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CITY OF OKOLONA, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2010

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CITY OF OKOLONA, MISSISSIPPI

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CITY OF OKOLONA, MISSISSIPPI
FINANCIAL AUDIT REPORT



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INDEPENDENT AUDITOR'S REPORT

Mayor and Board of Aldermen
City of Okolona, Mississippi

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Okolona, Mississippi as of and for the year ended September 30, 2010, which collectively comprise the City of Okolona, Mississippi's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Okolona, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Okolona, Mississippi, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 March 21, 2011, on our consideration of the City of Okolona, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the Budgetary Comparison Schedule(s) and corresponding notes are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental 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 Okolona's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Watkins, Ward and Stafford
Okolona, Mississippi
March 21, 2011

Watkins, Ward and Stafford, PLLC

CITY OF OKOLONA, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of the City of Okolona's financial performance provides an overall narrative review of the city's financial activities for the years ended September 30, 2010 and 2009. The intent of this discussion and analysis is to look at the city's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$2,230,923, which includes a prior period adjustment of 10,894, and represents a 14% increase from fiscal year 2009.
- General revenues account for \$1,879,668 in revenue, or 13% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$12,518,674 or 87 % of total revenues.
- The City had \$12,156,525 in expenses; only \$12,518,674 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$1,879,668 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$1,801,953 in revenues and \$1,688,871 in expenditures. The General Fund's fund balance increased \$91,891 over the prior year, which includes a prior period adjustment of \$21,191. The CDBG UFI Fund had \$1,507,492 in revenues and \$1,427,457 in expenditures. The CDBG UFI Fund's fund balance increased \$80,035 over the prior year. The Other Governmental Funds had \$213,507 in revenues and \$236,197 in expenditures. The Other Governmental Fund's fund balance decreased \$15,514, under the prior year, which includes a prior period adjustment of \$1,924.
- Capital assets, net of accumulated depreciation, increased by \$1,107,706 over the prior year.
- Total Long-term debt including current maturities decreased by \$420,581. In addition, the liability for compensated absences decreased by \$32,765 from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's budget process. The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets: Net assets may serve over time as a useful indicator of government's financial position. In the case of the City, assets exceeded liabilities by \$18,311,950 as of September 30, 2010 and by \$16,081,027 as of September 30, 2009.

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

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

Table 1
Statement of Net Assets

	Governmental		Business-type		Total Primary Government	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 806,087	651,746	4,958,208	4,332,522	5,764,295	4,984,268
Capital assets	5,291,473	3,826,556	12,633,672	12,990,883	17,925,145	16,817,439
Total Assets	6,097,560	4,478,302	17,591,880	17,323,405	23,689,440	21,801,707
Current and other liabilities	140,928	142,209	1,903,388	1,790,951	2,044,316	1,933,160
Long-term liabilities	23,344	116,022	3,309,830	3,671,498	3,333,174	3,787,520
Total Liabilities	164,272	258,231	5,213,218	5,462,449	5,377,490	5,720,680
Net Assets:						
Invested in capital assets, net of related debt	5,285,433	3,731,095	9,335,975	9,361,714	14,621,408	13,092,809
Restricted	82,204	1,680	209,933	182,068	292,137	183,748
Unrestricted	565,651	487,296	2,832,754	2,317,174	3,398,405	2,804,470
Total Net Assets	\$ 5,933,288	4,220,071	12,378,662	11,860,956	18,311,950	16,081,027

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

- The decrease of \$420,893 in long-term capital related debt.
- The addition of \$1,107,706 in capital assets mainly due to the proceeds of CDBG funds.

Changes in net assets: The City's total revenues for the fiscal year ended September 30, 2010 and 2009 were \$14,398,342 and \$13,318,278. The total cost of all programs and services was \$12,156,525 and \$12,565,849. The following table presents a summary of the changes in net assets for the fiscal year ended September 30:

	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues	\$12,518,674	\$ 11,599,741
General revenues	<u>1,879,668</u>	<u>1,718,537</u>
Total revenues	14,398,342	13,318,278
Expenses:		
Governmental Activities	1,809,620	1,739,889
Business-type Activities	<u>10,346,905</u>	<u>10,825,960</u>
Total expenses	12,156,525	12,565,849
Increase in net assets	\$ 2,241,817	\$ 752,429

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$666,159 an increase of \$179,527 over the prior year. \$583,955 or 88% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion.

The General Fund is the principal operating fund of the City. The increase in fund balance in the General Fund for the fiscal year was \$113,082. The CDBG UFI Fund accounts for federal, state and local revenues received for a reroofing project at the United Furniture Industries building. The increase in fund balance in the CDBG UFI Fund for the fiscal year was \$80,035 over the previous year. The fund balance in the Other Governmental (Non-Major funds) decreased in the amount of \$13,590 under the previous year.

BUDGETARY HIGHLIGHTS

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

A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of September 30, 2010, the City's total net capital assets were \$17,925,145 including land, buildings, improvements, infrastructure, vehicles, and furniture and equipment. This amount represents an increase of \$1,107,706 from the previous year.

Additional information of the City's capital assets can be found in the required notes to the financial statements.

Debt Administration. At September 30, 2010, the City had \$3,333,862 in long-term debt outstanding, of which \$206,522 is due within one year. In addition, the liability for compensated absences decreased by \$32,765 from the previous year.

Additional information of the City's long-term debt can be found in Note 7 in the required notes to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the City Clerk's Office at P.O. Box 111, Okolona, Mississippi 38860.

CITY OF OKOLONA
FINANCIAL STATEMENTS

CITY OF OKOLONA
Statement of Net Assets
September 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 485,087	2,283,826	2,768,913
Certificates of deposit	114,704	195,377	310,081
Cushion of credit		30,566	30,566
Accounts receivable, net		1,443,463	1,443,463
Conservation Loan Receivable		144,806	144,806
Materials and supplies		100,535	100,535
CSA Stockholder loan receivable		10,973	10,973
Intergovernmental receivables	109,319		109,319
Other receivables, net	84,237	290,066	374,303
Internal balances	12,740	24,924	37,664
Prepaid items		106,825	106,825
Bond issue cost, net of accumulated amort.		110,790	110,790
Restricted assets		216,057	216,057
Capital assets, net	5,291,473	12,633,672	17,925,145
Total Assets	6,097,560	17,591,880	23,689,440
LIABILITIES			
Claims payable	109,112	1,035,398	1,144,510
Intergovernmental payables	20,303		20,303
Accrued interest payable		2,197	2,197
Accrued wages payable	8,963	80,899	89,862
Internal Balance		23,177	23,177
Customer deposits	350	595,122	595,472
Deferred revenue	1,200	19,062	20,262
Advances from TVA for conservation loans		147,533	147,533
Long-term liabilities			
Due within one year:			
Capital related debt	4,352	192,129	196,481
Non-capital debt	6,101	3,940	10,041
Due in more than one year:			
Capital related debt	1,688	3,105,880	3,107,568
Non-capital debt	12,203	7,881	20,084
Total Liabilities	164,272	5,213,218	5,377,490
NET ASSETS			
Invested in capital assets, net of related debt	5,285,433	9,335,663	14,621,096
Restricted net assets:			
Expendable:			
Capital projects	82,204		82,204
Debt service		209,933	209,933
Nonexpendable:			
Unrestricted (deficit)	565,651	2,833,066	3,398,717
Total Net Assets	\$ 5,933,288	12,378,662	18,311,950

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA
Statement of Activities
For the Year Ended September 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary government:						
Governmental activities:						
General government	\$ 770,354	235	5,000	177,078	(588,041)	(588,041)
Public safety	808,727	1,285	3,000		(804,442)	(804,442)
Public works	107,177	600			(106,577)	(106,577)
Culture and recreation	98,905	944	745		(97,216)	(97,216)
Economic development and assistance	21,744			1,507,492	1,485,748	1,485,748
Interest on long-term debt	2,713				(2,713)	(2,713)
Total Governmental Activities	1,809,620	3,064	8,745	1,684,570	(113,241)	(113,241)
Business-type activities:						
Solid Waste	218,310	202,360				(15,950)
Water & Sewer	673,784	655,261				(18,523)
Electric department	9,454,811	9,964,674				509,863
Total business-type activities	10,346,905	10,822,295	0	0	0	475,390
Total Primary Government	\$ 12,156,525	10,825,359	8,745	1,684,570	(113,241)	362,149
General revenues:						
Taxes:						
Property taxes					\$ 919,916	919,916
Sales taxes					279,107	279,107
Franchise taxes					34,945	34,945
Licenses and permits					10,797	10,797
Fines and report fees					57,062	57,062
Intergovernmental revenues					76,649	76,649
Unrestricted gifts and donations					0	0
Unrestricted investment income					9,289	31,899
Refund salaries					193,020	193,020
Insurance reimbursements					125,053	125,053
Miscellaneous					143,735	151,220
Total General Revenues, Special Item, Extraordinary Item and Transfers					1,849,573	1,879,668
Changes in Net Assets					1,736,332	2,241,817
Net Assets - Beginning, as originally reported						16,081,027
Prior period adjustment					4,220,071	12,221
Net Assets - Beginning, as restated					(23,115)	(10,894)
Net Assets - Ending					11,873,177	16,070,133
					12,378,662	18,311,950

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA
Balance Sheet - Governmental Funds
September 30, 2010

	Major Funds			Total
	General Fund	CDBG UFI Fund	Other Governmental Funds	Governmental Funds
<u>ASSETS</u>				
Cash and equivalents	\$ 320,645	59,753	104,689	485,087
Certificate of deposit	114,704			114,704
Intergovernmental receivables	23,284	68,069	17,966	109,319
Other receivables	63,940	18,897	1,400	84,237
Due from other funds	20,433		1,318	21,751
Total Assets	<u>\$ 543,006</u>	<u>146,719</u>	<u>125,373</u>	<u>815,098</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Claims payable	\$ 22,657	66,684	19,771	109,112
Accrued Payroll	8,963			8,963
Intergovernmental payables	20,303			20,303
Due to other funds	6,671		2,340	9,011
Deposits			350	350
Derred revenue			1,200	1,200
Total Liabilities	<u>58,594</u>	<u>66,684</u>	<u>23,661</u>	<u>148,939</u>
Fund balances:				
Reserved, reported in:				
Capital project funds		80,035	2,169	82,204
Unreserved, reported in:				
General fund	484,412			484,412
Special revenue funds			99,543	99,543
Total Fund Balances	<u>484,412</u>	<u>80,035</u>	<u>101,712</u>	<u>666,159</u>
Total Liabilities and Fund Balances	<u>\$ 543,006</u>	<u>146,719</u>	<u>125,373</u>	<u>815,098</u>

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2010

	Amount
Total fund balance - governmental funds	\$ 666,159
Amounts reported for governmental services in the statement of net assets are different because:	
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets net of depreciation as of 10-1-09	3,826,556
Plus capital outlay expenditures made during the year	1,592,713
Less depreciation expense recorded during the year	<u>(127,796)</u>
	5,291,473
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.	
Long-term liabilities	(24,344)
Total net assets - governmental activities	\$ <u>5,933,288</u>

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2010

	Major Funds		Other	Total
	General	CDBG	Governmental	Governmental
	Fund	UFI	Funds	Funds
		Fund		
REVENUES				
Property taxes	\$ 919,791		125	919,916
Priviledge license and permits	10,797			10,797
Franchise taxes	34,945			34,945
Fines and forfeitures	57,062			57,062
Intergovernmental revenues	361,501	1,507,492	177,078	2,046,071
Charges for services	3,064			3,064
Interest income	9,289			9,289
Refund salary - W/S	49,905			49,905
Refund salary - OED	86,397			86,397
Refund salary - S/W	29,398			29,398
Administrative costs	27,320			27,320
Insurance reimbursements	125,053			125,053
Miscellaneous revenues	87,431		36,304	123,735
Total Revenues	1,801,953	1,507,492	213,507	3,522,952
EXPENDITURES				
General government	653,791		16,997	670,788
Public safety	774,914		5,240	780,154
Public works	110,251			110,251
Culture and recreation:				
Library	68,898			68,898
Park & Recreation	29,533			29,533
Economic development			21,744	21,744
Capital outlay		1,427,457	142,256	1,569,713
Debt service:				
Principal	51,096		47,425	98,521
Interest	388		2,535	2,923
Total Expenditures	1,688,871	1,427,457	236,197	3,352,525
Excess of Revenues over				
(under) Expenditures	113,082	80,035	(22,690)	170,427
OTHER FINANCING SOURCES (USES)				
Proceeds of long term debt			9,100	9,100
Transfers in			4,055	4,055
Transfers out			(4,055)	(4,055)
Total Other Financing Sources and Uses	0	0	9,100	9,100
Net Changes in Fund Balances	113,082	80,035	(13,590)	179,527
Fund Balances - Beginning, as originally reported	392,521		117,226	509,747
Prior period adjustments	(21,191)		(1,924)	(23,115)
Fund Balances - Beginning, as restated	371,330	0	115,302	486,632
Fund Balances - Ending	\$ 484,412	80,035	101,712	666,159

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA
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, 2010

Net changes in fund balances - total governmental funds	\$ 179,527
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$1,592,713 exceeded depreciation \$127,796 in the current period.	1,464,917
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$98,521 exceeded debt proceeds \$9,100	89,421
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:

Decrease in Compensated absences	2,257
Decrease in Accrued interest on bonds	210

Change in net assets of governmental activities	\$ <u>1,736,332</u>
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The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA
Statement of Net Assets
Proprietary Funds
September 30, 2010

	Business-type Activities Proprietary Funds			
	Water and Sewer	Solid Waste	Electric Department	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 182,813	19,982	2,081,031	2,283,826
Certificates of deposit	117,272	78,105		195,377
Cushion of credit			30,566	30,566
Accounts receivable, net	56,577	16,726	1,370,160	1,443,463
Accounts receivable - other			288,901	288,901
Interest receivable	821	344		1,165
Materials and supplies			100,535	100,535
Internal Balances		24,924		24,924
Special funds			5,928	5,928
CSA stockholder loan receivable			10,973	10,973
Prepaid expenses			106,825	106,825
Total Current Assets	357,483	140,081	3,994,919	4,492,483
Noncurrent assets:				
Restricted cash and cash equivalents:				-
Cash and cash equivalents	100,703		109,426	210,129
Conservation loan receivables			144,806	144,806
Bond issue costs, net of accumulated amortization			110,790	110,790
Capital assets:				
Land	26,541	1,699		28,240
Electric plant in service			17,222,441	17,222,441
Construction In Progress			95,440	95,440
Machinery	98,190	203,754		301,944
Vehicles	55,282			55,282
Infrastructure	4,340,206			4,340,206
Less accumulated depreciation	(2,049,306)	(128,234)	(7,232,341)	(9,409,881)
Total Noncurrent assets	2,571,616	77,219	10,450,562	13,099,397
Total assets	2,929,099	217,300	14,445,481	17,591,880
LIABILITIES				
Current Liabilities:				
Accounts Payable	27,427	5,109	1,002,862	1,035,398
Accrued wages payable	5,901	2,410	72,588	80,899
Internal Balances	23,177			23,177
Customer Deposits	47,523		547,599	595,122
Deferred revenue			19,062	19,062
Advances - conservation loans			147,533	147,533
Compensated absences	2,526	1,414		3,940
Bonds, notes, and loans payable	33,907		158,222	192,129
Total Current Liabilities	140,461	8,933	1,947,866	2,097,260
Noncurrent Liabilities				
Compensated absences	5,053	2,828		7,881
Accrued interest payable	1,355		842	2,197
Bonds, notes, and loans payable	694,848		2,411,032	3,105,880
Total noncurrent liabilities	701,256	2,828	2,411,874	3,115,958
Total liabilities	841,717	11,761	4,359,740	5,213,218
NET ASSETS				
Invested in capital assets, net of related debt	1,742,158	77,219	7,516,286	9,335,663
Restricted for debt service	100,507		109,426	209,933
Unrestricted (deficit)	244,717	128,320	2,460,029	2,833,066
Total Net Assets	\$ 2,087,382	205,539	10,085,741	12,378,662

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

CITY OF OKOLONA
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2010

	Business-type Activities Proprietary Funds			
	Water and Sewer	Solid Waste	Electric Department	Total
OPERATING REVENUES				
Water Sales	\$ 401,633			401,633
Sewer Service	253,628			253,628
Solid Waste Fees		202,360		202,360
Electric services			9,963,518	9,963,518
Miscellaneous	7,485			7,485
Total operating revenues	<u>662,746</u>	<u>202,360</u>	<u>9,963,518</u>	<u>10,828,624</u>
OPERATING EXPENSES				
Operation and maintenance	552,530	191,852	1,796,055	2,540,437
Purchased power			6,998,122	6,998,122
Depreciation	92,710	18,382	506,774	617,866
Landfill Fees		7,964		7,964
Miscellaneous			19,049	19,049
Total operating expenses	<u>645,240</u>	<u>218,198</u>	<u>9,320,000</u>	<u>10,183,438</u>
Operating income(loss)	<u>17,506</u>	<u>(15,838)</u>	<u>643,518</u>	<u>645,186</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest revenue	2,220	462	19,928	22,610
Gain on disposal of capital asset			1,156	1,156
Interest and amortization expense	(28,544)	(112)	(134,811)	(163,467)
Total non-operating revenue (expenses)	<u>(26,324)</u>	<u>350</u>	<u>(113,727)</u>	<u>(139,701)</u>
Change in Net Assets	<u>(8,818)</u>	<u>(15,488)</u>	<u>529,791</u>	<u>505,485</u>
Net Assets - Beginning of Year	2,083,979	221,027	9,555,950	11,860,956
Prior period adjustments	12,221			12,221
Net Assets Restated - Beginning of Year	<u>2,096,200</u>	<u>221,027</u>	<u>9,555,950</u>	<u>11,873,177</u>
Total net assets end of year	<u>\$ 2,087,382</u>	<u>205,539</u>	<u>10,085,741</u>	<u>12,378,662</u>

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

**CITY OF OKOLONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Business-type Activities Proprietary Funds			
	Water and Sewer	Solid Waste	Electric Department	Total
<u>Cash Flows From Operating Activities</u>				
Receipts from customers	\$ 656,920	203,280	10,559,307	11,419,507
Payments to suppliers	(358,959)	(130,100)	(8,931,708)	(9,420,767)
Payments to employees	(196,161)	(72,761)	(519,073)	(787,995)
Other receipts (payments)	10,325		2,728	13,053
Net cash provided (used) by operating activities	<u>112,125</u>	<u>419</u>	<u>1,111,254</u>	<u>1,223,798</u>
<u>Cash Flows From Financing Activities</u>				
Principal paid on capital debt	(34,369)	(7,863)	(330,529)	(372,761)
Interest paid on capital debt	(28,544)	(112)	(124,494)	(153,150)
Proceeds from issuance of debt			-	-
Net cash provided (used) by financing activities	<u>(62,913)</u>	<u>(7,975)</u>	<u>(455,023)</u>	<u>(525,911)</u>
<u>Cash Flows From Investing Activities</u>				
Purchase of capital assets	(7,995)		(231,475)	(239,470)
Interest Revenue	2,220	462	19,928	22,610
Decrease in conservation loans			(5,048)	(5,048)
Decrease in conservation loans receivable			(468)	
Increase in stockholder loan receivable			4,840	4,840
Net Cash Flows From Investing Activities	<u>(5,775)</u>	<u>462</u>	<u>(212,223)</u>	<u>22,402</u>
Net Increase (Decrease) in Cash and Cash Equivalents	43,437	(7,094)	444,008	720,289
Cash and Cash Equivalents at Beginning of Year	357,351	105,181	1,746,449	2,208,981
Cash and Cash Equivalents at End of Year	\$ 400,788	98,087	2,190,457	2,929,270
Reconciliation of Operating Income (Loss) to Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 17,506	(15,838)	643,518	645,186
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	92,709	18,382	506,774	617,865
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	1,660	920	(24,912)	(22,332)
(Increase) decrease in other receivables	2,840	(2,162)	(138,463)	(137,785)
(Increase) decrease in other assets			(28,678)	(28,678)
Increase (decrease) in accounts payable	6,893	(3,012)	116,593	120,474
Increase (decrease) in wages payable	(6,718)	(2,113)	27,920	19,089
Increase (decrease) in customer deposits	5,597		21,811	27,408
Increase (decrease) in other liabilities	(12,483)		(13,309)	(25,792)
Increase (decrease) in compensated absences	4,121	4,242		8,363
Total Adjustments	<u>94,619</u>	<u>16,257</u>	<u>467,736</u>	<u>578,612</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 112,125</u>	<u>419</u>	<u>1,111,254</u>	<u>1,223,798</u>

The accompanying notes are an integral part of these financial statements

CITY OF OKOLONA
Statement of Fiduciary Assets and Liabilities
September 30, 2010

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 43,882
Intergovernmental receivables	
Interest receivable	119
Total Assets	<u>\$ 44,001</u>
LIABILITIES	
Intergovernmental payables	29,514
Internal balances	14,487
Total Liabilities	<u>\$ 44,001</u>

The accompanying notes are an integral part of these financial statements

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Okolona was incorporated on March 4, 1850 under the provisions of House Bill No. 214 and operates under a strong council-weak Mayor form of government and provides public safety, streets and sidewalks, water and sewerage, sanitation, health and social services, culture, recreation, education, public improvement, planning and zoning and general administrative services. Electricity is distributed to consumers residing within the municipality as well as surrounding areas. This service is provided in conjunction with Tennessee Valley Authority (TVA). The primary sources of revenues are property taxes, utility billings and sales taxes. Various criteria are applied in order to determine the various funds and activities which should be reported as part of the City. Such criteria include oversight responsibility by the elected officials such as decision-making authority, accountability to the City, legal and fiscal responsibility, and inter-agency relationships. All agencies meeting the above criteria are included in the financial statements of the City. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its' component unit (entity for which the government is considered to be financially accountable). Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from units are combined with data of the primary government. This blended component has a June 30 year-end.

Included within the reporting entity:

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

B. Basis of Presentation

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the city's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the city.

Fund Financial Statements:

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

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

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

The funds of the City are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Capital Project Funds

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

Debt Service Funds

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

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City's enterprise fund consists of the Water and Sewer fund, the Solid Waste fund and the component unit, the City of Okolona Electric Department.

Fiduciary Funds (Not included in government wide statements)

Expendable Trust Fund

The expendable trust fund is used to account for funds that are to be used for book purchases by the City.

Major Funds

The City reports two major funds as follows:

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

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

CDBG United Furniture Fund – This fund is used to account for resources that are received and restricted for re-roofing the existing industrial building.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes as "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

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

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

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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

D. Cash and Investments.

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

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

E. Receivables.

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

F. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending and borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available finance resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

G. Capital Assets.

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

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

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

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

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

H. Long-term liabilities.

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

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

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

I. Equity Classifications.

Government-wide Financial statements:

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

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

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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

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

Fund Financial Statements:

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

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

J. Property Tax Revenues.

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

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

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

K. Intergovernmental Revenues in Governmental Funds.

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

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

L. Compensated Absences:

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

M. Use of Estimates

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

2. Deposits

Deposits:

The carrying amount of the city's total deposits with financial institutions at September 30, 2010 and 2009 was \$1,191,569 and \$1,032,413 and the bank balance was \$1,203,510 and \$1,047,549. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

3. Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2010:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
City General Fund	\$ 20,433	6,671
Non-major Governmental Funds:		
Airport Fund		1,140
Airport Construction Fund	1,318	
Court Clearing Fund		14,487
Recreational Park Fund		1,200
Enterprise Funds:		
Water & Sewer Fund		23,177
Solid Waste Fund	24,924	
	<u>\$ 46,675</u>	<u>46,675</u>

B. Transfers In/Out:

	<u>Transfer In</u>	<u>Transfer Out</u>
Non-major Governmental Funds:		
Airport Fund	\$ 4,055	
Airport Construction Fund		4,055
	<u>\$ 4,055</u>	<u>4,055</u>

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

4. Intergovernmental Receivables.

The following is a summary of intergovernmental receivables at September 30, 2010:

Mississippi Bureau of Revenue	\$ 23,284
Appalachian Regional Commission	2,062
Mississippi Development Authority	66,007
Housing and Urban Development	14,000
Mississippi Department of Transportation	444
Federal Aviation Administration	3,522
	<u>\$109,319</u>

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

5. Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2009

PRIMARY GOVERNMENT

Governmental Activities:

	Balance 10/1/2009	Additions	Deletions	Balance 9/30/2010
Non-depreciable capital assets:				
Land	\$ 278,253	23,000		301,253
Construction in progress	306,455	1,569,713	(142,256)	1,733,912
Total non-depreciable capital assets	584,708	1,592,713	(142,256)	2,035,165
Depreciable capital assets:				
Buildings	2,976,138			2,976,138
Improvements	1,608,205	142,256		1,750,461
Infrastructure	2,453,925			2,453,925
Furniture and equipment	152,515			152,515
Vehicles	464,869			464,869
Total depreciable capital assets	7,655,652	142,256	0	7,797,908
Less accumulated depreciation for:				
Buildings	1,809,594	23,889		1,833,483
Improvements	523,464	69,928		593,392
Infrastructure	1,578,237	10,128		1,588,365
Furniture and equipment	136,863	561		137,424
Vehicles	365,646	23,290		388,936
Total accumulated depreciation	4,413,804	127,796	0	4,541,600
Total depreciable capital assets, net	3,241,848	14,460	0	3,256,308
Governmental activities capital assets, net	\$ 3,826,556	1,607,173	(142,256)	5,291,473
Business-type Activities:				
Non-depreciable capital assets:				
Land	\$ 28,240			28,240
Construction in progress	0			0
Total non-depreciable capital assets	28,240	0	0	28,240
Depreciable capital assets:				
Infrastructure	4,340,206			4,340,206
Machinery and Equipment	90,195	7,995		98,190
Vehicles	259,036			259,036
Total Capital Assets	4,689,437	7,995	0	4,697,432
Less Accumulated Depreciation:				
Infrastructure	1,838,872	88,014		1,926,886
Machinery and Equipment	81,175	720		81,895
Vehicles	146,402	22,357		168,759
Total Accumulated Depreciation	2,066,449	111,091	0	2,177,540
Total depreciable capital assets, net	2,622,988	(103,096)	0	2,519,892
Business-type activities capital assets, net	\$ 2,651,228	(103,096)	0	2,548,132

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

BLENDED COMPONENT UNIT:

City of Okolona Electric Department

Non-depreciable capital assets:

Land and Right of Way	\$	21,317			21,317
Construction in progress		93,522	1,918		95,440
Total non-depreciable capital assets		<u>114,839</u>	<u>1,918</u>	<u>0</u>	<u>116,757</u>

Depreciable capital assets:

Buildings		99,281			99,281
Infrastructure		12,411,969	278,579	(37,741)	12,652,807
Machinery and Equipment		4,143,322	3,044		4,146,366
Vehicles		316,996	18,620	(32,945)	302,671
Total depreciable capital assets		<u>16,971,568</u>	<u>300,243</u>	<u>(70,686)</u>	<u>17,201,125</u>

Less Accumulated Depreciation:

Buildings		52,765	1,666		54,431
Infrastructure		4,983,310	401,876	(51,399)	5,333,787
Machinery and Equipment		1,550,522	150,989		1,701,511
Vehicles		160,155	15,402	(32,945)	142,612
Total Accumulated Depreciation		<u>6,746,752</u>	<u>569,933</u>	<u>(84,344)</u>	<u>7,232,341</u>

Total Depreciable capital assets, net

		<u>10,224,816</u>	<u>(269,690)</u>	<u>13,658</u>	<u>9,968,784</u>
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Total Electric Department

\$	<u>10,339,655</u>	<u>(267,772)</u>	<u>13,658</u>	<u>10,085,541</u>
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Depreciation expense charged to various functions presented on the statement of activities is presented as follows:

	Governmental Activities	Business-Type Activities	Total
General Government	\$ 101,320		101,320
Public Safety	25,915		25,915
Public Works	561		561
Water and Sewer		92,710	92,710
Solid Waste		18,381	18,381
Electric		569,933	569,933
	<u>\$ 127,796</u>	<u>681,024</u>	<u>808,820</u>

6. Claims and Judgments

Risk Financing.

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

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

7. Long-term Debt.

The following is a summary of changes in long-term debt for the year ended September 30, 2010.

	Adjusted Balance 10/1/2009	Additions	Deductions	Balance 9/30/2010	Amounts Due Within One Year
Governmental Activities					
Loans Payable	\$ 95,461	9,100	98,521	6,040	4,352
Capital Leases Payable	0	0	0	0	0
Compensated Absences	20,561	0	2,257	18,304	6,101
Total Governmental Activities	\$ 116,022	9,100	100,778	24,344	10,453
Business-Type Activities					
Revenue Bonds	\$ 684,189	0	26,212	657,977	26,147
Loans Payable	86,798	0	16,020	70,778	7,760
Compensated Absences	3,458	8,363	0	11,821	3,940
Total Business-Type Activities	\$ 774,445	163,862	42,232	740,576	37,847
Blended Component Unit					
City of Okolona Electric Department					
Special Obligation Bonds	\$ 155,000	0	55,000	100,000	
Revenue Bonds	162,000	0	30,000	132,000	30,000
Loans Payable	31,008	0	31,008	0	
Capital Lease Obligations	2,549,045	0	211,791	2,337,254	128,222
Total Component Unit	\$ 2,897,053	0	327,799	2,569,254	158,222

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

Year Ending	Governmental Activities		Business-Type Activities		Component Unit	
September 30	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 4,352	595	33,907	34,341	158,222	81,186
2012	1,688	23	35,789	32,774	326,798	102,832
2013	0	0	37,466	31,098	209,258	90,051
2014	0	0	36,032	29,382	215,958	80,522
2015	0	0	37,114	27,672	225,118	71,162
2016 and after	0	0	548,447	167,281	1,433,900	203,343
	\$ 6,040	618	728,755	322,548	2,569,254	629,096

Legal Debt Margin – The amount of debt, excluding specific exempted debt, that can be incurred by the city is limited by the state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the city. As of September 30, 2010, the amount of outstanding debt was equal to .05% of the latest property assessments.

**CITY OF OKOLONA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

8. Contingencies.

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

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

9. Defined Benefit Pension Plan.

Plan Description. The City of Okolona, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9% (7.25% prior to July 1, 2010) of their annual covered salary, and the city is required to contribute at an actuarially determined rate. The current rate is 12.00% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The city's contributions (employer share only) to PERS for the years ending September 30, 2010, 2009, and 2008 were \$114,809, \$123,159 and \$111,824, respectively, equal to the required contributions for each year.

9. Subsequent Events.

In preparing these financial statements, the City of Okolona has evaluated events and transactions for potential recognition or disclosure through March 21, 2011, the date the financial statements were available to be issued. On October 12, 2010, a lawsuit was filed by the Learning Skills Center against the City of Okolona, Mississippi, alleging a tortious breach of the implied terms and conditions of a Subgrant agreement of the Hope VI Grant from the United States Department of Housing and Urban Development. In the suit, the Plaintiff is seeking damages of \$700,000 to \$800,000. The City is confident that they will prevail in this case.

CITY OF OKOLONA
REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OKOLONA, MISSISSIPPI
Budgetary Comparison Schedule -
Budget and Actual (GAAP Basis)
General Fund
For the Year Ended September 30, 2010

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 905,419	918,463	917,831	(632)
Licenses, commissions and other revenue	38,291	46,491	45,962	(529)
Fines and forfeitures	50,000	57,000	57,062	62
Intergovernmental revenues	356,303	358,127	357,645	(482)
Charges for services	5,100	13,835	13,502	(333)
Interest income	2,500	15,753	12,218	(3,535)
Miscellaneous revenues	72,750	388,198	388,580	382
Total Revenues	<u>1,430,363</u>	<u>1,797,867</u>	<u>1,792,800</u>	<u>(5,067)</u>
EXPENDITURES				
Current:				
General government	776,687	706,214	681,514	24,700
Public safety	863,137	865,445	841,414	24,031
Culture and recreation	140,779	112,580	99,895	
Public works	53,285	118,134	109,798	8,336
Total Expenditures	<u>1,833,888</u>	<u>1,802,373</u>	<u>1,732,621</u>	<u>69,752</u>
Excess of Revenues over (under) Expenditures	<u>(403,525)</u>	<u>(4,506)</u>	<u>60,179</u>	<u>64,685</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	300,850		12,310	12,310
Loan proceeds	35,000			
Total Other Financing Sources and Uses	<u>335,850</u>	<u>0</u>	<u>12,310</u>	<u>12,310</u>
Net Change in Fund Balance	<u>(67,675)</u>	<u>(4,506)</u>	<u>72,489</u>	<u>76,995</u>
Fund Balances - Beginning, as originally reported	392,521	392,521	392,521	0
Prior period adjustments	(21,191)	(21,191)	(21,191)	0
Fund Balances- Beginning, as restated	371,330	371,330	371,330	0
Fund Balances - Ending	<u>\$ 303,655</u>	<u>366,824</u>	<u>443,819</u>	<u>76,995</u>

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

CITY OF OKOLONA, MISSISSIPPI

Notes to the Required Supplementary Information
For the Year Ended September 30, 2010

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and revisions.

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

CITY OF OKOLONA, MISSISSIPPI
SUPPLEMENTAL INFORMATION

CITY OF OKOLONA
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>Appalachian Regional Commission</u>		
Passed-through Mississippi Development Authority:		
Appalachian Area Development	23.002	199,966
Total passed-through Mississippi Farm Service Association		199,966
Total Appalachian Regional Commission		199,966
<u>U. S. Department of Housing and Urban Development</u>		
Passed-through Mississippi Development Authority:		
Community Development Block Grant	14.228	1,095,194
Affordable Housing Development in Main Street Rejuvenation	14.878	21,744
Total passed-through Mississippi Development Authority		1,116,938
Total U.S. Department of Housing and Urban Development		1,116,938
<u>U.S. Department of Transportation</u>		
Passed through State of Mississippi:		
Airport Improvement Program	20.106	135,134
Total passed through State of Mississippi		135,134
Total U.S. Department of Transportation		135,134
Total for All Federal Awards		\$ 1,452,038

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district

CITY OF OKOLONA, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
September 30, 2009

EMPLOYEE	POSITION	SURETY #	AMOUNT OF BOND
Louise Cole	Mayor	105300569	\$ 50,000
Kim Collins	City Clerk	70369944	50,000
Rebecca Moore	Deputy/Court clerk	70725795	50,000
Karen Jarek	Deputy Clerk	LSM0129260	50,000
Krystal Robinson	Deputy Clerk	70725802	50,000
Tommy J. Ivy	Police Chief	68376890	50,000
David Kenneth McVay	Councilman - Ward 1	105300570	50,000
Bennett Moore	Councilman - Ward 2	105300571	50,000
Eldridge Lowe	Councilman - Ward 3	105300572	50,000
Imogene Armstrong	Councilwoman - Ward 4	105300573	50,000
Robert Matt Hughes	Councilman - Ward 5	105300574	50,000
Anthony Floyd	Councilman - Ward 6	105300575	50,000

CITY OF OKOLONA, MISSISSIPPI
SCHEDULE RECONCILING ORIGINAL AD VALOREM TAX ROLLS
TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Assessed valuation in Millage:

	<u>Municipal</u>	
Realty	\$ 7,110,590	
Personal	1,933,006	
Personal-auto (from county) actual	1,819,740	
Utilities	402,745	
Less: Special homestead	<u>(1,228,750)</u>	
Total Municipal at <u>42.18</u> Mills	<u>10,037,331</u>	\$ 423,375

Collections Adjustments:

Add: Municipal homestead reimbursement	23,790	
Prior year tax collection	4,762	
Penalties and interest	<u>3,224</u>	31,776
Less: Cost of collections (Chickasaw & Monroe)		<u>(18,605)</u>

Total to be Accounted for **\$ 436,546**

Collection Credits to Funds:

	<u>Taxes</u>	<u>Homestead</u>	<u>Total</u>
Municipal General Fund	\$ 349,520	37,125	386,645
Fire Protection Fund	8,317	948	9,265
Recreation Fund	15,889	1,895	17,784
Total	<u>\$ 373,726</u>	<u>39,968</u>	<u>413,694</u>

Balance Represented By:

Unaccounted for 22,852

Total Accounted For **\$ 436,546**

CITY OF OKOLONA, MISSISSIPPI

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE



WATKINS, WARD and STAFFORD

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Certified Public Accountants

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

Mayor and Board of Aldermen
City of Okolona, Mississippi

We have audited the financial statements of the City of Okolona, Mississippi as of and for the year ended September 30, 2010, and have issued our report thereon dated March 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Okolona, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Okolona, Mississippi's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Okolona, Mississippi's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 10-02, 10-03, 10-04, 10-05, 10-07, 10-08, 10-09, 10-10, 10-11 and 10-12 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as findings 10-01 and 10-06 to be significant deficiencies.

Compliance and Other Matters

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

This report is intended solely for the information and use of the City of Okolona, Mississippi's management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Watkins, Ward and Stafford, PLLC
Okolona, Mississippi
March 21, 2011

Watkins, Ward and Stafford, PLLC



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

Mayor and Board of Aldermen
City of Okolona, Mississippi

Compliance

We have audited the compliance of the City of Okolona, Mississippi with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The City of Okolona, 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 Okolona, Mississippi's management. Our responsibility is to express an opinion on the City of Okolona, 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 Okolona, 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 Okolona, Mississippi's compliance with those requirements.

In our opinion, the City of Okolona, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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

Watkins, Ward and Stafford, PLLC
Okolona, Mississippi
March 21, 2011

Watkins, Ward and Stafford, PLLC

CITY OF OKOLONA, MISSISSIPPI

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



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

Mayor and Board of Aldermen
City of Okolona, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Okolona, Mississippi as of and for the year ended September 30, 2010, which collectively comprise the City of Okolona, Mississippi's basic financial statements and have issued our report thereon dated March 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

The City Council Approved the Opening of a Line of Credit

1. Finding

It is a violation of state law to open a line of credit because the line of credit can be used to circumvent the state purchase laws when financing is necessary.

The City Council opened the line of credit from Renasant Bank for the purpose of purchasing a garbage truck, water well repairs, and for the north sewer fall outfall project.

Recommendation

The City should retire the debt outstanding on the line of credit as soon as possible and cancel the line of credit.

Response

On February 10, 2010 the outstanding balance on the line of credit was paid in full and the line of credit closed.

The City Council Approved a Related Party Transaction

2. Finding

Section 25-4-105, Miss. Code Ann (1972), prohibits a relative of a public servant from being a vendor of the governmental entity.

Our audit of expenditures revealed that automobile repairs were paid to a related part.

Recommendation

In the future, the City should refrain from approving any related party transactions.

Response

The vendor in question will no longer provide services to the City of Okolona.

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

The City of Okolona, Mississippi's responses to the findings included in this report were not audited and, accordingly, we express no opinion on them

This report is intended solely for the information and use of the city's board of aldermen and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Watkins, Ward and Stafford, PLLC
Okolona, Mississippi
March 21, 2011

Watkins, Ward and Stafford, PLLC

CITY OF OKOLONA, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF OKOLONA, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency (ies) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Community Development Block Grant
CFDA # 14.228 | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding (s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133 | No |

CITY OF OKOLONA, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

Section 2: Financial Statement Findings

Significant Deficiencies

10-01

Statement of Condition

As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management does not have the ability to evaluate the completeness of financial statement disclosures. The absence of this control procedure is considered a significant deficiency because the potential exists that a more than inconsequential but less than a material misstatement of the financial statements could occur and not be detected by the City's internal control.

Criteria

Preparation of the financial statements including the required note disclosures is the responsibility of the City of Okolona. Our responsibility as auditors is to express an opinion on the financial statements.

Cause of Condition

The City of Okolona is capable of preparation of the financial statements; however, they lack the expertise to prepare the required disclosures.

Effect of Condition

A control deficiency exists due to the City's lack of controls and procedures necessary for the preparation of the financial statements, which include the required note disclosures.

Recommendation

Management of the City of Okolona should review, approve, and accept auditor prepared financial statements, including note disclosures prior to their issuance.

Client Response

Auditor-prepared financial statements and note disclosures will be reviewed, approved, and accepted by the City of Okolona's management prior to their issuance.

Significant Deficiencies considered to be Material Weaknesses

10-02

Statement of Condition

The City Council approved the opening of a line of credit from Renasant Bank for the purpose of purchasing a garbage truck, water well repairs and for the north sewer outfall project; however, it is a violation of state law for a governmental entity to open a line of credit.

Criteria

It is a violation of state law to open a line of credit because the line of credit can be used to circumvent the state purchase laws when financing is necessary.

Cause of Condition

The City Council was unaware of the fact that they did not have the authority to open the line of credit

Effect of Condition

A control deficiency exists due to the fact that the line of credit was opened and used for purchases.

Recommendation

The City should retire the debt outstanding on the line of credit as soon as possible and cancel the line of credit.

Client Response

On February 10, 2010 the outstanding balance on the line of credit was paid in full and the line closed.

10-03

Statement of Condition

Seventy-three adjustments were made to the accounting records subsequent to the start of the auditing process. Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.

Criteria

The financial statements are the responsibility of the City of Okolona; therefore, all adjustments should be completed before preparation of the financial statements.

Cause of Condition

The adjustments were necessary to correct account coding and misclassifications and to record additional receivables, liabilities and depreciation.

Effect of Condition

The City of Okolona's net expenditures over revenues increased by \$19,242 as a result of these audit entries.

Recommendation

We recommend that the City of Okolona implement policies and procedures to insure the correct account coding of all expenditures and journal entries. We also recommend that all receivables, payables and depreciation be recorded prior to the start of the audit.

Client Response

Management will review all journal entries and coding of expenditures as necessary to insure proper recording. Management will prepare a year-end closing checklist to determine all necessary adjustments are made prior to closing the books.

10-04

Statement of Condition

During the testing of expenditures, it was noted that the personnel charged with accounts payable duties was unable to locate several vouchers and that voucher numbers did not agree with the voucher number in the docket of claims.

Criteria

It is the responsibility of the City of Okolona's management to ensure that policies and procedures are in place for the filing and locating of vouchers and invoices.

Cause of Condition

The personnel charged with accounts payable duties is not maintaining an adequate filing system.

Effect of Condition

A control deficiency exists due to the fact that policies and procedures are not in place to ensure that all vouchers are properly filed.

Recommendation

Once canceled, all vouchers should be properly filed by vendor.

Response

In the future, care will be taken to ensure that all vouchers are properly filed.

10-05

Statement of Condition

During the course of the audit, a related party transaction was noted.

Criteria

According to Section 25-4-105, no relative, as defined in the section, of a public servant may be a vendor of the governmental entity.

Cause of Condition

Automobile repairs were paid to a related party.

Effect of Condition

Section 25-4-105 was violated due to the vendor being a related party to a public servant.

Recommendation

In the future, the City should refrain from approving related party transactions.

Response

The vendor in question will no longer provide services for the City of Okolona.

Business Type Activities**Significant Deficiencies**

10-06

Statement of Condition

Several vouchers requested by the auditors could not be located by the accountant.

Criteria

Checks had been issued, but vouchers and other supporting documentation could not be located.

Cause of Condition

The accountant is not taking care to file vouchers and supporting documentation so that it can be easily located. She stated that she may have pulled the vouchers at some point and failed to re-file them.

Effect of Condition

A control deficiency exists due to a lack of controls necessary to ensure that vouchers can be located easily.

Recommendation

Controls should be established to ensure that vouchers are filed so that they can be located easily.

Response

Care will be taken to file vouchers properly in the future

Significant Deficiencies Considered to be Material Weaknesses

10-07

Statement of Condition

The City Council approved the opening of a line of credit from Renasant Bank in order to purchase new equipment; however, it is a violation of state law for the electric department to open a line of credit.

Criteria

It is a violation of state law for a governmental entity to open a line of credit.

Cause of Condition

The City Council was unaware of the fact that they did not have the authority to open a line of credit.

Effect of Condition

A control deficiency exists due to the fact that the line of credit was opened.

Recommendation

The Electric Department should retire the debt outstanding on the line of credit as soon as possible and cancel the line of credit.

Response

The Electric Department retired the debt in May, 2010.

10-08

Statement of Condition

As of June 30, 2010 the City of Okolona had an outstanding balance of \$69,978 of investment cost charged to the Okolona Memorial Stadium.

Criteria

The City Council approved paying the Electric Department \$1,484 per month as an investment cost for the work performed at the Okolona Memorial Stadium.

Cause of Condition

The Electric Department has been billing the City of Okolona \$1,484 per month for the investment cost associated with the Okolona Memorial Stadium. However, the City of Okolona has never paid the bill.

Effect of Condition

A control deficiency exists due to a lack of controls necessary to ensure that all bills are paid in a timely manner.

Recommendation

The City of Okolona should pay the overdue investment cost as soon as possible and begin to pay the monthly charge in the future.

Response

The Mayor will discuss this issue with the City Council and try and negotiate a settlement with the Electric Department.

10-09

Statement of Condition

Bank reconciliations are not being prepared on a timely basis, reconciling items are not being recorded to the general ledger timely, and unidentified variances are not being resolved timely.

Criteria

The Electric Department is required to safeguard assets of the entity. Failure to reconcile cash accounts resulted in inaccurate financial statements.

Cause of Condition

The accountant stated that she prepared several months' reconciliations after year end in an attempt to catch them up prior to the audit and did not record reconciling items. Also, she could not identify variances in the reconciliations and left them unresolved; therefore, the accounts had not actually been reconciled.

Effect of Condition

A control deficiency exists due to the lack of controls necessary to ensure that bank reconciliations are prepared timely and reconciling items are recorded.

Recommendation

Bank reconciliations should be prepared monthly and reconciling items should be recorded. In addition, the manager should review the reconciliations and the bank statements monthly.

Response

In the future, bank reconciliations will be prepared timely and all reconciling items will be recorded.

10-10

Statement of Condition

A deposit to the payroll account was not made timely and overdraft fees were charged against the account.

Criteria

The Electric Department is required to safeguard assets of the entity.

Cause of Condition

A deposit slip was prepared, but was not deposited until four days later causing the account to be overdrawn.

Effect of Condition

A control deficiency exists due to a lack of controls necessary to ensure that there are sufficient funds in the payroll account to cover all checks issued against the account.

Recommendation

Transfers to the payroll account should be made prior to issuance of the payroll checks.

Response

Transfers will be made timely and in an amount sufficient to cover the payroll checks drawn on the account.

10-11

Statement of Condition

During the testing of accrued vacation, it was noted that one employee had earned 80 hours of vacation, but was credited with only 40 hours.

Criteria

Maintaining an accurate record of attendance, sick days, and accrued vacation days is a function of payroll. Failure to maintain these records accurately can result in a loss of benefits to employees or paying too much in benefits.

Cause of Condition

The accountant failed to credit the employee with an additional 40 hours of vacation benefits.

Effect of Condition

A control deficiency exists due to a lack of controls necessary to ensure that employees attendance records are maintained accurately.

Recommendation

Care should be taken to maintain accurate attendance records and credit each employee with the correct amount of vacation and sick benefits.

Response

The accountant stated that she failed to run a monthly report that would have updated the hours. She will run this report in the future.

10-12

Statement of Condition

The Electric Department does not have an adequate segregation of duties for payroll and non-payroll expenditures.

Criteria

Management is responsible for developing a system of internal controls. This system of internal controls should include a segregation of duties to eliminate too much control of one employee and to mitigate the risk of fraud.

Cause of Condition

The accountant prepares the vouchers, enters them into the system, prepares the docket of claims for the Council's approval, prepares the checks, mails the checks, and reconciles the bank statement for non-payroll expenditures. She enters the payroll information, prepares the checks, distributes the checks, and reconciles the bank statement.

Effect of Condition

A control deficiency exists due to a lack of proper segregation of duties to mitigate the risk of fraud.

Recommendation

Even with limited personnel, some of the duties could be re-assigned to other employees to mitigate the risk of fraud. In addition, the manager should open the bank statements and review their contents prior to giving them to the employee assigned to prepare the reconciliations. The manager should review the reconciliations after they are completed and make sure that all reconciling items have been properly recorded and that there are no unidentified variances. The manager should compare the actual expenditures to the docket of claims to make sure no expenditures, other than routine payments, have been made without proper approval.

Response

The manager stated that they were in the process of re-assigning duties and he will begin opening the bank statements and reviewing them. He will also review the reconciliations and compare actual expenditures to the docket of claims.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards that are required to be disclosed.