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CITY OF NEW ALBANY, MISSISSIPPI
FINANCIAL STATEMENTS
September 30, 2007

CITY OF NEW ALBANY, MISSISSIPPI
FINANCIAL STATEMENTS
Year ended September 30, 2007

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis (unaudited)	3
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Assets	14
Statement of Activities	15
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	18
Statement of Fund Net Assets - Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Statement of Fiduciary Net Assets - Fiduciary Funds	23
Notes to Basic Financial Statements	24
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule - General Fund	40
Budgetary Comparison Schedule - Tourism Fund	43
Note to Budgetary Comparison Schedules	45
COMBINING FUND STATEMENTS:	
Combining Balance Sheet - All General Funds	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All General Funds	47
Combining Balance Sheet - Nonmajor Governmental Funds	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	50
Combining Statement of Fund Net Assets - Nonmajor Proprietary Funds	52
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Proprietary Funds	53
Combining Statement of Cash Flows - Nonmajor Proprietary Funds	54
Combining Statement of Fiduciary Net Assets - Fiduciary Funds	56
OTHER SUPPLEMENTAL INFORMATION:	
Schedule of Surety Bonds For Municipal Officials	57
Schedule of Expenditures of Federal Awards	58
Schedule of Findings and Questioned Costs	59
Independent Auditors' Report on Compliance with State Laws and Regulations	62
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	65

INDEPENDENT AUDITOR'S REPORT

JACKSON and CREIGHTON, P.A.

Certified Public Accountants
122 WEST BANKHEAD STREET
NEW ALBANY, MISSISSIPPI 38652

Telephone: 662-534-2271
Facsimile: 662-534-6812
Allen Jackson: ajcpa@yahoo.com
Amy Creighton: amycpa@datalane.net

Post Office Box 333
Members
American Institute of CPAs
Mississippi Society of CPAs

Independent Auditor's Report

To the Board of Aldermen
City of New Albany
New Albany, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of New Albany, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of New Albany, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City's Water, Sewer, Gas and Electric Proprietary Funds, which represent 98 percent and 97 percent, respectively, of the assets and revenues of the proprietary funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these proprietary funds, is based on the reports of the other auditors.

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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New Albany, Mississippi, as of September 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2008, on our consideration of the City of New Albany, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 40 through 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

whole. The other supplemental information referred to in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In connection with our examination, nothing came to our attention that caused us to believe that the City of New Albany, Mississippi, is not in compliance with the requirements of the State Department of Audit, as set forth in the municipal compliance questionnaire.

Jackson and Creighton, P.A.
Jackson and Creighton, P.A.

New Albany, Mississippi

January 3, 2008

REQUIRED SUPPLEMENTARY INFORMATION:
Management's Discussion and Analysis (Unaudited)

CITY OF NEW ALBANY, MISSISSIPPI

MANAGEMENT DISCUSSION AND ANALYSIS

As management of City of New Albany, Mississippi, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The assets of the City of New Albany, Mississippi exceeded its liabilities at September 30, 2007 by \$42,793,481 (Net assets). The majority of the City's net assets are invested in capital assets or unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. The remaining \$726,614 is restricted for specific purposes. Unrestricted net assets increased by \$66,944, restricted net assets increased by \$583,552, and invested in capital assets increased by \$299,037.
- As of the close of the current fiscal year, the City of New Albany's proprietary funds reported combined ending net assets of \$31,779,069. 77.7% of this total amount or \$24,677,077 is invested in capital assets, 20.1% or \$6,375,712 is unrestricted, and the remainder of 2.2% or \$726,280 is restricted for specific purposes.
- As of the close of the current fiscal year, the City of New Albany's governmental funds reported combined ending fund balances of \$5,490,082. The unreserved part of the fund balance, which is available for use within the City's designation and policies, is \$5,489,748 and the reserved part is only \$334.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$4,577,319.
- The City's bonds payable increased \$791,192, there were bonds issued in the amount of \$850,000 for the ongoing sewer improvements project and bond payments of \$58,808.

CITY OF NEW ALBANY, MISSISSIPPI

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to the financial statements. The Statement of Net Assets and the Statement of Activities (on pages 14-15) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 14. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial position is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- * Governmental activities—Most of the City's basic services are reported here, including the police, fire, general administration, streets, parks, and sanitation. Sales tax, franchise fees, fines, and state and federal grants finance most of these activities.
- * Business-type activities—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, gas, electric, waste disposal and airport systems are reported here.

CITY OF NEW ALBANY, MISSISSIPPI

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 16. The fund financial statements begin on page 16 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the board established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's three kinds of funds—government, proprietary, and fiduciary—use different accounting approaches.

- * **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 at the bottom of the fund financial statements.
- * **Proprietary funds**—When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.
- * **Fiduciary funds**—Are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accrual basis of accounting is used for fiduciary funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activities are presented in a separate Statement of Fiduciary Net Assets.

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 24-39 of this report.

CITY OF NEW ALBANY, MISSISSIPPI

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets and net assets by category may serve over time as a useful indicator of government's financial position. In the case of the City of New Albany, assets exceeded liabilities by \$42,793,481 as of September 30, 2007.

The largest portion of the City's net assets (73%) reflects its investments in capital assets (e.g., land, timber rights, building, machinery and equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF NEW ALBANY'S NET ASSETS

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		<u>TOTAL</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 6,062,644	\$ 5,689,714	\$ 12,332,310	\$ 11,693,448	\$ 18,394,954	\$ 17,383,162
Capital Assets	6,447,222	6,598,416	29,714,043	28,405,737	36,161,265	35,004,153
Total Assets	\$ 12,509,866	\$ 12,288,130	\$ 42,046,353	\$ 40,099,185	\$ 54,556,219	\$ 52,387,315
Long-term Liabilities	\$ 710,957	\$ 681,681	\$ 4,579,507	\$ 3,811,049	\$ 5,290,464	\$ 4,492,730
Other Liabilities	784,497	714,629	5,687,777	5,336,008	6,472,274	6,050,637
Total Liabilities	\$ 1,495,454	\$ 1,396,310	\$ 10,267,284	\$ 9,147,057	\$ 11,762,738	\$ 10,543,367
Net Assets:						
Invested in capital assets, net of related debt	\$ 6,447,222	\$ 6,301,574	\$ 24,677,077	\$ 24,523,688	\$ 31,124,299	\$ 30,825,262
Restricted	334	330	726,280	142,732	726,614	143,062
Unrestricted	4,566,856	4,589,916	6,375,712	6,285,708	10,942,568	10,875,624
Total Net Assets	\$ 11,014,412	\$ 10,891,820	\$ 31,779,069	\$ 30,952,128	\$ 42,793,481	\$ 41,843,948

An additional portion of the City's net assets (1.7%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$10,942,568 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2007, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Analysis of the City's Operations – Overall the City had an increase in net assets of \$949,533.

CITY OF NEW ALBANY, MISSISSIPPI

Governmental Activities: Governmental activities increased the net assets by \$122,592 or 12.9% of the total growth in net assets. Net assets invested in capital assets, net of related debt increased by \$145,648 primarily due to purchases of buildings and machinery and equipment. Unrestricted net assets decreased by \$23,060. Restricted net assets increased by \$4.

Total revenues for governmental activities decreased from the previous year by \$1,013,821. General revenues had a net decrease of 2.1%. Program revenues had a 45% net decrease, which was primarily due to the following factors:

- Operating Grants and Contributions decreased \$25,275 primarily due to decreased intergovernmental revenues for public safety.
- Capital Grants and Contributions decreased \$1,095,191 primarily due to decreased intergovernmental revenues for public safety and general government.

Total expenses for governmental activities increased \$177,757 or 3.3%. This increase was primarily related to increases in General Government and Culture and Recreation.

- General Government expenses increased \$166,074 or 13%. In addition to normal inflationary increases, increased costs in General Government are primarily due to increase in salaries and benefits.
- Culture and Recreation expenses increased \$289,993 or 40.5%. In addition to normal inflationary increases, increased costs in Culture and Recreation are primarily due to the expansion of programs.

Business-type Activities: Net Assets from business-type activities increased \$826,941 or 2.6% from \$30,952,128 to \$31,779,069 accounting for the other 87.1% of the total growth in net assets. Net assets invested in capital assets, net of related debt increased by 153,389 primarily due to continuous construction projects and the purchase of machinery and equipment.

Total revenues for business-type activities decreased \$683,867 or 2.4%. This decrease was primarily due to a decrease of 1,215,193 in the Gas Department charges for services and a decrease in capital grants of \$501,015 for the Water and Sewer Department.

Total expenses for the business-type activities increased slightly by \$99,175 or .4%. This increase was primarily related to increases in the Water and Sewer Department and Electric Department.

CITY OF NEW ALBANY, MISSISSIPPI

The following table provides a summary of the City's Operations for year-end September 30, 2007 with comparative totals for year ended September 30, 2006.

CITY OF NEW ALBANY'S CHANGES IN NET ASSETS

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		<u>TOTAL</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program Revenues:						
Charges for services	\$ 637,540	\$ 434,904	\$ 28,495,411	\$ 28,681,872	\$ 29,132,951	\$ 29,116,776
Operating grants and contributions	488,531	513,806	14,569	14,493	503,100	528,299
Capital grants and contributions	14,901	1,110,092	734,573	1,235,588	749,474	2,345,680
General Revenues:						
Property Taxes	266,379	262,310	48,781	47,132	315,160	309,442
Sales Tax	2,372,040	2,368,754	-	-	2,372,040	2,368,754
Special City Sales Tax	461,888	447,722	-	-	461,888	447,722
Franchise Taxes	41,354	39,241	-	-	41,354	39,241
Investment Earnings	138,045	106,900	114,130	109,896	252,175	216,796
Miscellaneous	-	57,414	-	-	-	57,414
Special Item-Gain(Loss) on Sale/Disposal of assets	(30,053)	63,303	-	2,350	(30,053)	65,653
Transfers	1,255,800	1,255,800	(1,255,800)	(1,255,800)	-	-
Total Revenues	<u>\$ 5,646,425</u>	<u>\$ 6,660,246</u>	<u>\$ 28,151,664</u>	<u>\$ 28,835,531</u>	<u>\$ 33,798,089</u>	<u>\$ 35,495,777</u>
Expenses:						
General Government	\$ 1,438,517	\$ 1,272,443	\$ -	\$ -	\$ 1,438,517	\$ 1,272,443
Depreciation expense not included in other functions	48,339	42,237	-	-	48,339	42,237
Public Safety	2,162,291	2,366,729	-	-	2,162,291	2,366,729
Public Works	838,641	925,930	-	-	838,641	925,930
Culture and Recreation	1,006,598	716,605	-	-	1,006,598	716,605
Interest on long-term debt	29,447	22,132	-	-	29,447	22,132
Water and Sewer	-	-	1,646,052	1,581,892	1,646,052	1,581,892
Gas	-	-	5,634,945	6,551,492	5,634,945	6,551,492
Electric	-	-	19,464,529	18,556,642	19,464,529	18,556,642
Waste Disposal	-	-	690,753	639,913	690,753	639,913
NA/UC Airport	-	-	22,648	29,813	22,648	29,813
Total expenses	<u>\$ 5,523,833</u>	<u>\$ 5,346,076</u>	<u>\$ 27,458,927</u>	<u>\$ 27,359,752</u>	<u>\$ 32,982,760</u>	<u>\$ 32,705,828</u>
Increase (Decrease) in net assets before transfers	\$ 122,592	\$ 1,314,170	\$ 692,737	\$ 1,475,779	\$ 815,329	\$ 2,789,949
Transfers	-	-	-	-	-	-
Increase in net assets	\$ 122,592	\$ 1,314,170	\$ 692,737	\$ 1,475,779	\$ 815,329	\$ 2,789,949
Net assets-October 1	10,891,820	9,577,650	30,952,128	29,476,349	41,843,948	39,053,999
Prior Period Adjustments	-	-	134,204	-	134,204	-
Net Assets-September 30	<u>\$ 11,014,412</u>	<u>\$ 10,891,820</u>	<u>\$ 31,779,069</u>	<u>\$ 30,952,128</u>	<u>\$ 42,793,481</u>	<u>\$ 41,843,948</u>

CITY OF NEW ALBANY, MISSISSIPPI

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds – The focus of the City of New Albany's governmental funds is to provide information on near-term 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 a government's net resources available for spending in the next fiscal year.

At the end of the current fiscal year, the City of New Albany's governmental funds reported combined ending fund balances of \$5,490,082. Approximately 99.9% of this total amount (\$5,489,748) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for debt service (\$334).

In the general fund, the City budgeted for a decrease in the fund balance on a budget basis of \$720,944. Due to actual revenues and net transfers being more than budgeted and actual expenditures being less than budgeted, the actual fund balance increased for fiscal year 2007 by \$66,110.

General Fund Budgetary Highlights – The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in an increase in revenues of zero and an increase in expenditures of \$125,804.

Proprietary Funds – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective enterprise funds are Water and Sewer - \$1,227,606, Gas System - \$1,437,393, Electric Department - \$3,156,913, Waste Disposal - \$546,142, and NA/UC Airport - \$7,658. The total of these unrestricted net assets is \$6,375,712. Changes in net assets for enterprise funds in 2007 were as follows: Water and Sewer – 1,060,428, Gas System - (\$642,561), Electric Department - \$339,215, Waste Disposal - \$66,294, and NA/UC Airport – \$3,565. The total change in unrestricted net assets of \$826,941.

CITY OF NEW ALBANY, MISSISSIPPI

CAPITAL ASSETS

The City of New Albany's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$36,161,265 (net of accumulated depreciation). This investment in capital assets includes land, timber rights, building, machinery and equipment, improvements, infrastructure and construction in progress. The total increase in the City's investment in capital assets (before accumulated depreciation) for the current fiscal year was 4% (4% increase in governmental activities and 96% increase in business-type activities).

Major capital asset events during the current fiscal year included the following:

- The addition to buildings of \$31,748 was for an addition to the Magnolia Civic Center
- The police department purchased two new Crown Victoria's in the amount of \$49,428, a Chevy Tahoe for \$31,096, and an in car camera system \$30,937.
- The \$4,633,866 of additions to the distribution plant consisted of \$2,617,291 for the Sewer Improvement Project, \$1,134,042 for water & sewer, \$68,164 for gas, and the remainder of \$814,369 for the electric department.

GOVERNMENTAL FUND ACTIVITIES

Asset Classification	Balance 10/1/2006	Additions	Deletions	Balance 9/30/2007
Capital Asset Values				
Land	\$ 1,109,750	\$ -	\$ -	\$ 1,109,750
Construction in Progress	21,842	-	-	21,842
Timber Rights	10,000	-	-	10,000
Buildings	1,524,056	31,748	-	1,555,804
Improvements other than buildings	1,469,791	-	-	1,469,791
Machinery and Equipment	2,340,558	157,949	(93,132)	2,405,375
Road Network	2,035,304	-	-	2,035,304
Bridge Network	423,037	-	-	423,037
Total at Historical Cost	\$ 8,934,338	\$ 189,697	\$ (93,132)	\$ 9,030,903
Less: Capital Asset Accumulated Depreciation				
Buildings	(411,404)	(25,105)	-	(436,509)
Improvements other than buildings	(147,547)	(65,127)	-	(212,674)
Machinery and Equipment	(1,297,197)	(136,862)	59,032	(1,375,027)
Road Network	(393,963)	(71,236)	-	(465,199)
Bridge Network	(85,811)	(8,461)	-	(94,272)
Total Accumulated Depreciation	\$ (2,335,922)	\$ (306,791)	\$ 59,032	\$ (2,583,681)
Governmental Activities Capital Assets, Net	\$ 6,598,416	\$ (117,094)	\$ (34,100)	\$ 6,447,222

CITY OF NEW ALBANY, MISSISSIPPI

BUSINESS-TYPE ACTIVITIES

Asset Classification	Balance 10/1/2006	Additions	Deletions	Balance 9/30/2007
Capital Asset Values				
Land	\$ 112,861	\$ 8,500	\$ -	\$ 121,361
Construction in Progress	2,918,711	289,661	(2,617,291)	591,081
Distribution Plant	42,904,370	4,633,866	(370,086)	47,168,150
Machinery and Equipment	3,634,250	288,117	(84,025)	3,838,342
Total at Historical Cost	\$ 49,570,192	\$ 5,220,144	\$ (3,071,402)	\$ 51,718,934
Less: Capital Asset Accumulated Depreciation				
Distribution Plant	(18,380,362)	(1,161,539)	394,778	(19,147,123)
Machinery and Equipment	(2,784,060)	(154,730)	81,022	(2,857,768)
Total Accumulated Depreciation	\$ (21,164,422)	\$ (1,316,269)	\$ 475,800	\$ (22,004,891)
Business-Type Activities Capital Assets, Net	\$ 28,405,770	\$ 3,903,875	\$ (2,595,602)	\$ 29,714,043

Additional information on the City of New Albany's capital assets can be found in note 4 on pages 31 and 32.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of New Albany had a total bonded debt and notes payable of \$5,470,716. Of this amount, \$811,092 represents notes payable by governmental activities, \$4,609,020 represents bonds paid by water and sewer revenues, and \$50,604 represents notes payable by proprietary funds.

Outstanding Debt at Year End Compensated Absences, Bonds, and Notes Payable

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Bonds Payable	\$ -	\$ -	\$ 4,609,020	\$ 3,817,828	\$ 4,609,020	\$ 3,817,828
Notes Payable	811,092	762,709	50,604	63,748	\$ 861,696	\$ 826,457
Totals	\$ 811,092	\$ 762,709	\$ 4,659,624	\$ 3,881,576	\$ 5,470,716	\$ 4,644,285

During the fiscal year, the City's total debt increased by \$826,431 or 18%. The main reason for the increase in debt is the \$850,000 in bonds issued for sewer improvements. Debt in the amount of \$153,569 matured during the year.

CITY OF NEW ALBANY, MISSISSIPPI

Additional information on the City of New Albany's long-term debt can be found in note 7 on pages 33-34 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged. One of those factors is the economy, it is estimated by city officials that the economy will grow at a small rate in the 2008 year.

The general fund budget for the year 2008 shows an increase in the receipts that the City will collect. The general fund's increase in receipts is mainly due to interest income and miscellaneous revenues showing a budgeted increase. The 2008 general fund budget shows an increase in the expenditures. The increase in expenditures is due mainly to budgeted increases in public safety, general government, and public works. If these budgeted estimates are realized the City's budgeted general fund balance is expected to remain the same by the close of 2008.

The City of New Albany for the 2007-year is lining up a couple of things for future growth in the city. Grants have been applied for to improve the Martintown Industrial Site for the use of possible suppliers associated with the Toyota Plant. Several property owners are seeking zoning changes in hopes of businesses and industries possibly locating here. At this time these are the only major projects that the City has planned.


The Electric Department budget for the year 2008 shows an increase in the receipts mainly due to a \$5,600,000 bond issue. The expenses for the electric department will increase in 2008 due to increased cost of electricity having to be purchased and increased costs of operation and maintenance. As for the City's business-type activities, we expect that the 2008-year will improve at a larger rate than in 2007.

The business-type activities have a few major projects that will be going on in the 2007 year. The sewer improvement project will continue for the annexed area. There are major bid items that have been and are in the process of being made in conjunction with the Wellspring Project at Toyota site at Blue Springs. The City will be constructing substation for supplying electricity. The Piper Impact Process Water Treatment plant is still underway. The Sewer Improvement Project for most recently annexed areas continues. At this time these are the only major projects that the City has planned for the business-type activities.

CITY OF NEW ALBANY, MISSISSIPPI

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors, with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Clerk's Office at 101 West Bankhead Street New Albany, Mississippi 38652.

A handwritten signature in black ink that reads "Anne Neal". The signature is written in a cursive, flowing style.

City Clerk

BASIC FINANCIAL STATEMENTS

CITY OF NEW ALBANY, MISSISSIPPI
STATEMENT OF NET ASSETS
September 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash	\$ 2,480,602	\$ 4,751,050	\$ 7,231,652
Temporary investments	2,828,741	1,786,475	4,615,216
Accounts and interest receivable	489,213	4,322,256	4,811,469
Prepaid expenses		41,005	41,005
Materials and supplies		1,412,368	1,412,368
Capital assets:			
Land, improvements, and construction in progress	1,141,592	712,442	1,854,034
Other capital assets, net of depreciation of \$24,588,572	5,305,630	29,001,601	34,307,231
Total capital assets	<u>6,447,222</u>	<u>29,714,043</u>	<u>36,161,265</u>
Lease receivable	264,088		264,088
Notes receivable		19,156	19,156
Total assets	<u>12,509,866</u>	<u>42,046,353</u>	<u>54,556,219</u>
LIABILITIES:			
Accounts payable and accruals	308,474	3,723,244	4,031,718
Customer deposits		1,507,073	1,507,073
Unearned interest revenue	79,046		79,046
Noncurrent liabilities			
Due within one year	396,977	457,460	854,437
Due in more than one year	710,957	4,579,507	5,290,464
Total liabilities	<u>1,495,454</u>	<u>10,267,284</u>	<u>11,762,738</u>
NET ASSETS:			
Investment in capital assets, net of related debt	6,447,222	24,677,076	31,124,298
Restricted for:			
Debt service	334	726,280	726,614
Other purposes			
Unrestricted	4,566,856	6,375,713	10,942,569
Total net assets	<u>\$ 11,014,412</u>	<u>\$ 31,779,069</u>	<u>\$ 42,793,481</u>

CITY OF NEW ALBANY, MISSISSIPPI
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,438,517	\$ 177,270	\$ 160,853	\$ 14,901	\$ (1,085,493)	\$	\$ (1,085,493)
Depreciation expense not included in other functions	48,339				(48,339)		(48,339)
Public safety	2,162,291	117,037	78,816		(1,966,438)		(1,966,438)
Public works	838,641		248,862		(589,779)		(589,779)
Culture and recreation	1,006,598	343,233			(663,365)		(663,365)
Interest on long-term debt	29,447				(29,447)		(29,447)
Total governmental activities	5,523,833	637,540	488,531	14,901	(4,382,861)	-	(4,382,861)
Business-type activities:							
Water and sewer	1,646,052	1,940,828		734,573		1,029,349	1,029,349
Gas	5,634,945	5,555,118			(79,827)	(79,827)	(79,827)
Electric	19,464,529	20,285,929			821,400	821,400	821,400
Waste disposal	690,753	702,193	3,901		15,341	15,341	15,341
NAJUC Airport	22,648	11,343	10,668		(637)	(637)	(637)
Total business-type activities	27,458,927	28,495,411	14,569	734,573	-	1,785,626	1,785,626
Total primary government	\$ 32,982,760	\$ 29,132,951	\$ 503,100	\$ 749,474	(4,382,861)	1,785,626	(2,597,235)

General revenues:

Taxes:							
Property taxes, levied for general purposes					266,375	48,781	315,156
Property taxes, levied for debt service					4		4
Sales taxes					2,372,040		2,372,040
Special city sales taxes					461,888		461,888
Franchise taxes					41,354		41,354
Investment earnings					138,045	114,130	252,175
Special item - gain (loss) on sale/disposal of assets					(30,053)		(30,053)
Transfers					1,255,800	(1,255,800)	-
Total general revenues, special items, and transfers					4,505,453	(1,092,889)	3,412,564
Change in net assets					122,592	692,737	815,329
Net assets - beginning					10,891,820	30,952,128	41,843,948
Prior period adjustments					-	134,204	134,204
Net assets - ending					\$ 11,014,412	\$ 31,779,069	\$ 42,793,481

CITY OF NEW ALBANY, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2007

	General Fund	Tourism Fund	Other Governmental Funds (See Suppl. Information)	Total Governmental Funds
ASSETS:				
Cash	\$ 1,666,999	\$ 231,000	\$ 582,603	\$ 2,480,602
Investments	2,697,305	131,436		2,828,741
Due from other funds	42,400	37,998		80,398
Accounts receivable	445,306	36,485	7,422	489,213
Lease receivable			264,088	264,088
Total assets	<u>\$ 4,852,010</u>	<u>\$ 436,919</u>	<u>\$ 854,113</u>	<u>\$ 6,143,042</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accrued expenses	\$ 236,693	\$ 40,162	\$ 31,619	\$ 308,474
Due to other funds	37,998		42,400	80,398
Deferred revenue - lease principal			185,042	185,042
Deferred revenue - lease interest			79,046	79,046
Total liabilities	<u>274,691</u>	<u>40,162</u>	<u>338,107</u>	<u>652,960</u>
Fund Balances:				
Reserved for:				
Debt service			334	334
Unreserved, reported in:				
General fund	4,577,319			4,577,319
Special revenue funds		396,757	408,682	805,439
Capital project funds			106,990	106,990
Total fund balances	<u>4,577,319</u>	<u>396,757</u>	<u>516,006</u>	<u>5,490,082</u>
Total liabilities and fund balances	<u>\$ 4,852,010</u>	<u>\$ 436,919</u>	<u>\$ 854,113</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in funds.	6,447,222
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	185,042
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in funds.	(1,107,934)
Net assets of governmental activities	<u>\$ 11,014,412</u>

See accompanying notes.

CITY OF NEW ALBANY, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

	General	Tourism	Other Governmental Funds (See Suppl. Information)	Total Governmental Funds
REVENUES				
Taxes	\$ 787,839	\$ -	\$ 18,540	\$ 806,379
Licenses and permits	114,805			114,805
Intergovernmental revenue	2,784,539	461,888	90,933	3,337,360
Charges for services	224,849			224,849
Fines and forfeitures	91,890		23,982	115,872
Investment earnings	123,905	3,652	10,488	138,045
Miscellaneous	65,866		157,502	223,368
Total revenues	4,193,693	465,540	301,445	4,960,678
EXPENDITURES				
Current:				
General government	1,095,127	274,229	2,499	1,371,855
Public safety	2,046,122		34,805	2,080,927
Public works	732,565			732,565
Culture and recreation	608,188		161,259	769,447
Debt service:				
Principal	14,252	59,648	7,717	81,617
Interest and other charges	3,212	16,081	10,154	29,447
Capital outlay	122,279	166,225	133,994	422,498
Total expenditures	4,621,745	516,183	350,428	5,488,356
Excess (deficiency) of revenues over expenditures	(428,052)	(50,643)	(48,983)	(527,678)
OTHER FINANCING SOURCES (USES)				
Transfers in	735,048	30,000	79,000	844,048
Transfers out	(60,700)	(47,000)	(20,548)	(128,248)
Lease principal payments			6,942	6,942
Loan proceeds		130,000		130,000
Total other financing sources and uses	674,348	113,000	65,394	852,742
SPECIAL ITEM				
Proceeds from the sale of capital assets	4,047			4,047
Net change in fund balances	250,343	62,357	16,411	329,111
Fund balances - beginning	4,326,976	334,400	499,595	5,160,971
Residual equity transfers in/(out)				-
Fund balances - ending	\$ 4,577,319	\$ 396,757	\$ 516,006	\$ 5,490,082

**CITY OF NEW ALBANY, MISSISSIPPI
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, 2007**

Net change in fund balances - total governmental funds (from prior page)	\$	329,111
--	----	---------

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 as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

(117,094)

In the statement of activities, only the *gain* on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.

(34,100)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

(55,325)

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

Changes in net assets of governmental activities

	\$	122,592
--	----	---------

CITY OF NEW ALBANY, MISSISSIPPI
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
September 30, 2007

	Water and Sewer	Gas System	Electric Department	Other Enterprise Funds (See Suppl. Information)	Total Enterprise Funds
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 1,284,597	\$ 285,696	\$ 2,613,964	\$ 566,793	\$ 4,751,050
Cash investments	468,461	794,166	523,848		1,786,475
Materials and supplies		1,016,034	396,334		1,412,368
Accounts receivable, net of allowance of \$5,900	499,766	307,645	3,443,208	71,637	4,322,256
Prepayments		11,834	29,171		41,005
Total current assets	2,252,824	2,415,375	7,035,696	638,430	12,313,154
Non-current assets:					
Notes receivable			19,156		19,156
Capital assets:					
Land	56,140	37,903	27,318		121,361
Distribution plant	17,403,549	7,959,353	21,805,248		47,168,150
Machinery and equipment	218,787	875,999	1,874,084	869,472	3,838,342
Construction in progress			591,081		591,081
Less accumulated depreciation	(5,957,992)	(5,725,390)	(9,681,169)	(640,340)	(22,004,891)
Total non-current assets	11,720,484	3,147,865	14,635,718	229,132	29,733,199
Total assets	13,973,308	5,563,240	21,671,414	867,562	42,046,353
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 193,111	\$ 530,220	\$ 2,915,284	\$ 84,629	\$ 3,723,244
Customer deposits	105,827	447,762	953,484		1,507,073
Current maturities of long-term debt	80,117		377,343		457,460
Total current liabilities	379,055	977,982	4,246,111	84,629	5,687,777
Non-current liabilities:					
Notes payable	36,789				36,789
Bonds payable	4,542,718				4,542,718
Total non-current liabilities	4,579,507	-	-	-	4,579,507
Total liabilities	4,958,562	977,982	4,246,111	84,629	10,267,284
NET ASSETS					
Invested in capital assets, net of debt	7,060,860	3,147,865	14,239,219	229,132	24,677,076
Restricted	726,280				726,280
Unrestricted	1,227,606	1,437,393	3,156,913	553,801	6,375,713
Total net assets	\$ 9,014,746	\$ 4,585,258	\$ 17,396,132	\$ 782,933	\$ 31,779,069

See accompanying notes.

CITY OF NEW ALBANY, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2007

	Water and Sewer	Gas System	Electric Department	Other Enterprise Funds (See Suppl. Information)	Total Enterprise Funds
Operating revenues:					
Charges for services	\$ 1,891,720	\$ 5,555,118	\$ 20,285,929	\$ 713,180	\$ 28,445,947
Other	49,108			356	49,464
Total operating revenues	1,940,828	5,555,118	20,285,929	713,536	28,495,411
Operating expenses:					
Depreciation and amortization	302,331	200,279	691,557	25,055	1,219,222
Natural gas purchased		4,309,816			4,309,816
Operation and maintenance	1,179,134	1,124,850	2,032,199	688,346	5,024,529
Purchased power			16,662,418		16,662,418
Facilities rental			76,182		76,182
Tax equivalents			540,000		540,000
Total operating expenses	1,481,465	5,634,945	20,002,356	713,401	27,832,167
Operating income/(loss)	459,363	(79,827)	283,573	135	663,244
Non-operating revenue (expenses)					
Interest income	16,875	37,266	57,815	2,174	114,130
Interest expense	(164,587)		(2,173)		(166,760)
Gain on sale of plant					-
Property taxes				48,781	48,781
Intergovernmental revenue				14,569	14,569
Grants in aid of construction	734,573				734,573
Other income/(expense)					-
Total non-operating revenues (expenses)	586,861	37,266	55,642	65,524	745,293
Income/(loss) before operating transfers	1,046,224	(42,561)	339,215	65,659	1,408,537
Transfers in/(out)	(120,000)	(600,000)		4,200	(715,800)
Change in net assets	926,224	(642,561)	339,215	69,859	692,737
Total net assets, beginning	7,954,318	5,227,819	17,056,917	713,074	30,952,128
Prior period adjustments	134,204				134,204
Total net assets, ending	\$ 9,014,746	\$ 4,585,258	\$ 17,396,132	\$ 782,933	\$ 31,779,069

CITY OF NEW ALBANY, MISSISSIPPI
STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS
For the Year Ended September 30, 2007

	Water and Sewer	Gas System	Electric Department	Other Enterprise Funds (See Suppl. Information)	Total Enterprise Funds
Cash flows from operating activities:					
Cash received from customers	\$ 1,727,030	\$ 5,526,068	\$ 20,485,347	\$ 706,288	\$ 28,444,733
Cash payments to suppliers for goods and services	(816,858)	(4,771,101)	(17,172,832)	(176,113)	(22,936,904)
Cash payments to employees and professional contractors for services	(366,877)	(603,220)	(1,734,320)	(505,732)	(3,210,149)
Payments to City of New Albany		(540,000)			(540,000)
Other operating revenues					-
Net cash provided by operating activities	543,295	151,747	1,038,195	24,443	1,757,680
Cash flows from non-capital financing activities:					
Operating transfers, net	(120,000)	(600,000)		4,200	(715,800)
Payments on principal					-
Payments on interest					-
Net cash used by non-capital financing activities	(120,000)	(600,000)	-	4,200	(715,800)
Cash flows from capital and related financing activities:					
Net additions to utility plant	(1,109,158)	(107,214)	(1,092,214)	(194,029)	(2,502,615)
Proceeds from sale of assets					-
Taxes and intergovernmental revenues, net				63,350	63,350
Proceeds from grants	734,573				734,573
Proceeds from revenue bonds	850,000		377,343		1,227,343
Principal paid on general obligation bonds/notes	(72,425)				(72,425)
Interest paid on general obligation bonds/notes	(154,845)		(2,173)		(157,018)
Net cash used by capital and related financing activities	248,145	(107,214)	(717,044)	(130,679)	(706,792)

CITY OF NEW ALBANY, MISSISSIPPI
STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS (CONTINUED)
For the Year Ended September 30, 2006

	Water and Sewer	Gas System	Electric Department	Other Enterprise Funds (See Suppl. Information)	Total Enterprise Funds
Cash flows from investing activities:					
Interest on investments	16,875	37,266	57,815	2,173	114,129
Net (increase)/decrease in cash investments	(13,645)	701,818	(17,390)	-	670,783
Net (increase)/decrease in restricted assets	-	-	-	-	-
Net (increase)/decrease in notes receivable	-	-	-	-	-
Net (increase)/decrease in loans to municipality	-	-	-	-	-
Net cash provided by investing activities	3,230	739,084	40,425	2,173	784,912
 Net increase/(decrease) in cash	 674,670	 183,617	 361,576	 (99,863)	 1,120,000
 Cash and cash equivalents at beginning of year	 609,927	 102,079	 2,252,388	 666,656	 3,631,050
 Cash and cash equivalents at end of year	 <u>\$ 1,284,597</u>	 <u>\$ 285,696</u>	 <u>\$ 2,613,964</u>	 <u>\$ 566,793</u>	 <u>\$ 4,751,050</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 459,363	\$ (79,827)	\$ 283,573	\$ 135	\$ 663,244
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	302,331	200,279	691,557	25,055	1,219,222
Changes in assets and liabilities:					
Decrease/(increase) in:					
Accounts receivable	(201,574)	(36,145)	86,907	(7,248)	(158,060)
Materials and supplies		7,659	(12,177)		(4,518)
Prepayments		(1,602)	83,700		82,098
Increase/(decrease) in:					
Accounts payable and accrued expenses	(4,903)	54,063	(130,316)	6,501	(74,655)
Customer deposits	(11,922)	7,320	34,951		30,349
Net cash provided by operating activities	\$ 543,295	\$ 151,747	\$ 1,038,195	\$ 24,443	\$ 1,757,680

CITY OF NEW ALBANY, MISSISSIPPI
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2007

	Agency Funds
ASSETS:	
Cash	\$ 7,379
Investments	20,980
Total assets	<u>\$ 28,359</u>
LIABILITIES	
Liabilities:	
Accounts payable and accrued expenses	\$ 28,359
Total liabilities	<u>\$ 28,359</u>

See accompanying notes.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of New Albany, Mississippi (the City) operates under a mayor-board of aldermen form of government and provides the following services: public safety (police and fire), street maintenance, recreation, sanitation, electricity, gas, water and sewer services and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

A. Reporting Entity

These City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards include whether:

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

Based on the aforementioned criteria, the City has no component units.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

B. Basic Financial Statements – Government-Wide Statements

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

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

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

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

The City does not allocate indirect costs.

The City eliminates internal activity in the government-wide statements.

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

C. Basic Financial Statements – Fund Financial Statements

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

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

The following fund types are used by the City:

1. Governmental Funds:

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

- a. General fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special revenue funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- c. Debt service funds** are used to account for the accumulation of funds for the periodic payment of principal and interest on general-long term debt.
- d. Capital project funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

2. Proprietary Funds:

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

- a. Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.
- b. Internal service funds** are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the City on a cost-reimbursement basis.

3. Fiduciary Funds:

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principals similar to proprietary funds.

The emphasis in fund financial statements is on major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

D. Basis of Accounting

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

1. Accrual:

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

2. Modified Accrual:

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

E. Financial Statement Amounts

1. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand and demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statements of cash flows, the proprietary funds consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

2. Investments:

Investments consist of bank certificates of deposit with maturities of six months or more and are stated at cost, which equals market.

3. Inventories

Inventories of materials and supplies are stated at average cost; inventory of natural gas is valued at moving average cost.

4. Capital assets:

Capital assets purchased or acquired fixed assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Interest accrued on financing costs during construction is capitalized as construction costs. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Water and sewer system	30-50 years
Machinery and equipment	5-10 years
Improvements	10-40 years
Other infrastructure	10-50 years

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

GASBS No. 34 requires the City to report and depreciate new infrastructure assets effective with year ended September 30, 2003. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period, and is first effective for years ending 2003.

5. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASBS No. 33. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expense result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

6. Expenditures:

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

7. Compensated Absences:

In the event that available vacation time is not used within 180 days after the end of the benefit year, employees will forfeit the unused time. Compensated absences for sick time are credited against retirement and not paid directly to an employee that has left the City's service.

8. Interfund Activity:

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

9. Restricted Resources:

Restricted resources are used first before unrestricted resources to fund appropriations when applicable.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

10. Accounts Receivable:

The City reports trade receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses, current economic conditions, and other factors. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against the existing allowance for doubtful accounts or against income.

11. Electric Department year end:

Data listed in this report for the Electric Department represent balances as of June 30, 2007, and cumulative totals for the 12-month period then ending.

12. Use of estimates:

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

13. Concentrations of credit risk:

Financial instruments that potentially subject the City to concentrations of credit risk consist primarily of proprietary fund accounts receivable. The City grants unsecured credit to customers in and around the City of New Albany. Consequently, the City's ability to collect the amounts due from customers is affected by economic fluctuations in that region, although a security deposit is generally required before credit is granted.

NOTE 2. CASH AND INVESTMENTS

At year end, the carrying amounts of the City's deposits were covered by federal depository insurance or by the Mississippi State Treasurer.

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Cash and investments are categorized in three categories of credit risk:

- Category 1 - Insured by FDIC or collateralized with securities held by the City or by its agent in its name.
- Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with no written or approved collateral agreement.

At year-end, all cash and investments were considered category one.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

NOTE 3. RECEIVABLES

Receivables at September 30, 2007, were as follows:

	<u>Accounts</u>	<u>Due from Other Governments</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental activities:				
General	\$ 250,996	\$ 194,310		\$ 445,306
Tourism	-	36,485		36,485
Other governmental	286	7,136		7,422
Total - governmental activities	<u>\$ 251,282</u>	<u>\$ 237,931</u>	<u>\$ -</u>	<u>\$ 489,213</u>
Business-type activities:				
Water and sewer	\$ 499,766			\$ 499,766
Electric	3,370,001		73,207	3,443,208
Gas	305,060		2,585	307,645
Other business-type	71,637			71,637
Total - business-type activities	<u>\$ 4,246,464</u>	<u>\$ -</u>	<u>\$ 75,792</u>	<u>\$4,322,256</u>

NOTE 4. CAPITAL LEASE RECEIVABLE

The City has entered into a capital lease agreement with CEC Production Metal Processing, Inc. (CEC) to lease/sell a building to them. This is a capital lease accounted for as a "direct financing lease" for the following reasons: There is a "bargain" purchase clause at the term of the lease that allows CEC to purchase the building for \$500. The city's cost of the building is \$191,984. It is the City's intention to sell the building to CEC.

The City borrowed \$191,984 through a CAP loan in FY2006 to construct the building.

In consideration of the sale of the building, the City is expecting CEC to pay at total of \$279,212 in rents over the term of the lease in monthly payments of \$1,163.39 per month 10/1/2006 through 9/1/2026.

Total minimum lease payments are \$279,212. The carrying amount of the building is \$191,984. Therefore, the implicit interest in the transaction is the difference or \$87,228 of unearned interest income. The effective interest method is used to amortize the interest revenue over the term of the lease. The interest rate implicit in the calculation and used for amortization is 4%.

Future minimum lease receivables are as follows:

Year ending September 30:	Principal	Interest
2008	6,681	7,280
2009	6,953	7,008
2010	7,236	6,725
2011	7,531	6,430
2012	7,838	6,123
2013-2017	44,248	25,557
2018-2022	54,027	15,778
2023-2026	50,528	4,145
	<u>\$ 185,042</u>	<u>\$ 79,046</u>

The County has an identical agreement with MDA and CEC.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,109,750	\$ -	\$ -	\$ 1,109,750
Construction in progress	21,842			21,842
Timber rights	10,000			10,000
Total capital assets not being depreciated	<u>1,141,592</u>	<u>-</u>	<u>-</u>	<u>1,141,592</u>
Other capital assets:				
Buildings	1,524,056	31,748		1,555,804
Improvements other than buildings	1,469,791			1,469,791
Machinery & equipment	2,340,558	157,949	(93,132)	2,405,375
Road network	2,035,304			2,035,304
Bridge network	423,037			423,037
Total other capital assets at historical cost	<u>7,792,746</u>	<u>189,697</u>	<u>(93,132)</u>	<u>7,889,311</u>
Less accumulated depreciation for:				
Buildings	(411,404)	(25,105)		(436,509)
Improvements other than buildings	(147,547)	(65,127)		(212,674)
Machinery & equipment	(1,297,197)	(136,862)	59,032	(1,375,027)
Road network	(393,963)	(71,236)		(465,199)
Bridge network	(85,811)	(8,461)		(94,272)
Total accumulated depreciation	<u>(2,335,922)</u>	<u>(306,791)</u>	<u>59,032</u>	<u>(2,583,681)</u>
Other capital assets, net	<u>5,456,824</u>	<u>(117,094)</u>	<u>(34,100)</u>	<u>5,305,630</u>
Governmental activities capital assets, net	<u>\$ 6,598,416</u>	<u>\$ (117,094)</u>	<u>\$ (34,100)</u>	<u>\$ 6,447,222</u>

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

Business-type activities:

Capital assets not being depreciated:

Land	\$ 112,861	\$ 8,500	\$ -	\$ 121,361
Construction in progress	2,918,711	289,661	(2,617,291)	591,081
Total capital assets not being depreciated	3,031,572	298,161	(2,617,291)	712,442

Other capital assets:

Distribution plant	42,904,370	4,633,866	(370,086)	47,168,150
Machinery & equipment	3,634,250	288,117	(84,025)	3,838,342
Total other capital assets at historical cost	46,538,620	4,921,983	(454,111)	51,006,492

Less accumulated depreciation for:

Distribution plant	(18,380,362)	(1,161,539)	394,778	(19,147,123)
Machinery & equipment	(2,784,060)	(154,730)	81,022	(2,857,768)
Total accumulated depreciation	(21,164,422)	(1,316,269)	475,800	(22,004,891)

Other capital assets, net	25,374,198	3,605,714	21,689	29,001,601
Business-type activities capital assets, net	\$ 28,405,770	\$ 3,903,875	\$ (2,595,602)	\$ 29,714,043

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 48,339
Public safety	85,440
Public work, which includes the depreciation of road and bridge networks	102,197
Culture and recreation	70,815

Total governmental activities depreciation expense	<u>\$ 306,791</u>
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Business-type activities:

Water and sewer	\$ 302,331
Electric	788,604
Gas	200,279
Waste disposal	25,055

Total business-type activities depreciation expense	<u>\$ 1,316,269</u>
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During the fiscal year ended September 30, 2007, the Water & Sewer System capitalized \$51,004 of interest on the sewer expansion project begun in 2006.

Work performed on the sewer expansion project begun in the fiscal year ended September 30, 2006 is largely subcontracted to third parties. Contractual commitments related to those construction contracts amounted to approximately \$344,000 at September 30, 2007.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

NOTE 5. PAYABLES

Payables at September 30, 2007, were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total Payables</u>
Governmental activities:				
General	\$ 175,810	\$ 15,883	\$ 45,000	\$ 236,693
Tourism	40,162			40,162
Other governmental	31,619			31,619
Total - governmental activities	<u>\$ 247,591</u>	<u>\$ 15,883</u>	<u>\$ 45,000</u>	<u>\$ 308,474</u>
Business-type activities:				
Water and sewer	\$ 193,111	\$ -	\$ -	\$ 193,111
Electric	2,915,284		-	2,915,284
Gas	530,220			530,220
Other business-type	36,576		48,053	84,629
Total - business-type activities	<u>\$ 3,675,191</u>	<u>\$ -</u>	<u>\$ 48,053</u>	<u>\$3,723,244</u>

NOTE 6. SHORT-TERM DEBT

The City received advances from MDA for the purchase of land and to begin construction for HMC. This will become a CAP loan and lease purchase upon completion similar to CEC (see Note 4).

Short-term debt activity for the year ended September 30, 2007, was as follows:

Governmental Activities:

	Balance 10/1/2006	Additions	Deductions	Balance 9/30/2007
Notes Payable	<u>\$ 296,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,842</u>

The Electric Department notes payable at June 30, 2007 consisted of draws on an unsecured, \$5.6 million line of credit with a bank, bearing interest at 5%, maturing May 7, 2008. This debt was issued for the construction of a substation and other infrastructure related to the Wellspring megasite.

Business-type Activities:

	Balance 10/1/2006	Additions	Deductions	Balance 9/30/2007
Notes Payable	<u>\$ -</u>	<u>\$ 377,343</u>	<u>\$ -</u>	<u>\$ 377,343</u>

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

NOTE 7. LONG-TERM DEBT

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

Governmental Activities:

As of September 30, 2007, the governmental long-term debt consisted of the following:

	Interest Rate	Maturity Date	
Notes Payable:			
Bank note on Sportsplex Sign	5.08%	4/25/2012	\$ 130,000
Bank note on Magnolia Civic Center	3.50%	10/10/2014	430,003
Capital improvement revolving loan	4.25%	12/1/2012	66,822
Capital improvement revolving loan	3.00%	9/1/2026	<u>184,267</u>
Total Governmental activity debt			<u>\$ 811,092</u>

Business-type Activities:

As of September 30, 2007, the long-term debt payable from proprietary fund resources consisted of the following:

	Interest Rate	Maturity Date	
Bonds Payable:			
Water and Sewer Revenue Bonds	5.00%	8/1/2029	\$2,368,560
Water and Sewer Revenue Bonds	4.38%	3/1/2041	849,727
Water and Sewer Revenue Bonds	4.375%	10/1/2041	1,390,733
Notes Payable:			
Farmers Home Administration note	5.00%	3/1/2011	<u>50,604</u>
Total Business-type activity debt			<u>\$4,659,624</u>

Changes in Long-Term Debt

The following is summary of changes in long-term debt of the City for the year ended September 30, 2007:

Type of Debt	Balance 10/1/2006	Additions	Deductions	Balance 9/30/2007	Amounts Due within One Year
Governmental Activities:					
Bonds Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Notes Payable	762,709	130,000	(81,617)	811,092	100,135
Total Governmental Fund Debt	<u>\$ 762,709</u>	<u>\$ 130,000</u>	<u>\$ (81,617)</u>	<u>\$ 811,092</u>	<u>\$ 100,135</u>
Business-type Activities:					
Bonds Payable	\$ 3,817,828	\$ 850,000	\$ (58,808)	\$4,609,020	\$ 66,302
Notes Payable	63,748	-	(13,144)	50,604	13,816
Total Enterprise Fund Debt	<u>\$ 3,881,576</u>	<u>\$ 850,000</u>	<u>\$ (71,952)</u>	<u>\$4,659,624</u>	<u>\$ 80,118</u>

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of September 30, 2007 are as follows:

Year ending September 30:	Governmental Activities			
	State of MS notes		Bank notes	
	Principal	Interest	Principal	Interest
2008	\$ 22,219	\$ 8,022	\$ 77,916	\$ 20,823
2009	23,088	7,153	81,084	17,654
2010	23,990	6,251	84,344	14,393
2011	24,928	5,312	87,739	10,999
2012	11,647	4,523	91,232	7,507
2013-17	45,362	18,523	137,688	5,290
2018-22	52,692	11,190		
2023-26	47,163	2,884		
	<u>\$ 251,089</u>	<u>\$ 63,858</u>	<u>\$ 560,003</u>	<u>\$ 76,666</u>

Year ending September 30:	Business-Type Activities			
	Water and Sewer		Water and Sewer	
	Revenue Bonds		FHA Notes	
	Principal	Interest	Principal	Interest
2008	\$ 66,302	\$ 215,036	\$ 13,816	\$ 2,216
2009	94,880	211,131	14,522	1,510
2010	101,609	206,398	15,265	767
2011	106,587	201,420	7,001	93
2012	111,810	196,197		
2013-17	646,838	893,197		
2018-22	821,833	718,201		
2023-27	1,044,391	495,643		
2027-32	720,892	257,759		
2032-37	504,893	143,241		
2038-42	388,985	28,892		
	<u>\$4,609,020</u>	<u>\$ 3,567,115</u>	<u>\$ 50,604</u>	<u>\$ 4,586</u>

Revenue bonds issued by the Water & Sewer System require the System to establish a bond cushion fund, a depreciation fund, and a contingent fund. The System has established and maintains balances in these funds aggregating \$194,558, which is consistent, in all material respects, with the covenants contained in the related revenue bond issues. The balance of these accounts is included in restricted net assets on the balance sheet of the System.

The System also maintains a cash account entitled the "City of New Albany Sewer Improvement" fund. The account is utilized by the System to receive grant and revenue bond proceeds awarded in connection with the most recent expansion project and to disburse those funds for that project. All disbursements from the account require

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

Rural Development Service approval prior to the disbursement, and can only be used for the System expansion project. Accordingly, the \$531,723 balance of the account is restricted as to purpose and is included in restricted net assets on the balance sheet of the System.

NOTE 8. INTERFUND BALANCES

Interfund balances at September 30, 2007, consisted of the following:

		Due from		
		Magnolia		
		General	Civic	
		<u>Fund</u>	<u>Center</u>	<u>Total</u>
Due to	General fund	\$ -	\$ 42,400	\$ 42,400
	Tourism fund	37,998	-	37,998
	Total	\$ 37,998	\$ 42,400	\$ 80,398

The balance due to the general fund from the Magnolia Civic Center resulted from loans made during construction. The balance is not scheduled to be collected in the subsequent year. The balance due to the tourism fund from the general fund resulted from tourism tax not transferred. It has been transferred in the subsequent year.

NOTE 9. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2007, consisted of the following:

		Transfer from					
		General		Nonmajor	Water and		
		<u>Fund</u>	<u>Tourism</u>	<u>Governmental</u>	<u>Sewer</u>	<u>Gas</u>	<u>Total</u>
Transfer to	General fund	\$ 14,500	\$ -	\$ 548	\$ 120,000	\$ 600,000	\$ 735,048
	Tourism	30,000					30,000
	Nonmajor governmental	12,000	47,000	20,000			79,000
	Nonmajor enterprise	4,200					4,200
	Total	\$ 60,700	\$ 47,000	\$ 20,548	\$ 120,000	\$ 600,000	\$ 848,248

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied at the city board meeting prior to September 15 and are payable in three installments on February 1, May 1, and July 1. The City bills and collects its own property taxes and also taxes for the City Separate School District. The City property tax revenues are recognized when levied to the extent that they result in current receivables.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2007

NOTE 11. PENSION PLAN

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

PERS members are required to contribute 7.25% of their annual covered salary, and the City of New Albany is required to contribute at an actuarially determined rate. The current rate, effective July 1, 2007, is 11.85% 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 of New Albany's contributions to PERS for the years ending September 30, 2007, 2006, and 2005, \$516,807, \$485,626 and \$488,907, respectively, equal to the required contributions for each year.

NOTE 12. RELATED PARTY TRANSACTIONS

The City provides all four utility departments with certain services of the Mayor and Board of Aldermen at no charge.

Electricity is supplied to the Electric Department by the Tennessee Valley Authority under a contract which limits the withdrawal of profits from the Department by the City to a computed in-lieu-of property tax payment and a 3% annual return on the City's investment in the Department.

The Electric Department's billings to customers are combined with those of the City's other utility departments. The Electric Department services the accounts receivable, reimbursing the other utility departments for total billings each month. Adjustments for bad debts, forfeited discounts and other adjustments are made periodically.

Various purchases and other expenses are paid by the Electric Department on behalf of the City's other utility departments and are later reimbursed.

The four utility departments also have transactions with each other. These transactions are routine in nature and are not material to the financial statements of the utility departments or to the City.

NOTE 13. LEASING ARRANGEMENTS

The Electric, Gas and Water & Sewer Departments lease certain equipment, as needed, for repairs or additions to the system under day-to-day or month-to-month terms. Rental expense related to these leases for the Electric Department amounted to \$84,937 during the year ended June 30, 2007 and for the Gas Department amounted to \$1,243 and for the Water & Sewer Department amounted to \$2,340 during the year ended September 30, 2007.

NOTE 14. FINANCIAL INSTRUMENTS

The carrying amount of cash, investments, accounts and other receivables, accounts payable and accrued expenses approximates fair value because of the short maturity of these financial instruments.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2006

NOTE 15. COMMITMENTS

The City has agreed to reimburse Union County for half of the payments due on a loan obtained by the County from the State of Mississippi MBIA program in connection with the Wal-Mart Distribution Center. The City's half of the annual payment is \$43,500 and will be payable through 2011.

NOTE 16. NOTES RECEIVABLE

The Electric Department's servicing organization, Central Services Association, Inc. (CSA), refunds, annually, a percentage of billings to its shareholders. For the past several years, the refunds have not been credited to shareholders. Unremitted refunds prior to June 30, 2003 are included in notes receivable and bear interest at the applicable federal rate (4.80% during the year ended June 30, 2007). CSA's board of directors elected to account separately for the 2003 refund and offset the 2003 refund against certain future project expenses with any remaining balance, after offsetting project expenses, repaid consistent with prior unremitted refunds at that time. The 2003 refund amounted to \$48,365. During subsequent years, project expenses allocated by CSA against the 2003 refund have amounted to \$42,934, resulting in a remaining 2003 refund of \$5,431, which has not been recorded by the Department pending future allocations of project costs by CSA.

NOTE 17. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability and workers' compensation coverage. The City joined the Mississippi Municipal Service Company (the Company), which is a public entity risk pool established in 1991 by the Mississippi Municipal League. The City pays annual premiums to the Company for the above policies. The Company provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. The City's premiums are calculated based on its prior claims history.

It is the policy of the City to purchase commercial insurance for the risks of property damage and employee dishonesty. Settled claims have not exceeded this commercial coverage or the coverage provided by the Company in any of the past three years. There have been no significant reductions in insurance coverage from coverage in the prior year.

NOTE 18. JOINT VENTURES

The City participates in the following joint ventures with Union County, Mississippi. The financial statements for these ventures may be obtained directly from the entity.

New Albany Main Street Association is involved in promotion of downtown business. For the fiscal year ended September 30, 2007, the City provided \$40,000 in support to the Association.

The Union County Library administers the countywide library. For the fiscal year ended September 30, 2007, the City provided \$15,000 in support to the Library.

Union County Development Association is involved in business development. For the fiscal year ended September 30, 2007, the City provided \$8,375 in support to the Association.

Union County Literacy Council is involved in the promotion of literacy throughout the county. For the fiscal year ended September 30, 2007, the City provided \$4,800 in support to the Council.

CITY OF NEW ALBANY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS-continued
September 30, 2006

Union County Welfare Department administers the operations of the local welfare department. For the fiscal year ended September 30, 2007, the City provided \$5,400 in support to the Department.

Union County Health Department administers the operations of the local health department. For the fiscal year ended September 30, 2007, the City provided \$3,600 in support to the Department.

The City provides support to various other organizations that it feels are vital to the community.

NOTE 19. MAGNOLIA CIVIC CENTER

The City has committed to the renovation of the Magnolia Civic Center in the old Cine' Theater and surrounding buildings. The City is leasing one of these buildings from the Bank of New Albany under a 50-year lease of \$1 a year.

NOTE 20. DEFICIT FUND EQUITY

The Magnolia Civic Center fund has deficit fund equity of \$26,350. This is expected to be recovered through future revenues.

NOTE 21. UNEMPLOYMENT CONTINGENT LIABILITY

The City has an agency fund in which it holds funds restricted to pay unemployment claims. At September 30, 2007, \$23,602 has been accumulated in this fund. The general fund of the City would be required to pay any claims exceeding monies available in this fund.

NOTE 22. NEW ALBANY/UNION COUNTY AIRPORT

In April 2004, the City assumed responsibility for the finances of the New Albany/Union County Airport after the Airport's board was disbanded. An enterprise fund was established and is reflected in these financial statements.

NOTE 23. PRIOR PERIOD ADJUSTMENT

These financial statements include a prior period adjustment to record unbilled revenue of \$109,319 and to capitalize construction period interest on a recent sewer system expansion of \$24,885 as of September 30, 2006. The effect of these error corrections is to increase beginning of year unrestricted net assets by \$134,204.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEW ALBANY, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year ended September 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 625,950	\$ 645,252	\$ 641,494	\$ (3,758)
Licenses and permits	103,950	114,810	114,805	(5)
Intergovernmental revenue	2,802,100	2,738,223	2,760,310	22,087
Fines and forfeitures	105,000	105,000	91,890	(13,110)
Miscellaneous	75,000	75,000	61,621	(13,379)
Charges for services	190,090	223,805	224,849	1,044
Sale of property	15,000	15,000	4,047	(10,953)
Investment income	55,000	55,000	88,129	33,129
	<u>3,972,090</u>	<u>3,972,090</u>	<u>3,987,145</u>	<u>15,055</u>
EXPENDITURES:				
General government:				
Legislative:				
Personal services	97,978	97,978	96,712	1,266
Supplies	-	100	90	10
Other services and charges	12,500	12,500	9,993	2,507
Judicial:				
Personal services	56,867	56,867	56,737	130
Supplies	1,025	1,025	391	634
Other services and charges	8,250	8,250	6,514	1,736
Capital outlay	500	500	-	500
Executive:				
Personal services	118,125	118,125	116,847	1,278
Supplies	3,255	3,465	3,465	-
Other services and charges	7,805	7,355	6,840	515
Capital outlay	500	740	740	-
Elections:				
Personal services	1,000	1,000	840	160
Supplies	150	150	-	150
Other services and charges	350	350	-	350
Financial:				
Personal services	114,370	114,370	112,844	1,526
Supplies	6,400	6,400	5,973	427
Other services and charges	65,600	65,600	51,344	14,256
Capital outlay	5,000	5,000	-	5,000
Legal:				
Personal services	48,030	48,030	46,018	2,012
Supplies	50	50	-	50
Other services and charges	51,300	72,345	72,344	1

CITY OF NEW ALBANY, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year ended September 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
EXPENDITURES:				
General government (continued):				
Building inspector:				
Personal services	83,441	83,441	83,163	278
Supplies	5,950	5,950	5,336	614
Other services and charges	9,775	9,775	8,193	1,582
Capital outlay	1,000	1,000	-	1,000
Public property:				
Personal services	61,655	62,185	62,182	3
Supplies	6,355	6,355	4,604	1,751
Other services and charges	81,675	81,675	78,503	3,172
Capital outlay	16,600	30,600	19,593	11,007
Miscellaneous:				
Personal services	12,000	12,000	8,218	3,782
Supplies	6,115	6,115	625	5,490
Other services and charges	152,770	172,990	172,989	1
Capital outlay	15,000	15,000	-	15,000
	<u>1,051,391</u>	<u>1,107,286</u>	<u>1,031,098</u>	<u>76,188</u>
Public safety:				
Police:				
Personal services	1,057,212	1,086,027	1,086,025	2
Supplies	96,650	103,910	103,909	1
Other services and charges	116,050	120,590	120,586	4
Capital outlay	228,500	187,885	54,447	133,438
Fire:				
Personal services	704,771	704,771	674,982	29,789
Supplies	35,850	35,850	32,164	3,686
Other services and charges	43,850	43,850	28,456	15,394
Capital outlay	2,500	2,500	-	2,500
	<u>2,285,383</u>	<u>2,285,383</u>	<u>2,100,569</u>	<u>184,814</u>
Streets:				
Personal services	375,349	375,349	358,055	17,294
Supplies	366,790	366,790	191,540	175,250
Other services and charges	193,575	193,575	182,970	10,605
Capital outlay	34,000	34,000	18,811	15,189
	<u>969,714</u>	<u>969,714</u>	<u>751,376</u>	<u>218,338</u>

CITY OF NEW ALBANY, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year ended September 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
EXPENDITURES:				
Recreation:				
Personal services	312,697	345,254	345,254	-
Supplies	116,300	172,307	172,307	-
Other services and charges	54,285	90,630	90,627	3
Capital outlay	86,500	31,500	28,688	2,812
	<u>569,782</u>	<u>639,691</u>	<u>636,876</u>	<u>2,815</u>
Debt service:				
Principal retirement	57,752	57,752	57,752	-
Interest and fiscal charges	3,208	3,208	3,212	(4)
	<u>60,960</u>	<u>60,960</u>	<u>60,964</u>	<u>(4)</u>
Total expenditures	<u>4,937,230</u>	<u>5,063,034</u>	<u>4,580,883</u>	<u>482,151</u>
Excess of revenues over/(under) expenditures	<u>(965,140)</u>	<u>(1,090,944)</u>	<u>(593,738)</u>	<u>497,206</u>
OTHER FINANCING SOURCES/(USES):				
Operating transfers in/(out)	370,000	370,000	659,848	289,848
Loan proceeds				
	<u>370,000</u>	<u>370,000</u>	<u>659,848</u>	<u>289,848</u>
Excess/(deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (595,140)</u>	<u>\$ (720,944)</u>	<u>\$ 66,110</u>	<u>\$ 787,054</u>
Fund balance Beginning of Year	2,780,513	2,780,513	2,780,513	
Residual equity transfers in/(out)				
Fund balance End of Year	<u>\$ 2,185,373</u>	<u>\$ 2,059,569</u>	<u>\$ 2,846,623</u>	<u>\$ 787,054</u>
 Budget Basis			\$ 66,110	
Revenue Accruals			<u>(12,474)</u>	
 GAAP Basis			<u>\$ 53,636</u>	

CITY OF NEW ALBANY, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE - TOURISM FUND
Year ended September 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 440,000	\$ 440,000	\$ 463,780	\$ 23,780
Investment income			3,652	3,652
Miscellaneous				-
	<u>440,000</u>	<u>440,000</u>	<u>467,432</u>	<u>27,432</u>
EXPENDITURES:				
General government:				
Heritage Museum:				
Personal services	58,798	50,269	50,269	-
Other services and charges	19,288	28,225	28,225	-
City Beautification:				
Other services and charges	52,700	52,700	52,700	-
Capital outlay	35,000	35,000	35,000	-
Cine' Renovation:				
Other services and charges	15,000	15,000	-	15,000
Capital outlay				-
UCDA Community Promotion:				
Personal services	17,000	17,000	17,000	-
Other services and charges	60,100	60,100	57,000	3,100
Capital outlay	1,250	1,250	1,250	-
New Albany Main Street:				
Other services and charges	40,000	40,000	40,000	-
Miscellaneous:				
Supplies				-
Other services and charges	29,000	46,035	29,035	17,000
Capital outlay		130,000	129,975	25
	<u>328,136</u>	<u>475,579</u>	<u>440,454</u>	<u>35,125</u>

CITY OF NEW ALBANY, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE - TOURISM FUND
Year ended September 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Debt service:				
Principal	52,558	59,648	59,648	-
Interest	16,082	16,082	16,081	1
	<u>68,640</u>	<u>75,730</u>	<u>75,729</u>	<u>1</u>
 Total expenditures	 <u>396,776</u>	 <u>551,309</u>	 <u>516,183</u>	 <u>35,126</u>
 Excess of revenues over/(under) expenditures	 <u>43,224</u>	 <u>(111,309)</u>	 <u>(48,751)</u>	 <u>62,558</u>
 OTHER FINANCING SOURCES/(USES):				
Operating transfers in/(out)	15,000	13,000	(17,000)	(30,000)
Loan proceeds	-	130,000	130,000	-
	<u>15,000</u>	<u>143,000</u>	<u>113,000</u>	<u>(30,000)</u>
 Excess/(deficiency) of revenues and other sources over expenditures and other uses	 58,224	 31,691	 64,249	 32,558
 Fund balance Beginning of Year	 <u>331,026</u>	 <u>331,026</u>	 <u>331,026</u>	
Fund balance End of Year	<u>\$ 389,250</u>	<u>\$ 362,717</u>	<u>\$ 395,275</u>	<u>\$ 32,558</u>
 Budget Basis			 \$ 64,249	
Revenue Accruals			<u>(1,892)</u>	
 GAAP Basis			 <u>\$ 62,357</u>	

CITY OF NEW ALBANY, MISSISSIPPI
NOTE TO BUDGETARY COMPARISON SCHEDULES
September 30, 2007

NOTE I. BUDGETS

Budgets are adopted on a modified cash basis. Annual appropriated budgets are adopted for the general fund, except for the ongoing grant programs, and the tourism fund. All annual appropriations lapse at fiscal year end. The budget can and has been amended by appropriate action of the Board of Aldermen.

COMBINING FUND STATEMENTS

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING BALANCE SHEETS
ALL GENERAL FUNDS
September 30, 2007

	General Fund	Clearing Accounts	CDBG Grants	Wtr. & Swr. Impr. Fund	Street Impr. Fund	HUD Programs	Health Reimb	Totals
ASSETS:								
Cash	\$ 549,249	\$ 53,338	\$ 49,722	\$ 452,663	\$ 502,480	\$ 53,047	\$ 6,500	\$ 1,666,999
Investments	2,052,819			644,486				2,697,305
Due from other funds	42,400							42,400
Accounts receivable	444,210	264	832					445,306
	<u>\$ 3,088,678</u>	<u>\$ 53,602</u>	<u>\$ 50,554</u>	<u>\$ 1,097,149</u>	<u>\$ 502,480</u>	<u>\$ 53,047</u>	<u>\$ 6,500</u>	<u>\$ 4,852,010</u>

LIABILITIES AND FUND BALANCES:

Accounts payable and accrued expenses	\$ 183,089	\$ 53,602	\$ -	\$ -	\$ -	\$ -	2	\$ 236,693
Due to other funds	37,998							37,998
Fund balance	2,867,591		50,554	1,097,149	502,480	53,047	6,498	4,577,319
	<u>\$ 3,088,678</u>	<u>\$ 53,602</u>	<u>\$ 50,554</u>	<u>\$ 1,097,149</u>	<u>\$ 502,480</u>	<u>\$ 53,047</u>	<u>\$ 6,500</u>	<u>\$ 4,852,010</u>

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES--ALL GENERAL FUNDS
For the Year Ended September 30, 2007

	General Fund	CDBG Grants	Wtr. & Swr. Impr. Fund	Street Impr. Fund	HUD Programs	Health Reimb Admin	Totals
REVENUES:							
Taxes	\$ 641,494		\$ 14	\$ 146,331			\$ 787,839
Intergovernmental revenue	2,747,836			11,703	25,000		2,784,539
Charges for services	224,849						224,849
Investment income	88,129	69	30,244	4,872	584	7	123,905
Licenses and permits	114,805						114,805
Fines and forfeitures	91,890						91,890
Sale of property	4,047						4,047
Miscellaneous	61,621				4,245		65,866
	<u>3,974,671</u>	<u>69</u>	<u>30,258</u>	<u>162,906</u>	<u>29,829</u>	<u>7</u>	<u>4,197,740</u>
EXPENDITURES:							
General government	1,074,598			1,033	25,000	14,829	1,115,460
Public safety	2,100,569						2,100,569
Streets and infrastructure	751,376						751,376
Culture and recreation	636,876						636,876
Debt service: principal	14,252						14,252
Debt service: interest	3,212						3,212
	<u>4,580,883</u>	<u>-</u>	<u>-</u>	<u>1,033</u>	<u>25,000</u>	<u>14,829</u>	<u>4,621,745</u>
Excess of revenues over expenditures	(606,212)	69	30,258	161,873	4,829	(14,822)	(424,005)
OTHER FINANCING SOURCES/(USES):							
Transfers in/(out)	659,848					14,500	674,348
Loan proceeds							-
	<u>659,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,500</u>	<u>674,348</u>
Excess of revenues and other sources over expenditures and other uses	53,636	69	30,258	161,873	4,829	(322)	250,343
Fund balance, beginning	2,813,955	50,485	1,066,891	340,607	48,218	6,820	4,326,976
Residual equity transfers in/(out)							-
Fund balance, ending	<u>\$ 2,867,591</u>	<u>\$ 50,554</u>	<u>\$ 1,097,149</u>	<u>\$ 502,480</u>	<u>\$ 53,047</u>	<u>\$ 6,498</u>	<u>\$ 4,577,319</u>

September 30, 2007

48

See accompanying notes.

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - continued
September 30, 2007

	Debt Service		Capital Project Funds					Total
	Industrial Park	Totals	Park Along the River	Swimming Pool	Magnolia Civic Center	NAIUC Airport Grant	Sportsplex Totals	Nonmajor Governmental Funds
Cash	\$ 48	\$ 48	\$ 2,442	\$ 128,834	\$ 20,177	\$ 1	\$ 2,063	\$ 153,517 \$ 582,603
Investments								
Accounts receivable	286	286						7,422
Lease receivable	-	-						264,088
	\$ 334	\$ 334	\$ 2,442	\$ 128,834	\$ 20,177	\$ 1	\$ 2,063	\$ 153,517 \$ 854,113

ASSETS:

Cash
Investments
Accounts receivable
Lease receivable

LIABILITIES AND FUND BALANCES:

Accounts payable and
accrued expenses
Due to other funds
Deferred revenue - lease principal
Deferred revenue - lease interest
Fund balance

\$ -	\$ -	\$ -	\$ -	\$ 4,127	\$ -	\$ -	\$ 4,127	\$ 31,619
				42,400			42,400	42,400
								185,042
334	334	2,442	128,834	(26,350)	1	2,063	106,990	79,046
\$ 334	\$ 334	\$ 2,442	\$ 128,834	\$ 20,177	\$ 1	\$ 2,063	\$ 153,517	\$ 516,006
								\$ 854,113

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

	Fire Protection	NAJUC Drug Task Force	COPS	Local Records Management	Keep America Beautiful	DARE Program	Law Enforcement	Tallahatchie River Players	Freedom Celebration '07	CAP Loans	Totals
REVENUES:											
Taxes	\$ 18,536	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,536
Intergovernmental revenue	37,375	38,657									76,032
Investment income	372	111		27		16				8,182	8,708
Fines and forfeitures		23,982									23,982
Miscellaneous		259		425				22,891	104,287	27,300	155,162
	56,283	63,009	-	452	-	16	-	22,891	104,287	35,482	282,420
EXPENDITURES:											
General government											
Public safety	3,631	109,254			354	60		19,605	132,324		112,945
Culture and recreation											152,283
Principal retirement										7,717	7,717
Interest and fiscal charges										10,154	10,154
	3,631	109,254	-	-	354	60	-	19,605	132,324	17,871	283,099
Excess of revenues over expenditures	52,652	(46,245)	-	452	(354)	(44)	-	3,286	(28,037)	17,611	(679)
OTHER FINANCING SOURCES/(USES):											
Transfers in (out)					1,000				36,000		37,000
Lease principal payments										6,942	6,942
	-	-	-	-	1,000	-	-	-	36,000	6,942	43,942
Excess of revenues and other sources over expenditures and other uses	52,652	(46,245)	-	452	646	(44)	-	3,286	7,963	24,553	43,263
Fund balance, beginning	253,307	80,912	12	3,691	892	2,341	8	9,556	-	14,700	385,419
Residual equity transfers in/(out)											-
Fund balance, ending	\$ 305,959	\$ 34,667	\$ 12	\$ 4,143	\$ 1,538	\$ 2,297	\$ 8	\$ 12,842	\$ 7,963	\$ 39,253	\$ 408,682

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES--continued
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

	Debt Service		Capital Projects						Total
	Industrial Park	Totals	Park Along the River	Swimming Pool	Magnolia Civic Center	NA/UC Airport Grant	Sportsplex	Totals	Nonmajor Governmental Funds
REVENUES:									
Taxes	\$ 4 \$	4 \$	- \$	- \$	- \$	- \$	- \$	- \$	18,540
Intergovernmental revenue		-				14,901		14,901	90,933
Investment income		-	5	1,343	428	1	3	1,780	10,488
Fines and forfeitures								-	23,982
Miscellaneous			15		2,325			2,340	157,502
	4	4	20	1,343	2,753	14,902	3	19,021	301,445
EXPENDITURES:									
General government		-				13,984		13,984	13,984
Public safety								-	112,945
Culture & recreation			11,874		41,471			53,345	205,628
Principal retirement		-						-	7,717
Interest and fiscal charges		-							10,154
	-	-	11,874	-	41,471	13,984	-	67,329	350,428
Excess of revenues over expenditures	4	4	(11,854)	1,343	(38,718)	918	3	(48,308)	(48,983)
OTHER FINANCING SOURCES/(USES):									
Transfers in (out)		-	-	12,000	10,000	(548)		21,452	58,452
Lease principal payments		-	-	12,000	10,000	(548)	-	21,452	6,942
	-	-	-	12,000	10,000	(548)	-	21,452	65,394
Excess of revenues and other sources over expenditures and other uses	4	4	(11,854)	13,343	(28,718)	370	3	(26,856)	16,411
Fund balance, beginning	330	330	14,296	115,491	2,368	(369)	2,060	133,846	499,595
Residual equity transfers in/(out)		-						-	-
Fund balance, ending	\$ 334 \$	334 \$	2,442 \$	128,834 \$	(26,350) \$	1 \$	2,063 \$	106,990 \$	516,006

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING STATEMENT OF FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
September 30, 2007

	Waste Disposal	NA/UC Airport	Total Nonmajor Enterprise Funds
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 557,998	\$ 8,795	\$ 566,793
Accounts receivable, net of allowance of \$0.00	71,637		71,637
Total current assets	629,635	8,795	638,430
Restricted cash			-
Non-current assets:			
Capital assets:			
Machinery and equipment	869,472		869,472
Less accumulated depreciation	(640,340)		(640,340)
Total non-current assets	229,132	-	229,132
Total assets	858,767	8,795	867,562
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 83,492	\$ 1,137	\$ 84,629
Current maturities of long-term debt	-		-
Total current liabilities	83,492	1,137	84,629
Non-current liabilities:			
Notes payable			-
Bonds payable			-
Total non-current liabilities	-	-	-
Total liabilities	83,492	1,137	84,629
NET ASSETS			
Invested in capital assets, net of debt	229,132		229,132
Unrestricted	546,143	7,658	553,801
Total net assets	\$ 775,275	\$ 7,658	\$ 782,933

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2007

	Waste Disposal	NA/UC Airport	Total Nonmajor Enterprise Funds
Operating revenues:			
Charges for services	\$ 701,837	\$ 11,343	\$ 713,180
Other	356		356
Total operating revenues	<u>702,193</u>	<u>11,343</u>	<u>713,536</u>
Operating expenses:			
Depreciation and amortization	25,055		25,055
Natural gas purchased			-
Operation and maintenance	665,698	22,648	688,346
Purchased power			-
Facilities rental			-
Tax equivalents			-
Total operating expenses	<u>690,753</u>	<u>22,648</u>	<u>713,401</u>
Operating income/(loss)	<u>11,440</u>	<u>(11,305)</u>	<u>135</u>
Non-operating revenue (expenses)			
Interest income	2,172	2	2,174
Interest expense			-
Gain on sale of plant			-
Property taxes	48,781		48,781
Intergovernmental revenue	3,901	10,668	14,569
Contributions			-
Other income/(expense)			-
Total non-operating revenues (expenses)	<u>54,854</u>	<u>10,670</u>	<u>65,524</u>
Income/(loss) before operating transfers	66,294	(635)	65,659
Transfers in/(out)	<u>-</u>	<u>4,200</u>	<u>4,200</u>
Change in net assets	66,294	3,565	69,859
Total net assets, beginning	708,981	4,093	713,074
Residual equity transfers in/(out)			
Total net assets, ending	<u>\$ 775,275</u>	<u>\$ 7,658</u>	<u>\$ 782,933</u>

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING STATEMENT OF CASH FLOWS-- NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2007

	Waste Disposal	NA/UC Airport	Total Nonmajor Enterprise Funds
Cash flows from operating activities:			
Cash received from customers	\$ 694,945	\$ 11,343	\$ 706,288
Cash payments to suppliers for goods and services	(156,952)	(19,161)	(176,113)
Cash payments to employees and professional contractors for services	(502,732)	(3,000)	(505,732)
Transfers to City of New Albany			-
Other operating revenues			-
Net cash provided by operating activities	<u>35,261</u>	<u>(10,818)</u>	<u>24,443</u>
Cash flows from non-capital financing activities;			
Operating transfers		4,200	4,200
Payments on principal			-
Payments on interest			-
Net cash used by non-capital financing activities	<u>-</u>	<u>4,200</u>	<u>4,200</u>
Cash flows from capital and related financing activities:			
Net additions to utility plant	(194,029)		(194,029)
Proceeds from sale of assets			-
Taxes and intergovernmental revenues	52,682	10,668	63,350
Contributions			-
Principal paid on general obligation bonds/notes			-
Interest paid on general obligation bonds/notes			-
Net cash used by capital and related financing activities	<u>(141,347)</u>	<u>10,668</u>	<u>(130,679)</u>

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING STATEMENT OF CASH FLOWS--NONMAJOR PROPRIETARY FUNDS (CONTINUED)
For the Year Ended September 30, 2007

	Waste Disposal	NA/UC Airport	Total Nonmajor Enterprise Funds
Cash flows from investing activities:			
Interest on investments	2,171	2	2,173
Net (increase)/decrease in cash investments			-
Net (increase)/decrease in restricted assets			-
Repayments from municipality			-
Net cash provided by investing activities	<u>2,171</u>	<u>2</u>	<u>2,173</u>
 Net increase/(decrease) in cash	 (103,915)	 4,052	 (99,863)
 Cash and cash equivalents at beginning of year	 <u>661,913</u>	 <u>4,743</u>	 <u>666,656</u>
 Cash and cash equivalents at end of year	 <u><u>\$ 557,998</u></u>	 <u><u>\$ 8,795</u></u>	 <u><u>\$ 566,793</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 11,440	\$ (11,305)	\$ 135
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,055	-	25,055
Gain on sale of fixed assets			-
Changes in assets and liabilities:			
Decrease/(increase) in:			
Accounts receivable	(7,248)		(7,248)
Materials and supplies			-
Prepayments			-
Increase/(decrease) in:			
Accounts payable and accrued expenses	6,014	487	6,501
Customer deposits			-
Net cash provided by operating activities	<u><u>\$ 35,261</u></u>	<u><u>\$ (10,818)</u></u>	<u><u>\$ 24,443</u></u>

CITY OF NEW ALBANY, MISSISSIPPI
COMBINING FIDUCIARY STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
September 30, 2007

	Unemployment Tax	Flexible Spending	Totals
ASSETS:			
Cash	\$ 2,622	\$ 4,757	\$ 7,379
Investments	20,980		20,980
	<u>\$ 23,602</u>	<u>\$ 4,757</u>	<u>\$ 28,359</u>
LIABILITIES			
Accounts payable and accrued expenses	<u>\$ 23,602</u>	<u>\$ 4,757</u>	<u>\$ 28,359</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF NEW ALBANY, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
Year ended September 30, 2007

Name	Position	Company	Bond
Anne Neal:	City Clerk	St. Paul Travelers	50,000
		RLI Surety	5,000
Dianne Sprouse	Deputy Clerk	Fidelity and Deposit	25,000
Maxine Bradley	Deputy Clerk	Fidelity and Deposit	25,000
Susan Roberts	Secretary	Brierfield Insurance Co	25,000
Tiffany Gates:	Police Secretary	Brierfield Insurance Co	25,000
		Brierfield Insurance Co	5,000
Jennifer Galloway:	Court Clerk	RLI Surety	25,000
		RLI Surety	5,000
Edgar Capaning	Park Director	Brierfield Insurance Co	25,000
Jennifer Carwyle	Park Secretary	RLI Surety	25,000
Johnny Epting	Park	Brierfield Insurance Co	25,000
Dean M. Armstrong	Building Inspector	RLI Surety	25,000
Herman Lesley, Jr.	Asst. Building Inspector	RLI Surety	10,000
James D. Parks	Custodian	RLI Surety	25,000
David Grisham	Chief of Police	Fidelity and Deposit	50,000
Danny R. Stout, Jr.	Policeman	RLI Surety	25,000
Danny Barnes	Policeman	RLI Surety	25,000
Mark Cossitt	Policeman	Brierfield Insurance Co	25,000
Terry Dowty	Policeman	RLI Surety	25,000
Phillip Doyle	Policeman	RLI Surety	25,000
Michael Erby	Policeman	RLI Surety	25,000
Tim Erby	Policeman	RLI Surety	25,000
David Garrison	Policeman	RLI Surety	25,000
Chadrick Glasson	Policeman	RLI Surety	25,000
Chris Glasson	Policeman	RLI Surety	25,000
Mark Golding	Policeman	RLI Surety	25,000
Jimmy Gregory	Policeman	RLI Surety	25,000
Clay Hogue	Policeman	Brierfield Insurance Co	25,000
Brad Jernigan	Policeman	Brierfield Insurance Co	25,000
Clayton Keener	Policeman	RLI Surety	25,000
Ben Kent	Policeman	Brierfield Insurance Co	25,000
Frank McCollum	Policeman	RLI Surety	25,000
Jason McDaniel	Policeman	RLI Surety	25,000
Michael Pannell	Policeman	RLI Surety	25,000
Chris Robertson	Policeman	RLI Surety	25,000
Orzell Stricklen	Policeman	RLI Surety	25,000
James Wildman	Policeman	RLI Surety	25,000
Tim Kent	Mayor	Brierfield Insurance Co	25,000
Jeff Olson	Alderman	USF&G	50,000
Larry Sanford	Alderman	USF&G	50,000
Tommie Beasley	Alderman	USF&G	50,000
William Tucker	Alderman	USF&G	50,000
Dan Skinner	Alderman	USF&G	50,000
Sherry Ausburn	Utility Department	Zurich North America	25,000
Martha Cook	Utility Department	Zurich North America	25,000
Lawanda Treadaway	Utility Department	Zurich North America	25,000
Shelia Bates	Utility Department	Zurich North America	25,000
Mary Jenkins	Utility Department	Zurich North America	25,000
Janet Freeman	Utility Department	Zurich North America	25,000
Ralph Dunning	Utility Department	Zurich North America	25,000

CITY OF NEW ALBANY, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2007

<u>Federal Grantor/ Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
Passed through Mississippi Development Authority			
Community Development Block Grant	14.228	Grant ID: CDBG 2004	\$ 212,500
Community Development Block Grant - Home Purchase Assistance	14.239	M04-SG-280-983	<u>25,000</u>
Total U.S. Department of Housing and Urban Development			<u>237,500</u>
U.S. Department of Agriculture:			
Passed through Rural Development Service:			
Water and Waste Disposal Systems	10.760	Grant ID: G1C12	522,073
for Rural Communities	10.760	Bond Issue: R-10	<u>318,277</u>
Total U.S. Department of Agriculture			<u>840,350</u>
U.S. Department of Transportation:			
Passed through Federal-State Programs:			
Federal Aviation Administration:	20.106	3-28-0053-008-2006	<u>12,586</u>
Total U.S. Department of Transportation			<u>12,586</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,090,436</u></u>

NOTE: The schedule of expenditures of federal awards includes the federal grant activity of the City of New Albany and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

City of New Albany, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

Material weakness(es) identified: yes **X** no

Reportable condition(s) identified
that are not considered to be
material weaknesses? **X** yes

Noncompliance material to financial
statements noted? yes **X** no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes **X** no

Reportable condition(s) identified
that are not considered to be material
weakness(es)? yes **X** none reported

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? yes **X** no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish
between type A and type B programs: **\$300,000**

Auditee qualified as low-risk auditee? yes **X** no

City of New Albany, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007
(continued)

Section II—Financial Statement Findings

**Finding
Reference
Number
Gas 1
Water 1**

Significant Deficiencies in Internal Control and Related Recommendations

Internal Control Finding:

Proper internal controls dictate that there should be a separation of duties between the authorization, recording, reconciling and reporting of transactions. Because of the limited number of available administrative staff, one person is often responsible for recording transactions in the financial records of the Organization and reconciling account balances.

Recommendation:

To the extent practicable, account balances should be reconciled by personnel independent of the recording of the underlying transactions.

Management's Response:

Management provides effective oversight of the accounting function by approving bills for payment and coding the transactions for general ledger distribution. However, management intends to segregate check preparation duties among existing staff to further strengthen internal controls.

Gas 2

Internal Control Finding:

Adjustments provided to client personnel to post to the Gas System's books as a result of prior year's audit procedures were incorrectly posted, resulting in the Gas System's net assets being materially understated for the entire fiscal year. The misposted entries resulted from the incorrect entry of account numbers to be adjusted. Correcting entries have been posted in conjunction with the audit of the current fiscal year.

Recommendation:

Adjustments provided to the client by the external auditor should be reviewed after entry to insure correct posting to the Gas System's books.

Management's Response:

Client personnel will review adjustments posted to the Gas System's books for accuracy.

General 1

Internal Control Finding:

Building inspector fees collected are recorded in a ledger book that does not have pre-numbered receipts nor are the various kinds of permits pre-numbered.

Recommendation:

We recommend the building inspector pre-number the various kinds of permits, and that someone account for the sequential numbers of permits.

City of New Albany, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007
(continued)

Management's Response:

A system has now been implemented wherein the building inspector fees collected are recorded in a ledger book that does have pre-numbered receipts and the various types of permits issued by the building inspector are now pre-numbered.

General 2

Internal Control Finding:

Control over the wristbands used as tickets during Freedom Celebration '07 was not maintained by City Hall. As a result, approximately 4,000 wristbands are unaccounted for.

Recommendation:

We recommend that all City events follow the prescribed internal control procedures maintained by the City.

Management's Response:

Management has checked with its designees who were in charge of the wristbands used as tickets during Freedom Celebration '07. One of the designees indicated he had destroyed approximately 4,000 wristbands since they were dated and would not be of use for any other events. He was advised that he should have returned these to City Hall for audit purposes. As you know, most of the wristbands were returned to City Hall and placed in storage. In the future, all City events will follow the prescribed internal control procedures maintained by the City, regardless of the type of event. All events sponsored by the City will be subject to these strict internal control procedures overseen by the City Clerk.

General 3

Internal Control Finding:

Some items from the Parks Department requiring written quotes did not have documentation of the quotes presented with the invoices from which they were paid.

Recommendation:

We recommend that the accounts payable clerk review all invoices for proper documentation and require the appropriate documentation before payment is made.

Management's Response:

The Mayor, City Clerk and City Attorney have met regarding this deficiency. The department head of Parks and Recreation has been advised that invoices requiring written quotes will not be paid until the documentation of the quotes has been presented to the City Clerk. The department head acknowledges receipt of this information and has assured management this deficiency will not reoccur. The City Clerk (Accounts Payable Clerk) will review all invoices for proper documentation and will require the appropriate documentation before payment is made. In the event the appropriate documentation has not been furnished, the invoice will be set aside and will not be placed in line for payment.

Section III—Federal Award Findings and Questioned Costs

No Findings.

JACKSON and CREIGHTON, P.A.

Certified Public Accountants
122 WEST BANKHEAD STREET
NEW ALBANY, MISSISSIPPI 38652

Telephone: 662-534-2271
Facsimile: 662-534-6812
Allen Jackson: ajcpa@yahoo.com
Amy Creighton: amycpa@datalane.net

Post Office Box 333
Members
American Institute of CPAs
Mississippi Society of CPAs

Independent Auditors' Report on Compliance
With State Laws and Regulations

To the Board of Aldermen
City of New Albany
New Albany, Mississippi

We have audited the general purpose financial statements of the City of New Albany, Mississippi, as of and for the year ended September 30, 2007 and have issued our report dated January 3, 2008. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

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

Jackson and Creighton, P.A.

Jackson and Creighton, P.A.
January 3, 2008

JACKSON and CREIGHTON, P.A.

Certified Public Accountants
122 WEST BANKHEAD STREET
NEW ALBANY, MISSISSIPPI 38652

Telephone: 662-534-2271
Facsimile: 662-534-6812
Allen Jackson: ajcpa@yahoo.com
Amy Creighton: amycpa@datalane.net

Post Office Box 333
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American Institute of CPAs
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Aldermen
City of New Albany
New Albany, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of New Albany, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the City of New Albany, Mississippi's basic financial statements and have issued our report thereon dated January 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of New Albany, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of New Albany, Mississippi's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of New Albany, 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 combination of control deficiencies, that adversely affects the City of New Albany, 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 New Albany, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of New Albany, 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.

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 New Albany, Mississippi's internal control.

Our consideration of 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 internal control over financial reporting 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 New Albany, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of New Albany, Mississippi, in a separate letter dated December 20, 2007.

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

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

Jackson and Creighton, P.A.

Jackson and Creighton, P.A.
January 3, 2008

JACKSON and CREIGHTON, P.A.

Certified Public Accountants
122 WEST BANKHEAD STREET
NEW ALBANY, MISSISSIPPI 38652

Telephone: 662-534-2271
Facsimile: 662-534-6812
Allen Jackson: ajcpa@yahoo.com
Amy Creighton: amycpa@datalane.net

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

To the Board of Aldermen
City of New Albany
New Albany, Mississippi

Compliance

We have audited the compliance of the City of New Albany, 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, 2007. The City of New Albany, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of New Albany, Mississippi's management. Our responsibility is to express an opinion on the City of New Albany, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of New Albany, Mississippi'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 of New Albany, Mississippi's compliance with those requirements.

In our opinion, the City of New Albany, 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, 2007.

Internal Control Over Compliance

The management of the City of New Albany, 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 of New Albany, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of New Albany's internal control over compliance.

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

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

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

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

This report is intended for the information of the Board of Aldermen of the City of New Albany, Mississippi and management, and is not intended to be and should not be used by anyone other than these specified parties.

Jackson and Creighton, P.A.

Jackson and Creighton, P.A.
January 3, 2008