548	74,548	338,492
Capital assets, net	3,758,394	2,641,209	6,399,603	10,437,838
<b>Total Assets</b>	<b>4,255,882</b>	<b>3,240,516</b>	<b>7,496,398</b>	<b>13,424,793</b>
<b>LIABILITIES</b>				
Claims payable	40,752	8,745	49,497	765,959
Other payables	8,727	2,111	10,838	
Intergovernmental payables	12,475		12,475	167,960
Accrued interest payable	412	3,455	3,867	43,895
Accrued wages payable	45,890	13,292	59,182	33,800
Unremitted payroll deductions and accruals				1,606
Internal Balance	21,409		21,409	
Customer deposits		38,048	38,048	480,985
Deferred interest income - DEU				49,562
Advances from TVA for conservation loans				151,771
Long-term liabilities				
Due within one year:				
Capital related debt	28,679	37,016	65,695	301,398
Non-capital debt	3,432	2,152	5,584	
Due in more than one year:				
Capital related debt	73,237	813,782	887,019	3,382,634
Non-capital debt	6,865	4,369	11,234	
<b>Total Liabilities</b>	<b>241,878</b>	<b>922,970</b>	<b>1,164,848</b>	<b>5,379,570</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,656,478	1,790,411	5,446,889	6,753,806
Restricted net assets:				
Expendable:				
Capital projects			0	
Other purposes			0	53,447
Nonexpendable:				
Unrestricted (deficit)	357,526	527,135	884,661	1,237,970
<b>Total Net Assets</b>	<b>\$ 4,014,004</b>	<b>2,317,546</b>	<b>6,331,550</b>	<b>8,045,223</b>

The accompanying notes are an integral part of these financial statements

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

CITY OF OKOLONA  
Statement of Activities  
For the Year Ended September 30, 2006

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 527,702	37,643		269,344	(220,715)		(220,715)
Public safety	768,609	32,925		71,155	(664,529)		(664,529)
Public works	224,354				(224,354)		(224,354)
Culture and recreation	84,592				(84,592)		(84,592)
Economic development and assistance	109,833		109,833		0		0
Interest on long-term debt	7,825				(7,825)		(7,825)
Total Governmental Activities	1,722,915	70,568	109,833	340,499	(1,202,015)	0	(1,202,015)
Business-type activities:							
Solid Waste	173,364	152,054				(21,310)	(21,310)
Water & Sewer	481,614	818,844			0	337,230	337,230
Total business-type activities	654,978	970,898	0	0	0	315,920	315,920
Total Primary Government	\$ 2,377,893	1,041,466	109,833	340,499	(1,202,015)	315,920	(886,095)
Component Unit:							369,978
City of Okolona Electric Department	8,544,961	8,914,939					
General revenues:							
Taxes:							
Property taxes					\$ 883,223		883,223
Sales taxes					279,566		279,566
Unrestricted gifts and donations						0	0
Unrestricted investment income					10,206	9,194	19,400
Miscellaneous					198,226		198,226
Total General Revenues, Special Item, Extraordinary Item and Transfers					1,371,221	9,194	1,380,415
Changes in Net Assets					169,206	325,114	494,320
Net Assets - Beginning					3,844,798	1,992,432	5,837,230
Prior period adjustment					0	0	0
Net Assets - Beginning restated					3,844,798	1,992,432	5,837,230
Net Assets - Ending					\$ 4,014,004	2,317,546	6,331,550

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA  
Balance Sheet - Governmental Funds  
September 30, 2006

Exhibit 3

	Major Funds				
	General Fund	Fire Protection Fund	Home Grant Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 269,432	89,261		63,303	421,996
Property tax receivable	5,972	156			6,128
Intergovernmental receivables	52,257				52,257
Other receivables	16,401	393		313	17,107
Due from other funds		31,270		774	32,044
Total Assets	<u>\$ 344,062</u>	<u>121,080</u>	<u>0</u>	<u>64,390</u>	<u>529,532</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Claims payable	\$ 15,500			25,252	40,752
Accrued Payroll	45,890				45,890
Intergovernmental payables	8,730	3,745			12,475
Due to other funds	19,098			34,355	53,453
Other payables	8,727				8,727
Total Liabilities	<u>97,945</u>	<u>3,745</u>	<u>0</u>	<u>59,607</u>	<u>161,297</u>
Fund balances:					
Unreserved, reported in:					
General fund	246,117				246,117
Special revenue funds		117,335		(986)	116,349
Debt service funds					0
Capital project funds				5,769	5,769
Total Fund Balances	<u>246,117</u>	<u>117,335</u>	<u>0</u>	<u>4,783</u>	<u>368,235</u>
Total Liabilities and Fund Balances	<u>\$ 344,062</u>	<u>121,080</u>	<u>0</u>	<u>64,390</u>	<u>529,532</u>

The accompanying notes are an integral part of these financial statements



CITY OF OKOLONA  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2006

Exhibit 3-1

		<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$	368,235
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:		
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds		
Capital assets net of depreciation as of 10-1-05	3,548,918	
Plus capital outlay expenditures made during the year	361,634	
Less book value of assets sold during the year	(2,600)	
Less depreciation expense recorded during the year	<u>(149,558)</u>	
		3,758,394
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.		
Long-term liabilities	(112,213)	
Accrued interest on bonds	<u>(412)</u>	
		(112,625)
Total net assets - governmental activities (Exhibit 1)	\$	<u><u>4,014,004</u></u>

The accompanying notes are an integral part of these financial statements

## CITY OF OKOLONA

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2006

	Major Funds			Other	Total
	General	Fire	Home	Governmental	Governmental
	Fund	Protection	Grant	Funds	Funds
		Fund	Fund		
REVENUES					
Property taxes	\$ 856,198	9,128		17,897	883,223
Licenses, commissions and other revenue	37,643				37,643
Fines and forfeitures	32,925				32,925
Intergovernmental revenues	379,571	16,513	108,933	361,863	866,880
Charges for services					0
Interest income	7,968	2,238			10,206
Miscellaneous revenues	56,900		900	3,444	61,244
Total Revenues	<u>1,371,205</u>	<u>27,879</u>	<u>109,833</u>	<u>383,204</u>	<u>1,892,121</u>
EXPENDITURES					
Current:					
General government	430,919				430,919
Public safety	702,577	3,282			705,859
Public works	223,258				223,258
Culture and recreation	59,342			25,250	84,592
Capital outlay	11,203			359,800	371,003
Economic development and assistance			109,833		109,833
Debt service:					
Principal	19,958	8,621			28,579
Interest	3,806	3,925			7,731
Total Expenditures	<u>1,451,063</u>	<u>15,828</u>	<u>109,833</u>	<u>385,050</u>	<u>1,961,774</u>
Excess of Revenues over (under) Expenditures	<u>(79,858)</u>	<u>12,051</u>	<u>0</u>	<u>(1,846)</u>	<u>(69,653)</u>
OTHER FINANCING SOURCES (USES)					
Sale of Property	1				1
Transfers in				7,748	7,748
Transfers out	(4,003)	(3,745)			(7,748)
Total Other Financing Sources and Uses	<u>(4,002)</u>	<u>(3,745)</u>	<u>0</u>	<u>7,748</u>	<u>1</u>
Net Changes in Fund Balances	<u>(83,860)</u>	<u>8,306</u>	<u>0</u>	<u>5,902</u>	<u>(69,652)</u>
Fund Balances - Beginning	329,977	109,029		(1,119)	437,887
Prior period adjustment					0
Fund Balance - Beginning restated	<u>329,977</u>	<u>109,029</u>	<u>0</u>	<u>(1,119)</u>	<u>437,887</u>
Fund Balances - Ending	<u>\$ 246,117</u>	<u>117,335</u>	<u>0</u>	<u>4,783</u>	<u>368,235</u>

The accompanying notes are an integral part of these financial statements

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2006

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Net changes in fund balances - total governmental funds (Exhibit 4)	\$	(69,652)
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$361,634 exceeded depreciation \$149,558 in the current period.	212,076
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$28,579 exceeded debt proceeds \$0	28,579
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Losses on disposal of assets are not reported in the governmental funds. However, in the statement of activities, the loss is reported as an expense. Thus, the change in net assets differs from the change in fund balance by the amount that asset cost \$26,000 exceeds depreciation allowed \$23,400	(2,600)
---	---------

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:

Decrease in Compensated absences	897	
Increase in Accrued interest on bonds	(94)	803

Change in net assets of governmental activities (Exhibit 2)	\$	<u>169,206</u>
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The accompanying notes are an integral part of these financial statements

	Business-type Activities Proprietary Funds		
	Water and Sewer	Solid Waste	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 309,880	109,705	419,585
Accounts receivable, net	44,990	11,807	56,797
Intergovernmental Rec.			-
Internal Balances	20,946	23,795	44,741
Other Receivables	2,314	1,322	3,636
Total Current Assets	378,130	146,629	524,759
Noncurrent assets:			
Restricted cash and cash equivalents:	74,548		74,548
Deposits			-
Capital assets:			
Land	26,541	1,699	28,240
Construction In Progress	107,220		107,220
Machinery	90,195	101,634	191,829
Vehicles	38,194		38,194
Infrastructure	4,045,849		4,045,849
Less accumulated depreciation	(1,678,652)	(91,471)	(1,770,123)
Total Noncurrent assets	2,703,895	11,862	2,715,757
Total assets	3,082,025	158,491	3,240,516
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	4,916	3,829	8,745
Retainage Payable	2,111		2,111
Accrued wages payable	8,444	4,848	13,292
Internal Balances			-
Customer Deposits	38,048		38,048
Current portion of compensated absences	1,585	567	2,152
Bonds, notes, and loans payable	37,016		37,016
Total Current Liabilities	92,120	9,244	101,364
Noncurrent Liabilities			
Compensated absences	3,218	1,151	4,369
Accrued interest payable	3,455		3,455
Bonds, notes, and loans payable	813,782		813,782
Total noncurrent liabilities	820,455	1,151	821,606
Total liabilities	912,575	10,395	922,970
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,778,549	11,862	1,790,411
Unrestricted (deficit)	390,901	136,234	527,135
Total Net Assets	\$ 2,169,450	148,096	2,317,546

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

CITY OF OKOLONA  
Statement of Revenues, Expenses, and Changes in Net Assets  
Proprietary Funds  
Year Ended September 30, 2006

Exhibit 6

	Business-type Activities Proprietary Funds		
	Water and Sewer	Solid Waste	Total
<b>OPERATING REVENUES</b>			
Water Sales	\$ 314,169		314,169
Sewer Service	167,865		167,865
Solid Waste Fees		145,727	145,727
Intergovernmental Revenues	329,540		329,540
Miscellaneous	7,270	6,327	13,597
Total operating revenues	<u>818,844</u>	<u>152,054</u>	<u>970,898</u>
<b>OPERATING EXPENSES</b>			
Personal services	200,186	115,184	315,370
Pumping Power	33,058		33,058
Materials and supplies	42,314	21,976	64,290
Landfill Fees		8,139	8,139
Repairs and maintenance	9,202	15,636	24,838
Insurance	42,212	1,848	44,060
Depreciation	93,596	2,970	96,566
Miscellaneous	18,617	7,611	26,228
Total operating expenses	<u>439,185</u>	<u>173,364</u>	<u>612,549</u>
Operating income(loss)	<u>379,659</u>	<u>(21,310)</u>	<u>358,349</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest revenue	5,872	3,322	9,194
Interest expense	(42,429)		(42,429)
Total non-operating revenue (expenses)	<u>(36,557)</u>	<u>3,322</u>	<u>(33,235)</u>
Income (loss) before contributions and transfers	<u>343,102</u>	<u>(17,988)</u>	<u>325,114</u>
Transfers In	-		
Transfers Out	-		
Change in net assets	<u>343,102</u>	<u>(17,988)</u>	<u>325,114</u>
Total net assets beginning of year	<u>1,826,348</u>	<u>166,084</u>	<u>1,992,432</u>
Prior period adjustments			-
Restated beginning net assets	<u>1,826,348</u>	<u>166,084</u>	<u>1,992,432</u>
Total net assets end of year	<u>\$ 2,169,450</u>	<u>148,096</u>	<u>2,317,546</u>

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

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

Exhibit 7

	Business-type Activities Proprietary Funds		
	Water and Sewer	Solid Waste	Total
<u>Cash Flows From Operating Activities</u>			
Operating Income	\$ 379,659	(21,310)	358,349
Adjust net income to cash provided by operations:			
Depreciation Expense	93,596	2,970	96,566
Increase in other accounts receivable	(2,931)	621	(2,310)
Increase in other current assets	(12,845)	(175)	(13,020)
Decrease in accounts payable	(23,109)	(998)	(24,107)
Decrease in accrued liabilities	(5,772)	627	(5,145)
Net cash flows from operating activities	<u>428,598</u>	<u>(18,265)</u>	<u>410,333</u>
<u>Cash Flows From Noncapital Financing Activities</u>			
Transfers to other funds	-	-	-
Net Cash Flows From Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
<u>Cash Flows From Capital and Related Financing Activities</u>			
Decrease in long-term debt	(44,493)		(44,493)
Interest paid on capital debt	(42,429)		(42,429)
Capital Asset Additions	(336,651)	-	(336,651)
Net Cash Flows From Noncapital Financing Activities	<u>(423,573)</u>	<u>-</u>	<u>(423,573)</u>
<u>Cash Flows From Investing Activities</u>			
Interest Revenue	5,872	3,322	9,194
Increase in meter deposits	1,142		1,142
Net Cash Flows From Investing Activities	<u>7,014</u>	<u>3,322</u>	<u>10,336</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,039	(14,943)	(2,904)
Cash and Cash Equivalents at Beginning of Year	<u>297,841</u>	<u>124,648</u>	<u>422,489</u>
Cash and Cash Equivalents at End of Year	<u>\$ 309,880</u>	<u>109,705</u>	<u>419,585</u>

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA  
Statement of Fiduciary Assets and Liabilities  
September 30, 2006

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 50,364
Interest receivable	62
Total Assets	\$ <u>50,426</u>
LIABILITIES	
Intergovernmental payables	27,094
Internal balances	<u>23,332</u>
Total Liabilities	\$ <u>50,426</u>

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA  
Statement of Net Assets  
Discretely Presented Component Unit  
September 30, 2006

Exhibit 9

	City of Okolona Electric System
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 403,538
Electric Sinking Funds Current Requirements	101,377
Accounts receivable, net	1,287,409
Accounts receivable, other	206,898
Materials and supplies	78,794
Prepaid Expenses	223,605
Total Current Assets	<u>2,301,621</u>
Noncurrent assets:	
Restricted cash and cash equivalents	338,492
CSA Stockholder loan receivable	9,495
Conservation loan receivable	141,874
Bond issue cost, net of accumulated amortization	195,473
Capital assets:	
Electric plant in service	15,570,256
Construction work in progress	264,698
Less accumulated depreciation	<u>(5,397,116)</u>
Total Noncurrent assets	<u>11,123,172</u>
Total assets	<u>13,424,793</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	765,959
Accrued wages payable	33,800
Due to other city departments	167,960
Customer Deposits	480,985
Unremitted payroll deductions and accruals	1,606
Deferred Interest Income-DEU	49,562
Current obligations under capital lease	226,398
Bonds, notes, and loans payable	75,000
Total Current Liabilities	<u>1,801,270</u>
Noncurrent Liabilities	
Advances from TVA for conservation loans	151,771
Accrued interest payable	43,895
Capital lease obligations	2,979,567
Bonds, notes, and loans payable	<u>403,067</u>
Total noncurrent liabilities	<u>3,578,300</u>
Total liabilities	<u>5,379,570</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,753,806
Restricted	53,447
Unrestricted (deficit)	<u>1,237,970</u>
Total Net Assets	<u>\$ 8,045,223</u>

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



CITY OF OKOLONA  
Statement of Revenues, Expenses, and Changes in Net Assets  
Discretely Presented Component Unit  
Septmeber 30, 2006

Exhibit 10

	City of Okolona Electric System
Operating Revenues:	
Charges for service	\$ 8,914,939
Total operating revenue	<u>8,914,939</u>
Operating Expenses:	
Purchased Power	6,013,119
Distribution	170,978
Customer accounts	298,475
Administrative and general	156,642
Maintenance	723,315
Depreciation	443,792
Tax equivalent to city	498,573
Miscellaneous	5,394
Total operating expenses	<u>8,310,288</u>
Operating income	<u>604,651</u>
Nonoperating income:	
Investment income	35,560
Total nonoperating income	<u>35,560</u>
Nonoperating Expenses:	
Interest on long-term debt	221,044
Amortization of debt expense	11,898
Miscellaneous	1,731
Total nonoperating expenses	<u>234,673</u>
Change in net assets	405,538
Net assets at beginning of year	<u>7,639,685</u>
Prior Period Refund Salary Adjustment	
Net assets at end of year	<u>\$ 8,045,223</u>

The accompanying notes are an integral part of these financial statements

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

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Okolona was incorporated on March 4, 1850 under the provisions of House Bill No. 214 and operates under a Strong Council-Weak Mayor form of government and provides public safety, streets and sidewalks, water and sewerage, sanitation, health and social services, culture, recreation, education, public improvements, planning and zoning and general administrative services. Electricity is also provided to city residents as well as to some residents outside the corporate limits. This service is provided in conjunction with Tennessee Valley Authority. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component unit, entity for which the government is considered to be financially accountable.

The financial statements of the following component unit have been "discretely presented" in the accompanying report because the component unit provides services entirely or almost entirely to the citizenry and not the City.

The City of Okolona Electric Department

The City of Okolona Electric Department is governed by the City Council. However, the City of Okolona Electric Department derives its revenue from the city residents by providing electricity. The City is financially accountable for the City of Okolona Electric Department's activities. Separate City of Okolona Electric Department component unit financial statements can be obtained from the City Clerk's office.

B. Basis of Presentation

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds and its component unit. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the financial condition of the governmental activities of the city at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the city's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and

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

therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the city.

**Fund Financial Statements:**

Fund financial statements of the city are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5% of the corresponding total for all governmental and proprietary funds combined.

The funds of the City are described below:

**Governmental Funds**

**General Fund**

The general fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

**Capital Project Funds**

The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

**Debt Service Funds**

The Debt Service Funds account for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the city other than debt service payments made by proprietary funds. Ad valorem taxes are used for the payment of principle and interest on the City's judgement.

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

**Proprietary Funds**

Proprietary funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City's proprietary funds are the Water and Sewer Fund and the Solid Waste Fund.

**Fiduciary Funds (Not included in government wide statements)**

**Trust and Agency Funds**

The trust and agency funds are used to account for assets held by the City in a trustee capacity.

**Major Funds**

The City reports three major funds as follows:

General Fund – This fund is used to account for all activities of the general government for which a separate fund has not been established.

Fire Protection Fund – This fund is used to account for resources that are received and restricted for purchases of fire fighting equipment and supplies.

Home Grant Fund – This fund is used to account for resources that are received and restricted for assisting qualified homebuyers in purchasing a home.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial

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

position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

**Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**D. Cash and Investments.**

For the purpose of the Statement of Net Assets cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments in governmental securities are stated at fair value. However, the city did not invest in any governmental securities during the fiscal year.

**E. Receivables.**

Receivables are reported net of allowances for uncollectible accounts, where applicable.

**F. Interfund Transactions and Balances.**

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve

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

account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available finance resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

**G. Capital Assets.**

Capital acquisition and construction are reflected as expenditures in governmental fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds.

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	n/a
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

\* Leased property capitalization policy will correspond with the amounts for the asset classification, as listed above.

**H. Long-term liabilities.**

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column on the statement of net assets.

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

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

**I. Equity Classifications.**

**Government-Wide Financial Statements:**

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

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, constructions or improvements of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

**Fund Financial Statements:**

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved, with unreserved classified as designated and undesignated.

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriate or are legally segregated for a specific purpose.

**J. Property Tax Revenues.**

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

The City Council, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

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

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

**K. Intergovernmental Revenues in Governmental Funds.**

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

**L. Use of Accounting Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported statement of operations during the reporting period. Actual results could differ from those estimates.

**M. Compensated Absences.**

The city has adopted a policy of compensation for accumulated unpaid employee benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

**2. Deposits**

The carrying amount of the city's total deposits with financial institutions at September 30, 2006, was \$964,345, and the bank balance was \$1,072,533. 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 would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depositary Insurance Corporation.



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

3. Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2006:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
City General Fund		19,098
Fire Protection Fund	31,270	
Nonmajor Governmental Funds:		
Industrial Park G. O. Bond Fund		1,406
Recreational Park Fund	774	
Airport Construction Fund		7,248
Park & Rec. Fund		5,701
Firefighters Grant Fund		20,000
Fiduciary Funds		23,332
Enterprise Funds:		
Water & Sewer Fund	20,946	
Solid Waste Fund	23,795	
	<u>\$ 76,785</u>	<u>76,785</u>

All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
City General Fund		4,003
Fire Protection Fund		3,745
Nonmajor Funds:		
Park & Rec. Fund	1,650	
Firefighters Grant Fund	3,745	
Airport Construction Fund	2,353	
	<u>\$ 7,748</u>	<u>7,748</u>

All interfund transfers were routine and consistent with the activities of the fund making the transfer.

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

4. Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2006 consisted of the following:

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Sales tax receivable from State of MS	\$ 23,013
Prior year in lieu of tax from Electric Department	<u>29,243</u>
Total Governmental Activities	\$ <u>52,256</u>

5. Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2006.

**Governmental Activities:**

	Balance <u>10/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Reclass</u>	Balance <u>9/30/2006</u>
<b><u>Non-depreciable capital assets:</u></b>						
Land	\$ 269,153					269,153
Construction in progress	407,282	286,734		-314,658		379,358
Total non-depreciable capital assets	<u>676,435</u>	<u>286,734</u>		<u>-314,658</u>		<u>648,511</u>
<b><u>Depreciable capital assets:</u></b>						
Infrastructure	2,267,884			186,041		2,453,925
Buildings	2,976,138					2,976,138
Improvements	970,670			128,617		1,099,287
Furniture and Equipment	152,515					152,515
Vehicles	361,481	74,900	-26,000			410,381
Total depreciable capital assets	<u>6,728,688</u>	<u>74,900</u>	<u>-26,000</u>	<u>314,658</u>		<u>7,092,246</u>
<b><u>Less accumulated depreciation for:</u></b>						
Infrastructure	1,516,141	15,523				1,531,664
Buildings	1,714,038	23,889				1,737,927
Improvements	293,144	43,971				337,115
Furniture and Equipment	111,215	11,942				123,157
Vehicles	221,667	54,233	-23,400			252,500
Total accumulated depreciation	<u>3,856,205</u>	<u>149,558</u>	<u>-23,400</u>			<u>3,982,363</u>
Total depreciable capital assets, net	<u>2,872,483</u>	<u>-74,658</u>	<u>-2,600</u>	<u>314,658</u>		<u>3,109,883</u>
Governmental activities capital assets, net	<u>\$ 3,548,918</u>	<u>212,076</u>	<u>-2,600</u>	<u>0</u>		<u>3,758,394</u>

**Business-Type Activities:**

**Non-depreciable capital assets:**

Land	\$ 28,240					28,240
Construction in progress	356,437	331,651		-580,868		107,220
Total non-depreciable capital assets	<u>384,677</u>	<u>331,651</u>		<u>-580,868</u>		<u>135,460</u>

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

<b><u>Depreciable capital assets:</u></b>				
Infrastructure	3,464,981		580,868	4,045,849
Buildings				
Improvements				
Machinery and Equipment	90,195			90,195
Vehicles	134,828	5,000		139,828
Total capital assets	<u>3,690,004</u>	<u>5,000</u>	<u>580,868</u>	<u>4,275,872</u>
<b><u>Less accumulated depreciation:</u></b>				
Infrastructure	1,480,127	91,166		1,571,293
Buildings				
Improvements				
Machinery and Equipment	81,175			81,175
Vehicles	112,255	5,400		117,655
Total accumulated depreciation	<u>1,673,557</u>	<u>96,566</u>		<u>1,770,123</u>
Total depreciable capital assets, net	<u>2,016,447</u>	<u>-91,566</u>	<u>580,868</u>	<u>2,505,749</u>
Business-type activities capital assets, net	<u>\$ 2,401,124</u>	<u>240,085</u>	<u>0</u>	<u>2,641,209</u>

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities	
General government	\$ 88,100
Public safety	60,897
Public works	561
Total governmental activities depreciation expense	\$ <u>149,558</u>

6. Claims and Judgments

Risk Financing.

The city finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The city pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for law enforcement personnel and \$350,000 for all other employees for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2006, to January 1, 2007. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

7. Long-term Debt.

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

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

**Governmental Activities:**

As of September, 30 2006, the governmental long-term debt of the financial reporting entity consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
A. Capital Leases:			
2 Police cars purchased 7/10/02, due in 20 quarterly payments of \$2,204.96.	\$ 8,594	4.19	7/25/07
Court software purchased 10/28/03, due in 50 monthly payments of \$300.	4,200		1/31/08
Floor cleaning Equipment purchased 10/17/03, due in 36 monthly payments of \$127.70	127	9.526	10/17/06
Konica copier purchased 1/15/05, due in 60 monthly payments of \$271.58.	7,695		1/15/10
MMS 2000 software purchased 1/31/04, due in 48 monthly payments of \$546.11.	<u>8,149</u>	10	1/31/08
Total Capital Lease Obligations	\$ <u>28,765</u>		
Current Portion	\$ 19,644		
Noncurrent Portion	<u>9,121</u>		
Total Capital Lease Obligations	\$ <u>28,765</u>		
B. Other Notes Payable			
\$100,325, loan issued 3/12/04 for a period of ten years for the purpose of purchasing a fire truck. To be repaid in 10 annual installments of \$12,546 per year	<u>73,151</u>	4.8	3/12/14
Total Other Notes Payable	\$ <u>73,151</u>		
Current Portion	\$ 9,035		
Noncurrent Portion	<u>64,116</u>		
Total Other Notes Payable	\$ <u>73,151</u>		
C. Compensated Absences:			
Current Portion	\$ 3,432		
Noncurrent Portion	<u>6,865</u>		
Total Compensated Absences	\$ <u>10,297</u>		
Total Governmental Activities Debt	\$ <u>112,213</u>		
Current Portion	\$ 32,111		
Noncurrent Portion	\$ 80,102		

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

**Business-type Activities**

As of September 30, 2006, the long-term debt payable from proprietary fund resources consisted of the following:

**A. Revenue Bonds**

\$500,000, 1993 Series, combined water and sewer system bonds, due in monthly installments of \$2,605.	\$	401,270	5.00%	2/12/28
\$435,000, 1993 Series, combined water and sewer system bonds, due in monthly installments of \$2,266		<u>349,173</u>	5.00%	2/12/28
Total Revenue Bonds	\$	<u>750,443</u>		
Current Portion		21,416		
Noncurrent Portion	\$	729,027		

**B. Capital Improvement Loan:**

\$95,172, Water & Sewer Capital Improvement Loan issued Dec. 10, 2001 due in monthly installments of \$527.82.	\$	76,873	3.00%	12/10/21
\$56,525, Capital Improvement Loan issued Nov. 12, 2003 for emergency sewer repairs due in annual installments of \$12,546.47		<u>23,482</u>	2.5%	9/12/08
Total Capital Improvement Loans		<u>100,355</u>		
Current Portion		15,600		
Noncurrent Portion		84,755		

**C. Accrued Compensated Absences:**

Current Portion	\$	2,152
Noncurrent Portion		<u>4,369</u>
Total Compensated Absences	\$	<u>6,521</u>
Total Business-Activities Debt	\$	<u>857,319</u>
Current Portion	\$	39,168
Noncurrent Portion	\$	818,151

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

**Discretely Presented Component Unit**

As of September 30, 2006, the long-term debt payable from discretely presented component unit resources consisted of the following:

**A. Special Obligation Bonds:**

\$3,705,000 special obligation bonds issued June 22, 2001 due in annual installments at varying amounts from \$135,000 to \$425,000			\$	350,000	6/22/21
Total Special Obligations Bonds				<u>350,000</u>	
Current Portion				45,000	
Noncurrent Portion				305,000	

**B. RUS Bonds**

Electric Revenue Bonds, issued April 1, 1980, at 5% interest due at varying amounts from \$10,000 to \$15,000 annually with interest payable semi-annually on April 1 and October 1.				95,000	4/1/13
Electric Revenue Bonds, issued July 1, 1984, at 5% interest due at varying amounts from \$7,000 to \$15,000 with interest payable semi-annually on June 1 and December 1.				<u>157,000</u>	7/1/17
Total RUS Bonds				<u>252,000</u>	
Current Portion				30,000	
Noncurrent Portion				222,000	

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

**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the year ended September 30, 2006.

	Balance Sept. 30 2005	Additions	Deductions	Balance Sept. 30 2006	Amounts Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable	\$ 0				
Loans Payable	130,495		28,579	101,916	28,679
Compensated Absences	11,194		897	10,297	3,432
<b>Total Governmental Activities</b>	<b>\$ 141,689</b>		<b>29,476</b>	<b>112,213</b>	
<b>Business-type Activities</b>					
Revenue Bonds	\$ 770,817		20,372	750,443	21,416
Loans Payable	126,526		26,171	100,355	15,600
Compensated Absences	3,825	2,696		6,521	2,152
<b>Total Business-type Activities</b>	<b>\$ 901,168</b>	<b>2,696</b>	<b>46,543</b>	<b>857,319</b>	

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	28,679	5,775	37,016	39,390
2008	14,962	4,081	38,650	38,256
2009	12,759	3,046	27,981	36,805
2010	11,192	2,168	29,323	35,463
2011	10,899	1,648	30,731	34,055
2012 and after	23,425	1,700	687,097	288,142
	<u>101,916</u>	<u>18,418</u>	<u>850,798</u>	<u>472,611</u>

**Legal Debt Margin** – The amount of debt, excluding specific exempted debt, that can be incurred by the city is limited by the state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the city, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the city. As of September 30, 2006 the amount of outstanding debt was equal to 1.1 of the latest property assessments.

8. **Contingencies.**

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

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

Litigation – The city is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the city with respect to the various proceedings. However, the city's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the city.

9. Defined Benefit Pension Plan.

Plan Description. City of Okolona, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 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 rate in affect for the year ended September 30, 2005 was 10.25% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The city's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005 and 2004 were \$86,756, \$88,241, and \$75,201, respectively, equal to the required contributions for each year.



CITY OF OKOLONA  
REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OKOLONA, MISSISSIPPI  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 886,532	886,532	856,198	(30,334)
Licenses, commissions and other revenue	7,500	7,500	37,643	30,143
Fines and forfeitures	60,000	60,000	32,925	(27,075)
Intergovernmental revenues	337,500	337,500	379,571	42,071
Charges for services				0
Interest income			7,968	7,968
Miscellaneous revenues	76,300	76,300	56,900	(19,400)
Total Revenues	<u>1,367,832</u>	<u>1,367,832</u>	<u>1,371,205</u>	<u>3,373</u>
<b>EXPENDITURES</b>				
Current:				
General government	411,902	427,752	430,919	(3,167)
Public safety	692,041	669,930	702,577	(32,647)
Public works	209,331	219,844	223,258	(3,414)
Culture and recreation	62,669	56,328	59,342	(3,014)
Debt service:				
Principal			19,958	(19,958)
Interest			3,806	(3,806)
Capital Outlay	30,808	33,808	11,203	22,605
Total Expenditures	<u>1,406,751</u>	<u>1,407,662</u>	<u>1,451,063</u>	<u>(43,401)</u>
Excess of Revenues over (under) Expenditures	<u>(38,919)</u>	<u>(39,830)</u>	<u>(79,858)</u>	<u>(40,028)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property			1	1
Transfers in			0	0
Transfers out	(500)	(500)	(4,003)	(3,503)
Total Other Financing Sources and Uses	<u>(500)</u>	<u>(500)</u>	<u>(4,002)</u>	<u>(3,502)</u>
Net Change in Fund Balance	(39,419)	(40,330)	(83,860)	(43,530)
Fund Balances - Beginning			329,977	
Prior period adjustment			0	
Fund Balances - Ending			<u>\$ 246,117</u>	

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CITY OF OKOLONA, MISSISSIPPI  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Fire Protection Fund  
 For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 8,560	8,560	9,128	568
Intergovernmental revenues	14,800	14,800	16,513	1,713
Interest income			2,238	2,238
Miscellaneous revenues	500	500		(500)
Total Revenues	<u>23,860</u>	<u>23,860</u>	<u>27,879</u>	<u>4,019</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	7,890	7,890	3,282	4,608
Principal			8,621	(8,621)
Interest			3,925	(3,925)
Capital Outlay	15,500	15,500		15,500
Total Expenditures	<u>23,390</u>	<u>23,390</u>	<u>15,828</u>	<u>7,562</u>
Excess of Revenues over (under) Expenditures	<u>470</u>	<u>470</u>	<u>12,051</u>	<u>11,581</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in			0	0
Transfers out			(3,745)	(3,745)
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>(3,745)</u>	<u>(3,745)</u>
Net Change in Fund Balance	470	470	8,306	7,836
Fund Balances - Beginning			109,029	
Prior period adjustment			0	
Fund Balances - Ending			<u>\$ 117,335</u>	

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CITY OF OKOLONA, MISSISSIPPI

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2006

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and revisions.

The budget is adopted by the board of aldermen and filed with the taxing authority. Amendments can be made on the approval of the board. By statute, final budget revisions must be approved on or before the date established by the State of Mississippi. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

CITY OF OKOLONA, MISSISSIPPI  
SUPPLEMENTAL INFORMATION

CITY OF OKOLONA  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Development Authority:		
Homebuyer Assistance Grant	10.442	108,933
Total U. S. Department of Agriculture		<u>108,933</u>
<u>U. S. Department of Housing and Urban Dev.</u>		
Passed-through Mississippi Development Authority:		
Community Development Block Grant	14.219	230,931
Community Development Block Grant	14.219	98,609
Total U. S. Department of Labor		<u>329,540</u>
<u>U. S. Department of Interior</u>		
Passed-through Mississippi Department of Wildlife, Fisheries and Parks:		
Recreational Facility	15.916	14,914
Total U.S. Department of Interior		<u>14,914</u>
<u>U.S. Department of Transportation</u>		
Passed-through Mississippi Department of Transportation:		
FAA Grant	20.106	262,640
Total U.S. Department of Transportation		<u>262,640</u>
<u>U.S. Department of Homeland Security</u>		
Passed-through Mississippi Emergency Management Association		
Emergency Management	97.067	71,155
Total U.S. Department of Homeland Security		<u>71,155</u>
 Total for All Federal Awards		 \$ <u>787,182</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts from the U. S. Department of Agriculture provided assistance for low-income home buyers.
3. The expenditure amounts from the U. S. Department of Housing and Urban Dev. include improvements to streets and a utility project.
4. The expenditure amounts from the U. S. Department of Interior include construction of a community recreational facility.
5. The expenditure amounts from the U. S. Department of Transportation include improvements to the Airport.
6. The expenditure amounts from the U. S. Department of Homeland Security include equipment for the fire department.

CITY OF OKOLONA, MISSISSIPPI  
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS  
September 30, 2006

EMPLOYEE	POSITION	SURETY #	AMOUNT OF BOND
Sherman Carouthers	Mayor	68683070	\$ 50,000
Anna Stovall	City Clerk	69449720	50,000
Rebecca Moore	Deputy/Court clerk	68683070	50,000
Tommy J. Ivy	Police Chief	38376890	50,000
Crossley Ford	Deputy Marshal	68683070	50,000
Regina Pickens	Councilwoman	104611405	25,000
Mary Gates	Councilwoman	104611402	25,000
Eldridge Lowe	Councilman	104611401	25,000
Anthony Floyd	Councilman	104611406	25,000
Kennith McVay	Councilman	104611403	25,000
Pamela Blissard	Councilwoman	104706497	25,000

**CITY OF OKOLONA, MISSISSIPPI**  
**SCHEDULE RECONCILING ORIGINAL AD VALOREM TAX ROLLS**  
**TO FUND COLLECTIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

<b><u>Assessed valuation in Millage:</u></b>	<b><u>Municipal</u></b>	<b><u>School</u></b>	
Realty	6,326,694	12,931,219	
Personal	2,319,880	3,355,168	
Personal-auto (from county) actual	2,253,858	6,138,284	
Utilities	449,495	1,226,851	
Less: Special homestead	<u>(1,147,643)</u>	<u>(2,360,011)</u>	
Total Municipal at <u>37.21</u> Mills	<u>10,202,284</u>		379,627
Total School at <u>52.80</u> Mills		<u>21,291,511</u>	1,124,192

**Collections Adjustments:**

Add: Municipal homestead reimbursement		31,700	
School homestead reimbursement		60,800	
Prior year tax collection		24,291	
Penalties and interest		<u>9,458</u>	123,249
Less: Cost of collections (Chickasaw & Monroe)		(69,631)	
School regular homestead credit		<u>(70,897)</u>	<u>(140,528)</u>

<b><u>Total to be Accounted for</u></b>		<u><u>1,489,540</u></u>
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**Collection Credits to Funds:**

	<b><u>Taxes</u></b>	<b><u>Homestead</u></b>	<b><u>Total</u></b>
Municipal General Fund	338,740	33,240	371,980
Fire Protection Fund	9,127	972	10,099
Recreation Fund	17,882	1,944	19,826
School Debt Service Fund	67,957		67,957
School District Maintenance Fund	952,486	60,800	1,013,286
School Minimum Program Fund	<u>7</u>		<u>7</u>
Total	<u><u>1,386,199</u></u>	<u><u>96,956</u></u>	<u><u>1,483,155</u></u>

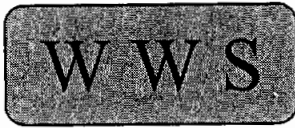
**Balance Represented By:**

Unpaid property taxes		45	
Unaccounted for		<u>6,340</u>	<u>6,385</u>

<b><u>Total Accounted For</u></b>		<u><u>1,489,540</u></u>
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CITY OF OKOLONA, MISSISSIPPI  
REPORTS ON COMPLIANCE AND INTERNAL CONTROL



**Watkins, Ward and Stafford**  
Professional Limited Liability Company  
Certified Public Accountants

James L. Stafford, CPA  
Harry W. Stevens, CPA  
Boyd A. Edwards, CPA  
Paul A. Ray, CPA  
S. Keith Winfield, CPA  
William B. Stagers, CPA  
Aubrey R. Holder, CPA  
David M. Howell, CPA  
Michael W. McCully, CPA  
Mort Stroud, CPA  
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Stephen D. Flake, CPA  
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INDEPENDENT AUDITOR'S 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*

Mayor and Board of Aldermen  
City of Okolona, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Okolona, Mississippi as of and for the year ended September 30, 2006, which collectively comprise City of Okolona, Mississippi's basic financial statements and have issued our report thereon dated June 27, 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 Okolona, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Okolona, Mississippi's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Okolona, Mississippi's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Okolona, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Okolona, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Okolona, Mississippi's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 06-01 and 06-02

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

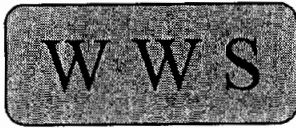
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Okolona, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of aldermen and management, entities with accreditation overview, 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.

June 27, 2007

Watkins, Ward and Stafford, PLLC



**Watkins, Ward and Stafford**  
Professional Limited Liability Company  
Certified Public Accountants

James L. Stafford, CPA  
Harry W. Stevens, CPA  
Boyd M. Edwards, CPA  
Paul A. Ray, CPA  
S. Keith Winfield, CPA  
William B. Staggers, CPA  
Aubrey R. Holder, CPA  
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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and Board of Aldermen  
City of Okolona

Compliance

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

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

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

Internal Control Over Compliance

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

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

*Watkins, Ward and Stafford, PLLC*

June 27, 2007

CITY OF OKOLONA, MISSISSIPPI

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS**

Mayor and Board of Aldermen  
City of Okolona, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Okolona, Mississippi as of and for the year ended September 30, 2006, and have issued our report thereon dated June 27, 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*.

Compliance with state laws applicable to the City of Okolona, Mississippi, is the responsibility of the City management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of the City of Okolona, Mississippi's compliance with certain provisions of state laws. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are described in the accompanying schedule of auditor's results and findings.

A public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

This report is intended solely for the information and use of the board of aldermen and management, entities with accreditation overview, 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.

June 27, 2007

*Watkins, Ward and Stafford, PLLC*

CITY OF OKOLONA, MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS



CITY OF OKOLONA, MISSISSIPPI

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

- |    |  |             |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements:                           | Unqualified |
| 2. | Material noncompliance relating to the financial statements?                           | No          |
| 3. | Internal control over financial reporting:   |             |
| a. | Material weaknesses identified?  | No          |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | Yes         |
| c. | Reportable condition(s) identified that are not considered to be material weaknesses?  | Yes         |

Federal Awards:

- |     |  |             |
|-----|--|-------------|
| 4.  | Type of auditor's report issued on compliance for major federal programs:  | Unqualified |
| 5.  | Internal control over major programs:  |             |
| a.  | Material weakness(es) identified?  | No          |
| b.  | Reportable condition(s) identified that are not considered to be material weaknesses?  | No          |
| 6.  | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?  | No          |
| 7.  | Federal programs identified as major programs:   |             |
| a.  | Community Development Block Grant<br>CFDA # 14.219   |             |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000   |
| 9.  | Auditee qualified as a low-risk auditee?   | Yes         |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No          |

CITY OF OKOLONA, MISSISSIPPI

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2006

Section 2: Financial Statement Findings

Significant Deficiencies Not Considered to be Material Weaknesses

06-01 Finding

In several funds the bank accounts were not reconciled to the general ledger. This was also a finding in the prior year.

Recommendation

At least on a monthly basis, the bank accounts for each fund need to be reconciled to the general ledger.

Response

In the future, all bank accounts will be reconciled to the general ledger.

06-02 Finding

The clearing accounts are maintaining balances. This was also a finding in the prior year.

Recommendation

Care should be taken in order to maintain a zero balance in the clearing accounts.

Response

In the future, clearing accounts will be monitored properly.

Reportable Conditions Not Considered to be Material Weaknesses

06-03 Finding

The Park and Recreation Fund and the Airport Construction Fund had a deficit fund balance.

Recommendation

Care should be taken to avoid exceeding the fund balance.

Response

Care will be taken to avoid this in the future.

06-04 Finding

Fixed asset records are not being maintained properly.

CITY OF OKOLONA, MISSISSIPPI

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2006

Recommendation

When fixed assets are purchased, a description of the asset, cost of the asset, and date of purchase should be maintained along with the corresponding depreciation amount.

Response

In the future, fixed asset records will be maintained properly.

Section 3: Federal Award Findings and Questioned Costs

The City of Okolona had no findings relating to federal awards.