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**CITY OF BAY SPRINGS, MISSISSIPPI**

**AUDITED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006**

**CITY OF BAY SPRINGS, MISSISSIPPI  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## *INTRODUCTION*

This discussion and analysis of the City of Bay Springs's financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2006. 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.

The City is located in east-central Mississippi in Jasper County. The population, according to the 2000 census, is 2,106.

## *FINANCIAL HIGHLIGHTS*

The City of Bay Springs is financially stable. The City has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The City is committed to maintaining sound fiscal management to meet the challenges of the future.

The City's ending cash balance increased by \$66,133, which represents an increase of 6% from the prior fiscal year.

The City had \$6,719,593 in total revenues, an increase of 59% from the prior fiscal year. Tax revenues account for \$1,326,491 or 20% of total revenues. State and federal revenues in the form of reimbursements, shared revenue or grants, account for \$3,465,811 or 52% of total revenues.

The City had \$6,573,171 in total expenses, an increase of 84% from the prior fiscal year. Expenses in the amount of \$5,076,257 were offset by grants, outside contributions or charges for services. General revenues of \$1,643,336 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$6,608,754 in revenues and \$6,368,125 in expenditures. The General Fund's fund balance increased \$240,629 over the prior year. The Debt Service Fund had \$412,813 in revenues and \$426,297 in expenditures. The Debt Service Fund's fund balance decreased \$13,484 from the prior year.

Capital assets increased by \$1,008,898 or 9.7% over the prior year,

Long-term debt increased by \$499,866 or 42% over the prior year.

## *OVERVIEW OF THE FINANCIAL STATEMENTS*

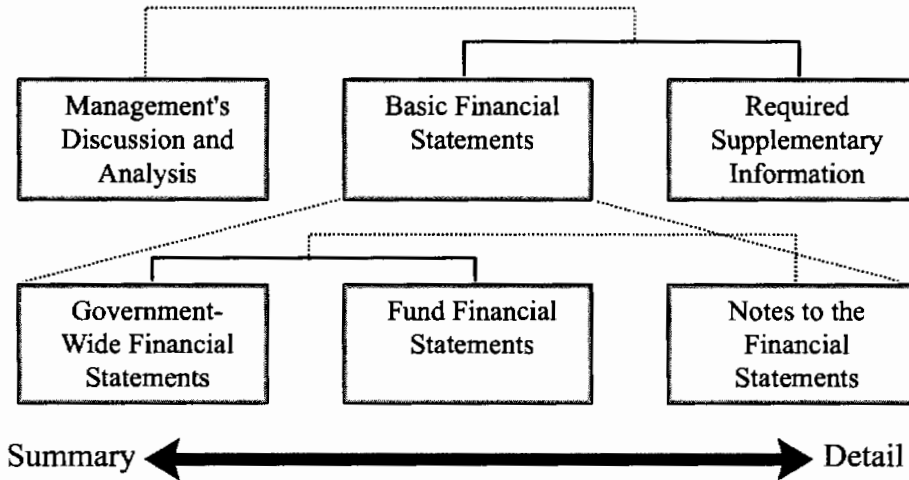
This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) Government-wide financial statements, (2) Fund financial statements and (3) Notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain.

The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

**Figure 1 – Required Components of the City's Annual Report**



**Figure 2 – Major Features of the City's Government-Wide and Fund Financial Statements**

|   | Government-Wide Financial Statements   | Fund Financial Statements  |   |
|---|--|--|---|
|   |  | Governmental Funds   | Proprietary Funds   |
| <b>Scope</b>                                  | Entire City government   | All activities of the City that are not business-type or fiduciary in nature   | Activities of the City that operate similar to private businesses   |
| <b>Required financial statements</b>          | <ul style="list-style-type: none"> <li>● Statement of net assets</li> <li>● Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>● Balance sheet</li> <li>● Statement of revenues, expenditures and changes in fund balances</li> </ul>  | <ul style="list-style-type: none"> <li>● Statement of net assets</li> <li>● Statement of revenues, expenses and changes in net assets</li> <li>● Statement of cash flows</li> </ul> |
| <b>Accounting basis and measurement focus</b> | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus   |
| <b>Type of asset/liability information</b>    | All assets and liabilities, both financial and capital and short and long term                                 | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included  | All assets and liabilities, both financial and capital, and short and long term   |
| <b>Type of inflow/outflow information</b>     | All revenues and expenses during year, regardless of when cash is received or paid                             | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid  |

**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 private-sector businesses.

The **Statement of Net Assets** presents information on all City 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 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 result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; public works; culture and recreation; economic development; and interest on long-term debt. The business-type activities of the City include water, sewer and gas services.

The Government-wide Financial Statements can be found on Exhibits 1 and 2 of this report.

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

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. Governmental Funds include the General, Special Revenue and Debt Service Funds.

Because the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on Exhibits 3.1 and 4.1 respectively.

The City maintains individual Governmental Funds in accordance with the *Municipal Audit and Accounting Guide* issued by the Office of the State Auditor. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are aggregated and presented in a single column combined together and presented in these reports as other Governmental Funds.

The basic Governmental Funds financial statements can be found on Exhibits 3 and 4 of this report.

**Proprietary funds.** The City's Proprietary Funds are Enterprise Funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The City uses enterprise funds to account for the water, sewer and gas services.

Fund financial statements for the Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Water Fund, Sewer Fund and Gas Fund are all considered to be major funds of the City.

The Proprietary Funds financial statements can be found on Exhibits 5, 6, and 7 of this report.

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

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the City's budget process.

The City adopts an annual operating budget for all Governmental Funds. A budgetary comparison statement has been provided for the General Fund and each major Special Revenue fund.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Assets** – Net assets may serve over time as a useful indicator of the government's financial position. In the case of the City of Bay Springs, assets exceeded liabilities by \$7,249,223 as of September 30, 2006.

By far, the largest portion of the City's net assets (88%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture and equipment, utility systems, and construction in progress) less related outstanding debt used to acquire such assets. The City uses these capital assets to provide services to its citizens.

The City's financial position is a product of several financial transactions including the net results 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 years ended September 30, 2006 and 2005, respectively.

|  | <u>Governmental Activities</u> |                     | <u>Business-Type Activities</u> |                     |
|--|--------------------------------|---------------------|---------------------------------|---------------------|
|  | <u>2006</u>                    | <u>2005</u>         | <u>2006</u>                     | <u>2005</u>         |
| Current Assets                                   | \$ 2,586,105                   | \$ 959,992          | \$ 752,495                      | \$ 1,122,455        |
| Capital Assets (net of accumulated depreciation) | 4,560,254                      | 3,839,756           | 3,208,802                       | 3,202,284           |
| Total Assets                                     | <u>7,146,359</u>               | <u>4,799,748</u>    | <u>3,961,297</u>                | <u>4,324,739</u>    |
| Current Liabilities                              | 1,945,478                      | 601,844             | 167,563                         | 613,830             |
| Long-term Debt Outstanding                       | 960,162                        | 359,380             | 785,230                         | 446,631             |
| Total Liabilities                                | <u>2,905,640</u>               | <u>961,224</u>      | <u>952,793</u>                  | <u>1,060,461</u>    |
| Net Assets:                                      |                                |                     |                                 |                     |
| Invested in Capital Assets, Net of Related Debt  | 3,935,768                      | 3,449,557           | 2,452,864                       | 2,408,699           |
| Restricted                                       | 304,951                        | 388,967             |                                 |                     |
| Unrestricted                                     |                                |                     | 555,640                         | 855,579             |
| Total Net Assets                                 | <u>\$ 4,240,719</u>            | <u>\$ 3,838,524</u> | <u>\$ 3,008,504</u>             | <u>\$ 3,264,278</u> |

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

- Capital expenditures in the amount of \$1,082,995 were made during the year, the majority of which were for construction projects and the purchase of a building.
- Long-term debt principal in the amount of \$182,871 was retired while \$682,737 in new debt was issued.

**Changes in Net Assets** – The City’s total revenues for the fiscal year ended September 30, 2006 was \$6,719,593. The total cost for all services provided was \$6,573,171. The increase in net assets was \$146,422. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2006 and 2005.

|   | <u>2006</u>       | <u>2005</u>       |
|---|-------------------|-------------------|
| Program Revenues:   |                   |                   |
| Charges for Services  | \$ 1,610,446      | \$ 1,521,408      |
| Grants  | 3,465,811         | 947,271           |
| General Revenues:   |                   |                   |
| Property Taxes  | 387,078           | 371,924           |
| Licenses and Permits  | 208,314           | 170,737           |
| Intergovernmental, not Restricted to<br>Specific Functions/Programs | 763,384           | 998,265           |
| Fines and Forfeits  | 23,755            | 54,932            |
| Other Revenue   | 260,805           | 152,138           |
| Total Revenue   | <u>6,719,593</u>  | <u>4,216,675</u>  |
| Governmental Activities:  |                   |                   |
| General Government  | 3,641,341         | 670,165           |
| Public Safety   | 451,481           | 486,718           |
| Public Works  | 822,759           | 759,500           |
| Culture and Recreation  | 86,057            | 105,899           |
| Economic Development  | 361,795           | 700,012           |
| Interest  | 21,419            | 10,613            |
| Business-Type Activities:   |                   |                   |
| Water   | 685,594           | 364,654           |
| Sewer   | 224,303           | 173,511           |
| Gas   | 278,422           | 300,521           |
| Total Functions/Programs  | <u>6,573,171</u>  | <u>3,571,593</u>  |
| Increase in Net Assets  | <u>\$ 146,422</u> | <u>\$ 645,082</u> |

**Governmental Activities** – The following table presents the cost of three major functional activities of the City: General Government, Public Safety, and Public Works. The table also shows each function’s net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on the City’s taxpayers by each of these functions.

|                    | <u>Total<br/>Costs</u> | <u>Net<br/>Costs</u> |
|--------------------|------------------------|----------------------|
| General Government | \$3,641,341            | \$ 251,611           |
| Public Safety      | 451,481                | 451,481              |
| Public Works       | 822,759                | 256,871              |

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

**Governmental Funds** – At the close of the fiscal year, the City’s Governmental Funds reported a combined fund balance of \$640,627, an increase of \$209,103 or 49% from the prior year. The primary reasons for this decrease are highlighted in the analysis of governmental activities. A deficiency of \$707,050 of expenditures under revenues was shown before operating transfers and other financing sources.

The General Fund is the principal operating fund of the City. The increase in the fund balance of the General Fund for the fiscal year was \$240,629.

**Business-type Funds** – Operating revenues from the City's Water, Sewer and Gas Funds increased by 7% to \$1,082,028 and operating expenses increased by 42% to \$1,167,773. As of September 30, 2006, loss before transfers was \$106,291.

During the year, transfers were made between funds which were primarily for payroll, claims, and reimbursements. The net transfers for the year were \$152,426 into the Governmental Funds from the Business-type Funds.

### ***BUDGETARY HIGHLIGHTS OF MAJOR FUNDS***

Over the course of the year, the City made revisions to its operating budget.

Actual disbursements were equal to the final budget amounts.

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, 2006, the City's total capital assets was \$11,416,731. This includes land, buildings, mobile equipment, furniture and equipment, infrastructure, utility systems and construction in progress. This amount represents an increase from the previous year of \$1,008,898. The majority of this increase is due to construction, renovation, and the purchase of a building.

Total accumulated depreciation as of September 30, 2006 was \$3,647,675, including \$311,732 of depreciation expense for the year. The balance in total net capital assets was \$7,769,056 at year-end.

Additional information on the City's capital assets can be found in Note 3 of this report.

**Debt Administration** – At September 30, 2006, the City had \$1,683,761 in long-term debt outstanding. This includes general obligation bonds, revenue bonds, loans and capital leases. Of this debt, \$776,497 is due within one year. In the past year, the City issued capital leases totaling \$119,400 for the purchase of one police car and two generators, obtained a loan totaling \$260,000 for the purchase of a facility to be used by various departments for maintenance, storage and office space, and obtained a line of credit totaling \$303,337 to pay for Hurricane Katrina related expenses until reimbursement could be received from FEMA.

The State of Mississippi limits the amount of debt a City can issue to generally 15% of total assessed value. The City's applicable outstanding debt is below its current limit at only 1.44% of total assessed value.

Additional information on the City's long-term debt can be found in Note 4 of this report.

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

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the City of Bay Springs City hall at P.O. Box 307, Bay Springs, Mississippi 39422.

**BASIC FINANCIAL STATEMENTS**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor, Members of the  
Board of Aldermen, and City Clerk  
City of Bay Springs, Mississippi

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bay Springs's management. My responsibility is to express an opinion on these financial statements based on my audit.

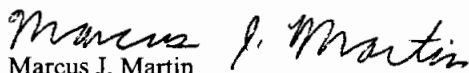
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of September 30, 2006, 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*, I have also issued my report dated February 2, 2007, on my consideration of the City of Bay Springs, Mississippi's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

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

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Bay Springs, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basis financial statements. Other supplementary financial information listed as schedules in the table of contents is also presented for purposes of additional analysis 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 my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

  
Marcus J. Martin  
Certified Public Accountant  
February 2, 2007

**City of Bay Springs**  
**Statement of Net Assets**  
**September 30, 2006**

**EXHIBIT 1**

|   | Primary Government         |                             |                      |
|---|----------------------------|-----------------------------|----------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total                |
| <b>ASSETS</b>                                     |                            |                             |                      |
| Cash, Cash Equivalents, and Investments           | \$ 512,511                 | \$ 579,783                  | \$ 1,092,294         |
| Restricted Assets - Cash and Investments          | 20,212                     | 89                          | 20,301               |
| Property Tax Receivable                           | 340,067                    |                             | 340,067              |
| Receivables (net of uncollectibles):              |                            |                             |                      |
| Accounts  | 88,078                     | 175,931                     | 264,009              |
| Sales Tax   | 60,211                     |                             | 60,211               |
| Grants  | 1,552,655                  |                             | 1,552,655            |
| Internal Balances                                 | 3,308                      | (3,308)                     |                      |
| Prepaid Items                                     | 9,063                      |                             | 9,063                |
| Capital Assets (net of accumulated depreciation): |                            |                             |                      |
| Land  | 633,887                    | 38,776                      | 672,663              |
| Buildings   | 2,198,131                  |                             | 2,198,131            |
| Improvements Other Than Buildings                 | 566,108                    | 5,039                       | 571,147              |
| Mobile Equipment                                  | 251,852                    | 71,123                      | 322,975              |
| Other Furniture and Equipment                     | 170,683                    | 131,592                     | 302,275              |
| Infrastructure                                    | 303,780                    |                             | 303,780              |
| Utility Systems                                   |                            | 2,962,272                   | 2,962,272            |
| Construction in Progress                          | 435,813                    |                             | 435,813              |
| <b>Total Assets</b>                               | <b>\$ 7,146,359</b>        | <b>\$ 3,961,297</b>         | <b>\$ 11,107,656</b> |
| <b>LIABILITIES AND NET ASSETS</b>                 |                            |                             |                      |
| <b>Liabilities:</b>                               |                            |                             |                      |
| Accounts Payable                                  | \$ 1,568,437               | \$ 76,836                   | \$ 1,645,273         |
| Accrued Salaries and Taxes                        | 5,419                      | 1,933                       | 7,352                |
| Accrued Vacation and Sick Pay                     | 4,448                      | 2,724                       | 7,172                |
| Customer Deposits                                 |                            | 82,293                      | 82,293               |
| Deferred Revenue                                  | 340,067                    |                             | 340,067              |
| Other Accrued Liabilities                         | 27,107                     |                             | 27,107               |
| Accrued Interest Payable                          |                            | 3,777                       | 3,777                |
| Non-Current Liabilities:                          |                            |                             |                      |
| Due Within One Year                               | 398,940                    | 377,557                     | 776,497              |
| Due In More Than One Year                         | 528,883                    | 378,381                     | 907,264              |
| Long-term Compensated Absences                    | 32,339                     | 29,292                      | 61,631               |
| <b>Total Liabilities</b>                          | <b>2,905,640</b>           | <b>952,793</b>              | <b>3,858,433</b>     |
| <b>Net Assets:</b>                                |                            |                             |                      |
| Invested in Capital Assets, Net of Related Debt   | 3,935,768                  | 2,452,864                   | 6,388,632            |
| Restricted  | 304,951                    |                             | 304,951              |
| Unrestricted                                      |                            | 555,640                     | 555,640              |
| <b>Total Net Assets</b>                           | <b>4,240,719</b>           | <b>3,008,504</b>            | <b>7,249,223</b>     |
| <b>Total Liabilities and Net Assets</b>           | <b>\$ 7,146,359</b>        | <b>\$ 3,961,297</b>         | <b>\$ 11,107,656</b> |

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

City of Bay Springs  
Statement of Activities  
September 30, 2006

EXHIBIT 2

| Function/Programs:  | Program Revenues |                         |                     | Business-<br>Type |                            |                     |                     |
|---|------------------|-------------------------|---------------------|-------------------|----------------------------|---------------------|---------------------|
|   | Expenses         | Charges for<br>Services | Operating<br>Grants | Capital<br>Grants | Governmental<br>Activities | Activities          | Total               |
| <b>Governmental Activities:</b>                                     |                  |                         |                     |                   |                            |                     |                     |
| General Government  | \$ 3,641,341     | \$ 2,964,813            | \$ 424,917          | \$                | (251,611)                  | \$                  | (251,611)           |
| Public Safety   | 451,481          |                         |                     |                   | (451,481)                  |                     | (451,481)           |
| Public Works  | 822,759          | 564,544                 | 1,344               |                   | (256,871)                  |                     | (256,871)           |
| Culture and Recreation  | 86,057           |                         |                     |                   | (86,057)                   |                     | (86,057)            |
| Economic Development  | 361,795          |                         | 60,498              |                   | (301,297)                  |                     | (301,297)           |
| Interest on Long-Term Debt  | 21,419           |                         |                     |                   | (21,419)                   |                     | (21,419)            |
| <b>Total Governmental Activities</b>                                | <b>5,384,852</b> | <b>564,544</b>          | <b>2,966,157</b>    | <b>485,415</b>    | <b>(1,368,736)</b>         | <b>-</b>            | <b>(1,368,736)</b>  |
| <b>Business-type Activities:</b>                                    |                  |                         |                     |                   |                            |                     |                     |
| Water   | 685,594          | 381,948                 | 3,149               |                   | (300,497)                  |                     | (300,497)           |
| Sewer   | 224,303          | 155,503                 | 2,768               |                   | (66,032)                   |                     | (66,032)            |
| Gas   | 278,422          | 508,451                 | 8,322               |                   | 238,351                    |                     | 238,351             |
| <b>Total Functions/Programs</b>                                     | <b>1,188,319</b> | <b>1,045,902</b>        | <b>14,239</b>       | <b>-</b>          | <b>(128,178)</b>           | <b>(128,178)</b>    | <b>(128,178)</b>    |
|   | <b>6,573,171</b> | <b>1,610,446</b>        | <b>2,980,396</b>    | <b>485,415</b>    | <b>(1,368,736)</b>         | <b>(1,368,736)</b>  | <b>(1,496,914)</b>  |
| <b>General Revenues:</b>  |                  |                         |                     |                   |                            |                     |                     |
| Property Tax  |                  |                         |                     |                   | 387,078                    |                     | 387,078             |
| Franchise Taxes   |                  |                         |                     |                   | 197,745                    |                     | 197,745             |
| Sales Tax   |                  |                         |                     |                   | 741,668                    |                     | 741,668             |
| Licenses and Permits  |                  |                         |                     |                   | 10,569                     |                     | 10,569              |
| Fines and Forfeits  |                  |                         |                     |                   | 23,755                     |                     | 23,755              |
| Intergovernmental, Not Restricted to<br>Specific Functions/Programs |                  |                         |                     |                   | 21,716                     |                     | 21,716              |
| Other   |                  |                         |                     |                   | 149,489                    | 21,887              | 171,376             |
| Gain (Loss) on Sale of Assets                                       |                  |                         |                     |                   | 86,486                     | 2,943               | 89,429              |
| Transfers   |                  |                         |                     |                   | 152,426                    | (152,426)           |                     |
| <b>Total General Revenues and Transfers</b>                         |                  |                         |                     |                   | <b>1,770,932</b>           | <b>(127,596)</b>    | <b>1,643,336</b>    |
| <b>Change in Net Assets</b>   |                  |                         |                     |                   | <b>402,196</b>             | <b>(255,774)</b>    | <b>146,422</b>      |
| <b>Net Assets, Beginning of Year</b>                                |                  |                         |                     |                   | <b>3,838,523</b>           | <b>3,264,278</b>    | <b>7,102,801</b>    |
| <b>Net Assets, End of Year</b>                                      |                  |                         |                     |                   | <b>\$ 4,240,719</b>        | <b>\$ 3,008,504</b> | <b>\$ 7,249,223</b> |

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

**City of Bay Springs  
Balance Sheet  
Governmental Funds  
September 30, 2006**

**EXHIBIT 3**

|  | <b>General<br/>Fund</b> | <b>Debt<br/>Service<br/>Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|-------------------------|----------------------------------|---|---|
| <b>ASSETS</b>                              |                         |                                  |   |   |
| Cash, Cash Equivalents and Investments     | \$ 278,498              | \$ 234,013                       |   | \$ 512,511                              |
| Restricted Cash and Investments            | 14,772                  |                                  | 5,440                                   | 20,212                                  |
| Accounts Receivable - Net                  | 88,078                  |                                  |   | 88,078                                  |
| Property Tax Receivable                    | 238,047                 | 102,020                          |   | 340,067                                 |
| Due from Other Governments                 | 1,612,866               |                                  |   | 1,612,866                               |
| Due from Other Funds                       | 15,930                  | 41,297                           |   | 57,227                                  |
| Prepaid Items                              | 9,063                   |                                  |   | 9,063                                   |
| <b>Total Assets</b>                        | <b>\$ 2,257,254</b>     | <b>\$ 377,330</b>                | <b>\$ 5,440</b>                         | <b>\$ 2,640,024</b>                     |
| <b>LIABILITIES AND FUND BALANCES</b>       |                         |                                  |   |   |
| <b>Liabilities:</b>                        |                         |                                  |   |   |
| Accounts Payable                           | \$ 1,568,437            |                                  |   | \$ 1,568,437                            |
| Accrued Payroll                            | 5,419                   |                                  |   | 5,419                                   |
| Accrued Vacation and Sick Pay              | 4,448                   |                                  |   | 4,448                                   |
| Deferred Revenue                           | 238,047                 | 102,020                          |   | 340,067                                 |
| Due to Other Funds                         | 53,919                  |                                  |   | 53,919                                  |
| Other Accrued Liabilities                  | 27,107                  |                                  |   | 27,107                                  |
| <b>Total Liabilities</b>                   | <b>1,897,377</b>        | <b>102,020</b>                   | <b>-</b>                                | <b>1,999,397</b>                        |
| <b>Fund Balances:</b>                      |                         |                                  |   |   |
| <b>Reserved for:</b>                       |                         |                                  |   |   |
| Industrial Park                            | 128,327                 |                                  |   | 128,327                                 |
| Other                                      |                         |                                  | 5,440                                   | 5,440                                   |
| Debt Service                               |                         | 275,310                          |   | 275,310                                 |
| <b>Unreserved:</b>                         |                         |                                  |   |   |
| Undesignated                               | 231,550                 |                                  |   | 231,550                                 |
| <b>Total Fund Balances (Deficits)</b>      | <b>359,877</b>          | <b>275,310</b>                   | <b>5,440</b>                            | <b>640,627</b>                          |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 2,257,254</b>     | <b>\$ 377,330</b>                | <b>\$ 5,440</b>                         | <b>\$ 2,640,024</b>                     |

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

**City of Bay Springs  
Reconciliation of the Balance Sheet  
to the Statement of Net Assets  
Governmental Funds  
September 30, 2006**

**EXHIBIT 3.1**

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**Fund Balances - Total Governmental Funds** **\$ 640,627**

Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

|                                |                    |           |
|--------------------------------|--------------------|-----------|
| Governmental Capital Assets    | \$ 6,380,802       |           |
| Less: Accumulated Depreciation | <u>(1,820,548)</u> | 4,560,254 |

Long-term liabilities, including bonds payable, are not due and payable  
in the current period and therefore are not reported in the funds.

|                        |                 |                  |
|------------------------|-----------------|------------------|
| Bonds Payable          | (145,000)       |                  |
| Notes Payable          | (648,619)       |                  |
| Capital Leases Payable | (134,204)       |                  |
| Compensated Absences   | <u>(32,339)</u> | <u>(960,162)</u> |

**Net Assets of Governmental Activities** **\$ 4,240,719**

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

**City of Bay Springs**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**September 30, 2006**

**EXHIBIT 4**

|  | General<br>Fund   | Debt<br>Service<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|-------------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>  |                   |                         |                                |                                |
| Property Taxes   | \$ 306,989        | \$ 80,089               |                                | \$ 387,078                     |
| Licenses and Permits   | 208,314           |                         |                                | 208,314                        |
| Intergovernmental Revenue                                    | 4,154,458         |                         | 60,498                         | 4,214,956                      |
| Charges for Services   | 564,544           |                         |                                | 564,544                        |
| Fines and Forfeits   | 23,755            |                         |                                | 23,755                         |
| Other Revenue  | 146,421           | 1,284                   | 1,784                          | 149,489                        |
| <b>Total Revenues</b>  | <b>5,404,481</b>  | <b>81,373</b>           | <b>62,282</b>                  | <b>5,548,136</b>               |
| <b>EXPENDITURES</b>  |                   |                         |                                |                                |
| Current:   |                   |                         |                                |                                |
| General Government   | 4,040,674         | 6,810                   |                                | 4,047,484                      |
| Public Safety  | 422,640           |                         |                                | 422,640                        |
| Public Works   | 1,220,940         |                         |                                | 1,220,940                      |
| Culture and Recreation                                       | 80,516            |                         |                                | 80,516                         |
| Economic Development   | 362,208           |                         | 2,826                          | 365,034                        |
| Debt Service:  |                   |                         |                                |                                |
| Principal Retirement   | 68,561            | 28,592                  |                                | 97,153                         |
| Interest and Fiscal Charges                                  | 4,223             | 17,196                  |                                | 21,419                         |
| <b>Total Expenditures</b>                                    | <b>6,199,762</b>  | <b>52,598</b>           | <b>2,826</b>                   | <b>6,255,186</b>               |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>(795,281)</b>  | <b>28,775</b>           | <b>59,456</b>                  | <b>(707,050)</b>               |
| <b>OTHER FINANCING SOURCES AND (USES)</b>                    |                   |                         |                                |                                |
| Transfers In   | 771,986           |                         |                                | 771,986                        |
| Transfers Out  | (168,363)         | (373,699)               | (77,498)                       | (619,560)                      |
| Proceeds from Sale of Assets                                 | 128,950           |                         |                                | 128,950                        |
| Proceeds from Borrowings                                     | 303,337           | 331,440                 |                                | 634,777                        |
| <b>Total Other Financing Sources<br/>and (Uses)</b>          | <b>1,035,910</b>  | <b>(42,259)</b>         | <b>(77,498)</b>                | <b>916,153</b>                 |
| <b>Net Change in Fund Balances</b>                           | <b>240,629</b>    | <b>(13,484)</b>         | <b>(18,042)</b>                | <b>209,103</b>                 |
| <b>Fund Balances (Deficits) - Beginning</b>                  | <b>119,248</b>    | <b>288,794</b>          | <b>23,482</b>                  | <b>431,524</b>                 |
| <b>Fund Balances (Deficits) - Ending</b>                     | <b>\$ 359,877</b> | <b>\$ 275,310</b>       | <b>\$ 5,440</b>                | <b>\$ 640,627</b>              |

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

**City of Bay Springs  
Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
September 30, 2006**

**EXHIBIT 4.1**

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**Net Change in Fund Balances - Total Governmental Funds** **\$ 209,103**

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 these assets is depreciated over their estimated useful lives.

|                                 |                  |         |
|---------------------------------|------------------|---------|
| Expenditures for Capital Assets | \$ 947,137       |         |
| Less: Current Year Depreciation | <u>(184,174)</u> | 762,963 |

In the Statement of Activities, only gains and losses from sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the loss and the proceeds from the sale in the current period.

|                            |                  |          |
|----------------------------|------------------|----------|
| Gain on sale of assets     | 86,486           |          |
| Proceeds on sale of assets | <u>(128,950)</u> | (42,464) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

|                    |                  |           |
|--------------------|------------------|-----------|
| Principal Payments | 97,153           |           |
| Loan Proceeds      | <u>(634,777)</u> | (537,624) |

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

|  |  |               |
|--|--|---------------|
| Change in Long-term Compensated Absences |  | <u>10,218</u> |
|--|--|---------------|

|  |  |                                 |
|--|--|---------------------------------|
| <b>Change in Net Assets of Governmental Activities</b> |  | <b><u><u>\$ 402,196</u></u></b> |
|--|--|---------------------------------|

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

**City of Bay Springs  
Statement of Net Assets  
Proprietary Funds  
September 30, 2006**

**EXHIBIT 5**

|   | Enterprise Funds  |                     |                   | Total<br>Enterprise<br>Funds |
|---|-------------------|---------------------|-------------------|------------------------------|
|   | Water             | Sewer               | Gas               |                              |
| <b>ASSETS</b>                                   |                   |                     |                   |                              |
| <b>Current Assets:</b>                          |                   |                     |                   |                              |
| Cash and Cash Equivalents                       | \$ 69,759         | \$ 10,793           | \$ 472,352        | \$ 552,904                   |
| Investments                                     | 26,879            |                     |                   | 26,879                       |
| Accounts Receivable                             | 49,716            | 19,432              | 106,783           | 175,931                      |
| <b>Total Current Assets</b>                     | <b>146,354</b>    | <b>30,225</b>       | <b>579,135</b>    | <b>755,714</b>               |
| <b>Noncurrent Assets:</b>                       |                   |                     |                   |                              |
| Restricted Asset - Cash and Cash Equivalents    | 89                |                     |                   | 89                           |
| <b>Capital Assets:</b>                          |                   |                     |                   |                              |
| Land  | 258               | 38,518              |                   | 38,776                       |
| Improvements                                    | 18,718            |                     |                   | 18,718                       |
| Systems   | 1,686,307         | 2,187,184           | 579,000           | 4,452,491                    |
| Mobile Equipment                                | 89,375            | 27,785              | 105,608           | 222,768                      |
| Other Furniture and Equipment                   | 79,245            | 89,901              | 134,030           | 303,176                      |
| Less Accumulated Depreciation                   | (591,167)         | (780,330)           | (455,630)         | (1,827,127)                  |
| <b>Total Noncurrent Assets</b>                  | <b>1,282,825</b>  | <b>1,563,058</b>    | <b>363,008</b>    | <b>3,208,891</b>             |
| <b>Total Assets</b>                             | <b>1,429,179</b>  | <b>1,593,283</b>    | <b>942,143</b>    | <b>3,964,605</b>             |
| <b>LIABILITIES</b>                              |                   |                     |                   |                              |
| <b>Current Liabilities:</b>                     |                   |                     |                   |                              |
| Accounts Payable                                | 17,757            | 3,900               | 55,179            | 76,836                       |
| Accrued Payroll                                 | 678               | 260                 | 995               | 1,933                        |
| Accrued Vacation and Sick Pay                   | 998               | 438                 | 1,288             | 2,724                        |
| Due to Other Funds                              |                   |                     | 3,308             | 3,308                        |
| Customer Deposits                               | 53,003            |                     | 29,290            | 82,293                       |
| Interest Payable                                | 348               | 3,429               |                   | 3,777                        |
| Current Portion of Long-term Debt               | 333,544           | 32,015              | 11,998            | 377,557                      |
| <b>Total Current Liabilities</b>                | <b>406,328</b>    | <b>40,042</b>       | <b>102,058</b>    | <b>548,428</b>               |
| <b>Noncurrent Liabilities:</b>                  |                   |                     |                   |                              |
| Compensated Absences Payable                    | 11,730            | 3,923               | 13,639            | 29,292                       |
| Long-term Debt                                  | 274,782           | 89,396              | 14,203            | 378,381                      |
| <b>Total Liabilities</b>                        | <b>692,840</b>    | <b>133,361</b>      | <b>129,900</b>    | <b>956,101</b>               |
| <b>NET ASSETS</b>                               |                   |                     |                   |                              |
| Invested in Capital Assets, Net of Related Debt | 690,358           | 888,297             | 333,283           | 1,911,938                    |
| Unrestricted                                    | 45,981            | 571,625             | 478,960           | 1,096,566                    |
| <b>Total Net Assets</b>                         | <b>\$ 736,339</b> | <b>\$ 1,459,922</b> | <b>\$ 812,243</b> | <b>\$ 3,008,504</b>          |

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

**City of Bay Springs**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**September 30, 2006**

**EXHIBIT 6**

|  | <b>Enterprise Funds</b> |                     |                   | <b>Total<br/>Enterprise<br/>Funds</b> |
|--|-------------------------|---------------------|-------------------|---------------------------------------|
|  | <b>Water</b>            | <b>Sewer</b>        | <b>Gas</b>        |                                       |
| <b>Operating Revenues:</b>                               |                         |                     |                   |                                       |
| Sales  | \$ 381,948              | \$ 155,503          | \$ 508,451        | \$ 1,045,902                          |
| Grant Income   | 3,149                   | 2,768               | 8,322             | 14,239                                |
| Other Revenue  | 11,294                  | 79                  | 10,514            | 21,887                                |
| <b>Total Operating Revenues</b>                          | <b>396,391</b>          | <b>158,350</b>      | <b>527,287</b>    | <b>1,082,028</b>                      |
| <b>Operating Expenses:</b>                               |                         |                     |                   |                                       |
| Personnel Services                                       | 102,800                 | 56,528              | 182,145           | 341,473                               |
| Contractual Services, Materials, and Supplies            | 62,345                  | 78,971              | 28,724            | 170,040                               |
| Utilities  | 55,696                  | 11,274              | 3,017             | 69,987                                |
| Other Services and Charges                               | 391,314                 | 22,196              | 45,205            | 458,715                               |
| Depreciation   | 60,131                  | 49,224              | 18,203            | 127,558                               |
| <b>Total Operating Expenses</b>                          | <b>672,286</b>          | <b>218,193</b>      | <b>277,294</b>    | <b>1,167,773</b>                      |
| Operating Income (Loss)                                  | (275,895)               | (59,843)            | 249,993           | (85,745)                              |
| <b>Nonoperating Revenues (Expenses):</b>                 |                         |                     |                   |                                       |
| Interest Expense   | (13,308)                | (6,110)             | (1,128)           | (20,546)                              |
| <b>Total Nonoperating Revenues (Expenses)</b>            | <b>(13,308)</b>         | <b>(6,110)</b>      | <b>(1,128)</b>    | <b>(20,546)</b>                       |
| Income (Loss) Before Capital Contributions and Transfers | (289,203)               | (65,953)            | 248,865           | (106,291)                             |
| (Gain) Loss on Sale of Assets                            | (378)                   |                     | 3,321             | 2,943                                 |
| Transfers In   | 12,842                  | 106,143             |                   | 118,985                               |
| Transfers Out  | (25,103)                |                     | (246,308)         | (271,411)                             |
| <b>Change in Net Assets</b>                              | <b>(301,842)</b>        | <b>40,190</b>       | <b>5,878</b>      | <b>(255,774)</b>                      |
| <b>Total Net Assets - Beginning</b>                      | <b>1,038,181</b>        | <b>1,419,732</b>    | <b>806,365</b>    | <b>3,264,278</b>                      |
| <b>Total Net Assets - Ending</b>                         | <b>\$ 736,339</b>       | <b>\$ 1,459,922</b> | <b>\$ 812,243</b> | <b>\$ 3,008,504</b>                   |

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

**City of Bay Springs**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**September 30, 2006**

**EXHIBIT 7**

|   | <b>Enterprise Funds</b> |                    |                   | <b>Total<br/>Enterprise<br/>Funds</b> |
|---|-------------------------|--------------------|-------------------|---------------------------------------|
|   | <b>Water</b>            | <b>Sewer</b>       | <b>Gas</b>        |                                       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |                    |                   |                                       |
| Cash received from customers and users  | \$ 664,892              | \$ 157,504         | \$ 546,796        | \$ 1,369,192                          |
| Cash payments to suppliers and employees  | (593,495)               | (171,186)          | (344,676)         | (1,109,357)                           |
| Operating grants received   | 3,149                   | 2,768              | 8,322             | 14,239                                |
| Interest and miscellaneous revenue received   | 11,294                  | 79                 | 10,514            | 21,887                                |
| Net cash provided (used) by operating activities  | <u>85,840</u>           | <u>(10,835)</u>    | <u>220,956</u>    | <u>295,961</u>                        |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>                                     |                         |                    |                   |                                       |
| Net interfund activity  | <u>(7,282)</u>          | <u>106,143</u>     | <u>(249,404)</u>  | <u>(150,543)</u>                      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES:</b>                        |                         |                    |                   |                                       |
| Debt proceeds   | 47,960                  |                    |                   | 47,960                                |
| Principal payments  | (42,992)                | (30,596)           | (12,130)          | (85,718)                              |
| Interest paid on debt   | (13,421)                | (6,901)            | (1,128)           | (21,450)                              |
| Net cash provided (used) by capital and related<br>financing activities                     | <u>(8,453)</u>          | <u>(37,497)</u>    | <u>(13,258)</u>   | <u>(59,208)</u>                       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |                    |                   |                                       |
| Purchase of capital assets  | (47,360)                | (77,498)           | (11,000)          | (135,858)                             |
| Proceeds from sale of assets  |                         |                    | 4,724             | 4,724                                 |
| Net cash provided (used) by investing activities  | <u>(47,360)</u>         | <u>(77,498)</u>    | <u>(6,276)</u>    | <u>(131,134)</u>                      |
| Net increase (decrease) in cash and cash equivalents  | 22,745                  | (19,687)           | (47,982)          | (44,924)                              |
| Cash and cash equivalents, October 1  | 73,982                  | 30,480             | 520,334           | 624,796                               |
| Cash and cash equivalents, September 30   | <u>\$ 96,727</u>        | <u>\$ 10,793</u>   | <u>\$ 472,352</u> | <u>\$ 579,872</u>                     |
| <b>Reconciliation of operating income to net cash<br/>provided by operating activities:</b> |                         |                    |                   |                                       |
| Operating income (loss)   | \$ (275,895)            | \$ (59,843)        | \$ 249,993        | \$ (85,745)                           |
| <b>Adjustments not affecting cash:</b>  |                         |                    |                   |                                       |
| Depreciation expense  | 60,131                  | 49,224             | 18,203            | 127,558                               |
| <b>Changes in assets and liabilities:</b>   |                         |                    |                   |                                       |
| (Increase) decrease in accounts receivable  | (6,317)                 | 2,001              | 40,668            | 36,352                                |
| (Increase) decrease in other receivable   | 286,801                 |                    |                   | 286,801                               |
| Increase (decrease) in accounts payable   | 10,736                  | (3,314)            | (88,282)          | (80,860)                              |
| Increase (decrease) in customer deposits  | 2,460                   |                    | (2,323)           | 137                                   |
| Increase (decrease) in payroll related liabilities  | 7,924                   | 1,097              | 2,697             | 11,718                                |
| Total adjustments   | <u>361,735</u>          | <u>49,008</u>      | <u>(29,037)</u>   | <u>381,706</u>                        |
| Net cash provided (used) by operating activities  | <u>\$ 85,840</u>        | <u>\$ (10,835)</u> | <u>\$ 220,956</u> | <u>\$ 295,961</u>                     |
| <b>Cash and cash equivalents reconciliation:</b>  |                         |                    |                   |                                       |
| Cash in banks   | \$ 69,759               | \$ 10,793          | \$ 472,352        | \$ 552,904                            |
| Investments   | 26,879                  |                    |                   | 26,879                                |
| Restricted asset - cash and cash equivalents  | 89                      |                    |                   | 89                                    |
| Cash and cash equivalents at September 30   | <u>\$ 96,727</u>        | <u>\$ 10,793</u>   | <u>\$ 472,352</u> | <u>\$ 579,872</u>                     |

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

**CITY OF BAY SPRINGS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Bay Springs, Mississippi (the City) was incorporated in 1904. The City operates under a Mayor-Aldermen form of government and provides the following services as authorized by its character: Public Safety (Police and Volunteer Fire), Highways and Streets, Sanitation, Wastewater, Water, Natural Gas, Public Libraries, Parks, Public Improvements, Planning and Zoning, and General Administrative Services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units, (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements issued after November 30, 1989 to its business-type activities or Enterprise Funds. The most significant of the City's accounting policies are described below.

**A. Government-wide and Fund Financial Statements**

The government-wide and fund financial statements along with the notes to the financial statements comprise the basic financial statements.

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for Governmental Funds and Proprietary Funds. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

**CITY OF BAY SPRINGS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

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Franchise and utility taxes, state revenue sharing, charges for garbage and utility services, fines and forfeitures and investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

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

**C. Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following is a summary of the City's funds by fund type:

**GOVERNMENTAL FUNDS:** Governmental Funds are those through which most governmental functions of the City are financed. Governmental Fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various Governmental Funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between Governmental Fund assets and liabilities is reported as fund balance. The following are the City's major Governmental Funds:

- The *General Fund* is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund
- The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs

The other Governmental Funds of the City account for grants and other resources whose use is restricted to a particular purpose.

**PROPRIETARY FUNDS:** Proprietary Fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The City's Proprietary Funds are all classified as Enterprise Funds. Enterprise Funds may be used to account for any activity for which a fee is charged to external users for goods or services. All of the City's Enterprise Funds are major funds.

- The *Water Fund* is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users in the City.
- The *Sewer Fund* is used to account for the revenues generated from the charges for sanitary sewer services provided to the residential and commercial users in the City.
- The *Gas Fund* is used to account for the revenues generated from the charges for providing natural gas service to the residential and commercial users in the City.

**D. Capital Assets**

Property and equipment purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Pursuant to GASB 34, small governmental entities (less than \$10 million in annual revenue) are not required to retroactively state the values of infrastructure purchased or constructed in prior years. Therefore, infrastructure acquired prior to October 1, 2002 has not been recorded, unless the value was already included in the City's inventory of capital assets. GASB 34 requires the reporting and depreciation of new infrastructure expenditures effective with the beginning of the implementation year (October, 1, 2002).

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

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Depreciation has been provided using the straight-line method over the following estimated useful lives:

|                                       |             |
|---------------------------------------|-------------|
| Buildings                             | 40 Years    |
| Improvements Other Than Buildings     | 20 Years    |
| Machinery & Equipment                 | 5-10 Years  |
| Other Furniture & Equipment           | 5-7 Years   |
| Infrastructure                        | 20-30 Years |
| Water, Sewer & Gas Lines & Facilities | 20-40 Years |

**E. Budgets and Budgetary Accounting**

See Notes to the Required Supplementary Information.

**F. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

**G. Receivables**

No allowance account is used by the City of Bay Springs as of September 30, 2006. Allowance for doubtful utility accounts receivable was considered immaterial at September 30, 2006. All accounts receivable balances reflect amounts due from customers.

**H. Surety Bonds**

Surety bond coverage meets the legal requirements for the year ended September 30, 2006.

**I. Construction in Progress**

Construction in progress represents costs accumulated for various construction and improvement and expansion projects that were not completed at year end.

**J. Compensated Absences**

The City maintains a personnel policy that permits employees to accumulate earned but unused vacation or sick pay benefits. The City records the vested portion of accumulated unused compensated absences at year-end based on each employee's accumulated unused hours and rate of pay, including the City's share of Social Security and Medicare taxes. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. Governmental funds record as an expenditure the amount accrued during the year that would normally be liquidated with available expendable resources.

**K. Cash and Cash Equivalents**

For the purpose of cash flows, the City considers all cash, certificates of deposit and restricted cash to be cash and cash equivalents.

**L. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond September 30, 2006 are prepaid items.

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

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**M. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, and natural gas utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund.

**N. Equity Classifications.**

Government-wide Financial Statements:

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

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

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

Unrestricted net assets - All other net 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. A reserve is used to indicate that a portion of the fund balance is legally segregated for a specific future use. The City's reserved fund balances for the current year are for grant or other designated income and for debt service expenditures.

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.

**NOTE 2 – CASH AND INVESTMENTS**

The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with state statutes. Various restrictions on deposits are imposed by statutes.

Code Sec. 21-33-323 Miss. Code Ann. (1972) allows municipalities to invest their surplus funds. The City may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts. All investments of the City throughout the year and at year-end were interest bearing time certificates of deposit which are recorded at cost plus interest earned at September 30, 2006. The market value equals the carrying amount of these investments.

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the City'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 BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
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The City's deposits, which includes all cash accounts and certificates of deposits, with a carrying value of \$1,112,595 and a bank balance of \$1,205,748 at September 30, 2006, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

**NOTE 3 – CAPITAL ASSETS**

The following is a summary of changes in capital assets during the year ended September 30, 2006:

|  | <b>Beginning<br/>Balance</b> | <b>Increases</b>  | <b>Decreases</b>   | <b>Ending<br/>Balance</b> |
|--|------------------------------|-------------------|--------------------|---------------------------|
| <b>Governmental Activities:</b>                    |                              |                   |                    |                           |
| <i>Capital assets not being depreciated:</i>       |                              |                   |                    |                           |
| Land   | \$ 640,168                   |                   | \$ (6,281)         | \$ 633,887                |
| Construction in progress                           | -                            | 435,813           |                    | 435,813                   |
| Total capital assets not being depreciated         | <u>640,168</u>               | <u>435,813</u>    | <u>(6,281)</u>     | <u>1,069,700</u>          |
| <i>Capital assets being depreciated:</i>           |                              |                   |                    |                           |
| Buildings  | 2,748,648                    | 365,000           | (50,000)           | 3,063,648                 |
| Improvements other than buildings                  | 747,058                      |                   |                    | 747,058                   |
| Mobile equipment                                   | 741,223                      | 56,268            |                    | 797,491                   |
| Other furniture and equipment                      | 315,750                      | 61,102            |                    | 376,852                   |
| Infrastructure                                     | 297,099                      | 28,954            |                    | 326,053                   |
| Total capital assets being depreciated             | <u>4,849,778</u>             | <u>511,324</u>    | <u>(50,000)</u>    | <u>5,311,102</u>          |
| <i>Less accumulated depreciation for:</i>          |                              |                   |                    |                           |
| Buildings  | (820,686)                    | (58,648)          | 13,817             | (865,517)                 |
| Improvements other than buildings                  | (149,048)                    | (31,902)          |                    | (180,950)                 |
| Mobile equipment                                   | (487,586)                    | (58,053)          |                    | (545,639)                 |
| Other furniture and equipment                      | (179,879)                    | (26,290)          |                    | (206,169)                 |
| Infrastructure                                     | (12,992)                     | (9,281)           |                    | (22,273)                  |
| Total accumulated depreciation                     | <u>(1,650,191)</u>           | <u>(184,174)</u>  | <u>13,817</u>      | <u>(1,820,548)</u>        |
| Total capital assets being depreciated, net        | <u>3,199,587</u>             | <u>327,150</u>    | <u>(36,183)</u>    | <u>3,490,554</u>          |
| <b>Governmental activities capital assets, net</b> | <u>\$ 3,839,755</u>          | <u>\$ 762,963</u> | <u>\$ (42,464)</u> | <u>\$ 4,560,254</u>       |

Depreciation expense was charged to governmental functions as follows:

|                            |                   |
|----------------------------|-------------------|
| General Government         | \$ 50,438         |
| Public Safety              | 49,729            |
| Public Works               | 31,153            |
| Culture and Recreation     | 5,541             |
| Economic Development       | 47,313            |
| Total Depreciation Expense | <u>\$ 184,174</u> |

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

|   | Beginning<br>Balance | Increases         | Decreases           | Ending<br>Balance   |
|---|----------------------|-------------------|---------------------|---------------------|
| <b>Business-type Activities:</b>                    |                      |                   |                     |                     |
| <i>Capital assets not being depreciated:</i>        |                      |                   |                     |                     |
| Land  | \$ 38,776            |                   |                     | \$ 38,776           |
| Construction in progress                            | 494,480              | 77,498            | (571,978)           | -                   |
| Total capital assets not being depreciated          | 533,256              | 77,498            | (571,978)           | 38,776              |
| <i>Capital assets being depreciated:</i>            |                      |                   |                     |                     |
| Utility systems                                     | 3,880,513            | 571,978           |                     | 4,452,491           |
| Improvements other than buildings                   | 18,718               |                   |                     | 18,718              |
| Machinery and equipment                             | 240,584              |                   | (17,816)            | 222,768             |
| Other furniture and equipment                       | 244,816              | 58,360            |                     | 303,176             |
| Total capital assets being depreciated              | 4,384,631            | 630,338           | (17,816)            | 4,997,153           |
| <i>Less accumulated depreciation for:</i>           |                      |                   |                     |                     |
| Utility systems                                     | (1,396,782)          | (93,437)          |                     | (1,490,219)         |
| Improvements other than buildings                   | (13,587)             | (92)              |                     | (13,679)            |
| Machinery and equipment                             | (153,799)            | (13,880)          | 16,034              | (151,645)           |
| Other furniture and equipment                       | (151,435)            | (20,149)          |                     | (171,584)           |
| Total accumulated depreciation                      | (1,715,603)          | (127,558)         | 16,034              | (1,827,127)         |
| Total capital assets being depreciated, net         | 2,669,028            | 502,780           | (1,782)             | 3,170,026           |
| <b>Business-type activities capital assets, net</b> | <b>\$ 3,202,284</b>  | <b>\$ 580,278</b> | <b>\$ (573,760)</b> | <b>\$ 3,208,802</b> |

Refer to Schedule 1 for additional information.

**NOTE 4 – LONG-TERM DEBT**

Bonds payable at September 30, 2006 are comprised of the following issues:

General Obligation Bonds

| Purpose                      | Series | Issue<br>Amount | Maturity<br>Date | Interest<br>Rate | Year-end<br>Balances |
|------------------------------|--------|-----------------|------------------|------------------|----------------------|
| Livestock Facility Expansion | 1999   | \$ 235,000      | 2014             | 4.8%             | <u>\$ 145,000</u>    |

Revenue Bonds

| Purpose                   | Series | Issue<br>Amount | Maturity<br>Date | Interest<br>Rate | Year-end<br>Balances |
|---------------------------|--------|-----------------|------------------|------------------|----------------------|
| Water System Bonds        | 1974   | \$ 54,000       | 2009             | 5.0%             | \$ 8,803             |
| Water/Sewage Construction | 1975   | 400,000         | 2010             | 5.0%             | 86,612               |
| Water Revenue Bonds       | 1998   | 80,000          | 2013             | 5.8%             | 44,000               |
|                           |        |                 |                  |                  | <u>\$ 139,415</u>    |

Reserve requirements for the Water/Sewage Construction Bonds are as follows:

|              | Total<br>Requirement | Required<br>9-30-06 | Reserved<br>9-30-06 |
|--------------|----------------------|---------------------|---------------------|
| Bond Cushion | \$ 13,200            | \$ 13,200           | \$ 13,200           |
| Depreciation | 6,000                | 6,000               | 6,000               |
| Contingent   | 6,000                | 6,000               | 6,000               |
|              | <u>\$ 25,200</u>     | <u>\$ 25,200</u>    | <u>\$ 25,200</u>    |

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**Legal Debt Margin** – The amount of debt, excluding specific exempted debt, that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2006, the amount of outstanding debt was equal to 1.44% of the latest property assessments.

Principal and interest maturities of all long-term debt are as follows:

| Year      | <u>Governmental Activities</u> |                   | <u>Business-type Activities</u> |                  |
|-----------|--------------------------------|-------------------|---------------------------------|------------------|
|           | Principal                      | Interest          | Principal                       | Interest         |
| 2007      | 398,940                        | 38,838            | 377,557                         | 33,966           |
| 2008      | 87,093                         | 22,736            | 82,866                          | 13,045           |
| 2009      | 65,887                         | 19,794            | 71,103                          | 10,043           |
| 2010      | 65,666                         | 17,006            | 65,965                          | 7,038            |
| 2011      | 52,344                         | 14,277            | 27,996                          | 4,451            |
| 2012-2016 | 160,560                        | 41,095            | 104,397                         | 9,741            |
| 2017-2021 | 97,333                         | 11,345            | 26,054                          | 700              |
| 2022-2026 |                                |                   |                                 |                  |
|           | <u>\$ 927,823</u>              | <u>\$ 165,091</u> | <u>\$ 755,938</u>               | <u>\$ 78,984</u> |

Refer to Schedule 3 for additional information.

**NOTE 5 – RISK MANAGEMENT**

The City has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenditures/expenses. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

**NOTE 6 – DEFINED BENEFIT PENSION PLAN**

**Plan Description.** The City of Bay Springs, 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 Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City’s contributions (employer share only) to PERS for the years ending September 30, 2006, 2005, and 2004 were \$90,080, \$78,764, and \$71,689, respectively, equal to the required contributions for each year.

**NOTE 7 – PROPERTY TAXES**

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied before September 26 and are due before February 1. The City bills and collects its own property taxes, except for automobiles. The City’s levy on automobile taxes is collected by Jasper County and remitted to the City monthly. Jasper County also remits to the City a pro-rata share of road and bridge taxes collected by them.

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

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**NOTE 8 – JOINT VENTURE**

In November 1996 the City of Bay Springs and Jasper County entered into a joint venture to purchase and improve the Livestock Exhibition Building with each party holding one-half interest in the building. To date, all major renovations and improvements to the building have been completed.

**NOTE 9 – SUBSEQUENT EVENTS**

In October 2006, the Board of Aldermen approved a resolution authorizing the borrowing of \$286,801 for the purpose of renewing the existing note for that amount which the City had obtained in anticipation of Community Development Block Grant funds for the construction of a waste water treatment facility. At the time of renewal, the City paid accrued interest in the amount of \$17,272 and approved a negotiable note agreement in the amount of \$286,801 at a rate of 4% payable within a reasonable amount of time after receipt of the grant funds.

Also in October 2006, the Board of Aldermen approved a resolution authorizing the borrowing of \$253,337 for the purpose of renewing the existing note in the amount of \$303,337 which the City had obtained in anticipation of Federal Emergency Management Agency grant funds for the removal of debris associated with Hurricane Katrina within the City. At the time of renewal, the City paid principal in the amount of \$50,000 and accrued interest in the amount of \$12,080 and approved a negotiable note agreement in the amount of \$253,337 at a rate of 4% payable within a reasonable amount of time after receipt of the grant funds.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Bay Springs**  
**Budgetary Comparison Schedule -**  
**Budget and Actual (Non-GAAP Basis)**  
**General Fund (and each major special revenue fund)**  
**For the Year Ended September 30, 2006**

|   | <b>General Fund</b> |                   |                                | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|-------------------|--------------------------------|---|
|   | Original<br>Budget  | Final<br>Budget   | Actual<br>(Budgetary<br>Basis) |   |
| <b>REVENUES</b>                                 |                     |                   |                                |   |
| Property taxes                                  | \$ 304,211          | \$ 293,027        | \$ 293,027                     | \$ -  |
| Other taxes                                     | 6,000               | 10,272            | 10,272                         | -   |
| Licenses, commissions<br>and other revenue      | 164,250             | 197,698           | 197,698                        | -   |
| Fines and forfeitures                           | 60,000              | 23,755            | 23,755                         | -   |
| Intergovernmental revenues                      | 1,138,000           | 2,901,091         | 2,901,091                      | -   |
| Charges for services                            | 93,800              | 93,814            | 93,814                         | -   |
| Interest income                                 | 1,000               | 1,246             | 1,246                          | -   |
| Miscellaneous revenues                          | 106,345             | 114,177           | 114,177                        | -   |
| <b>Total Revenues</b>                           | <u>1,873,606</u>    | <u>3,635,080</u>  | <u>3,635,080</u>               | <u>-</u>  |
| <b>EXPENDITURES</b>                             |                     |                   |                                |   |
| <b>Current:</b>                                 |                     |                   |                                |   |
| General government                              | 1,058,174           | 2,434,085         | 2,434,085                      | -   |
| Public safety                                   | 399,199             | 371,339           | 371,339                        | -   |
| Public works                                    | 636,358             | 765,688           | 765,688                        | -   |
| Culture and recreation                          | 32,700              | 31,347            | 31,347                         | -   |
| Education                                       | 48,319              | 42,151            | 42,151                         | -   |
| Economic development<br>and assistance          | 52,300              | 62,592            | 62,592                         | -   |
| Debt service principal,<br>interest, and fees   |                     | 4,072             | 4,072                          | -   |
| <b>Total Expenditures</b>                       | <u>2,227,050</u>    | <u>3,711,274</u>  | <u>3,711,274</u>               | <u>-</u>  |
| Excess of Revenues<br>over (under) Expenditures | <u>(353,444)</u>    | <u>(76,194)</u>   | <u>(76,194)</u>                | <u>-</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>           |                     |                   |                                |   |
| Other financing sources                         | 352,000             | 476,396           | 476,396                        | -   |
| Other financing uses                            |                     | (58,598)          | (58,598)                       | -   |
| <b>Total Other Financing Sources and Uses</b>   | <u>352,000</u>      | <u>417,798</u>    | <u>417,798</u>                 | <u>-</u>  |
| Net Change in Fund Balance                      | (1,444)             | 341,604           | 341,604                        | -   |
| Fund Balances - Beginning                       | 20,135              | 20,135            | 20,135                         | -   |
| <b>Fund Balances - Ending</b>                   | <u>\$ 18,691</u>    | <u>\$ 361,739</u> | <u>\$ 361,739</u>              | <u>\$ -</u>   |

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

**City of Bay Springs, Mississippi**  
**Notes to the Required Supplementary Information**  
**For the Year Ended September 30, 2006**

**A. Budgetary Information.**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted at the City Hall to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance. All budget amendments are approved by the board and are in compliance with the municipal law as determined by the Mississippi Code.

The Board of Aldermen has not taken any official action to authorize anyone to transfer budgeted amounts between departments within any fund. Formal budgetary integration is employed as a management control device during the year for the all funds. Mississippi law requires that municipalities budget Governmental Funds on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principle.

**B. Basis of Presentation.**

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (non GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major special revenue fund.

**C. Budget/GAAP Reconciliation.**

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major special revenue fund:

|  | Governmental Fund<br>Types |
|--|----------------------------|
|  | General<br>Fund            |
| Budget (Cash Basis)                      | \$ 341,604                 |
| Increase (Decrease)                      |                            |
| Net adjustments for revenue accruals     | 1,298,439                  |
| Net adjustments for expenditure accruals | (1,399,414)                |
| GAAP Basis                               | \$ 240,629                 |

**SUPPLEMENTAL INFORMATION**

**CITY OF BAY SPRINGS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2006**

| <b>Federal Grantor/<br/>Pass-through Grantor/<br/>Program Title</b>  | <b>Federal<br/>CFDA<br/>Number</b> | <b>Agency or<br/>Pass-through<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|--|------------------------------------|--|---------------------------------|
| <b>MAJOR FEDERAL AWARDS</b>  |                                    |  |                                 |
| <u>U.S. Department of Homeland Security</u>  |                                    |  |                                 |
| Passed-through the Mississippi Emergency Management Agency<br>Public Assistance Grants   | 97.036                             | FEMA-1604-DR-MS                              | \$ 2,859,428                    |
| Total Expenditures of Major Federal Awards   |                                    |  | <u>2,859,428</u>                |
| <b>OTHER FEDERAL AWARDS</b>  |                                    |  |                                 |
| <u>U.S. Department of Transportation</u>   |                                    |  |                                 |
| Federal Aviation Administration<br>Airport Improvement Program   | 20.205                             | AIP 3-28-0004-005-2006                       | <u>414,022</u>                  |
| <u>U.S. Department of Housing and Urban Development</u>  |                                    |  |                                 |
| Community Planning and Development<br>Passed-through the Mississippi Development Authority<br>Community Development Block Grants, Small City's Program | 14.219                             | 1120-03-113-ED-01                            | <u>77,498</u>                   |
| Total Expenditures of Other Federal Awards   |                                    |  | <u>491,520</u>                  |
| Total Expenditures of Federal Awards   |                                    |  | <u>\$ 3,350,948</u>             |

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Note A – Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

**CITY OF BAY SPRINGS, MISSISSIPPI**  
**SCHEDULE OF GOVERNMENTAL ACTIVITIES CAPITAL ASSETS**  
**BY FUNCTION AND ACTIVITY**  
**SEPTEMBER 30, 2006**

**SCHEDULE 1**

| <b>Function and Activity</b> | <b>Total</b>        | <b>Land</b>       | <b>Construction in Progress</b> | <b>Buildings and Improvements</b> | <b>Mobile Equipment</b> | <b>Other Furniture &amp; Equipment</b> | <b>Infrastructure</b> |
|------------------------------|---------------------|-------------------|---------------------------------|-----------------------------------|-------------------------|--|-----------------------|
| Airport                      | \$ 1,250,538        | \$ 134,371        | \$ 435,813                      | \$ 662,854                        |                         | \$ 17,500                              |                       |
| City Hall                    | 436,360             | 23,680            |                                 | 244,835                           | 16,536                  | 151,309                                |                       |
| Economic Dev.                | 2,684,666           | 429,716           |                                 | 2,175,632                         | 12,216                  | 67,102                                 |                       |
| Fire                         | 548,061             | 771               |                                 | 186,481                           | 355,387                 | 5,422                                  |                       |
| Library                      | 111,804             | 10,153            |                                 | 52,500                            |                         | 49,151                                 |                       |
| Police                       | 163,286             |                   |                                 |                                   | 109,613                 | 53,673                                 |                       |
| Recreation                   | 178,968             | 35,196            |                                 | 120,754                           | 23,018                  |  |                       |
| Streets                      | 1,007,119           |                   |                                 | 367,650                           | 280,721                 | 32,695                                 | 326,053               |
| <b>Total</b>                 | <b>\$ 6,380,802</b> | <b>\$ 633,887</b> | <b>\$ 435,813</b>               | <b>\$ 3,810,706</b>               | <b>\$ 797,491</b>       | <b>\$ 376,852</b>                      | <b>\$ 326,053</b>     |

See Independent Auditor's Report.

**CITY OF BAY SPRINGS, MISSISSIPPI  
SCHEDULE OF INVESTMENTS  
ALL FUNDS  
SEPTEMBER 30, 2006**

**SCHEDULE 2**

**GENERAL FUNDS:**

|                                       |    |        |
|---------------------------------------|----|--------|
| Industrial Park Fund:                 |    |        |
| 2.98% Certificate of Deposit, 6 month | \$ | 10,483 |

**PROPRIETARY FUNDS:**

|                                       |  |               |
|---------------------------------------|--|---------------|
| Water Fund:                           |  |               |
| 2.98% Certificate of Deposit, 6 month |  | <u>26,879</u> |

|                          |           |                      |
|--------------------------|-----------|----------------------|
| <b>TOTAL INVESTMENTS</b> | <b>\$</b> | <b><u>37,362</u></b> |
|--------------------------|-----------|----------------------|

See Independent Auditor's Report.

**CITY OF BAY SPRINGS, MISSISSIPPI  
SCHEDULE OF LONG-TERM DEBT  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**SCHEDULE 3**

| DEFINITION AND PURPOSE                      | BALANCE<br>OUTSTANDING<br>OCT 1, 2005 | TRANSACTIONS<br>DURING FISCAL YEAR |                   | BALANCE<br>OUTSTANDING<br>SEPT 30, 2006 |
|---|---------------------------------------|------------------------------------|-------------------|---|
|   |                                       | ISSUED                             | REDEEMED          |   |
| <b>Governmental Activities:</b>             |                                       |                                    |                   |   |
| Livestock Expansion Bonds                   | \$ 160,000                            |                                    | \$ 15,000         | \$ 145,000                              |
| Negotiable Note – Water Well Repairs        | 2,000                                 |                                    |                   | 2,000                                   |
| CAP Loan – Industrial Park Expansion        | 104,333                               |                                    | 13,828            | 90,505                                  |
| BBI Software                                | 7,362                                 |                                    | 2,599             | 4,763                                   |
| Car Video System                            | 2,001                                 |                                    | 2,001             |   |
| Caterpillar Loader                          | 36,098                                |                                    | 12,014            | 24,084                                  |
| Caterpillar Backhoe                         | 14,475                                |                                    | 2,765             | 11,710                                  |
| 2006 Chevy Impala                           | 13,681                                |                                    | 5,999             | 7,682                                   |
| 2006 Chevy Impala                           | 14,944                                |                                    | 5,610             | 9,334                                   |
| 2006 GMC 3500 Pickup Chassis                | 24,106                                |                                    | 24,106            |   |
| 2006 GMC Pickup                             | 11,199                                |                                    | 3,933             | 7,266                                   |
| Maintenance and Storage Facility            |                                       | 260,000                            | 7,223             | 252,777                                 |
| Line of Credit – FEMA Reimbursement         |                                       | 303,337                            |                   | 303,337                                 |
| Caterpillar Generator                       |                                       | 50,552                             | 989               | 49,563                                  |
| 2002 Ford Crown Victoria                    |                                       | 20,888                             | 1,086             | 19,802                                  |
| <b>Total Governmental Activities</b>        | <u>390,199</u>                        | <u>634,777</u>                     | <u>97,153</u>     | <u>927,823</u>                          |
| <b>Business-type Activities:</b>            |                                       |                                    |                   |   |
| Water System Bonds                          | 11,638                                |                                    | 2,835             | 8,803                                   |
| Water/Sewage Construction Bonds             | 106,595                               |                                    | 19,983            | 86,612                                  |
| Water Revenue Bonds                         | 49,000                                |                                    | 5,000             | 44,000                                  |
| West Jasper Water Association               | 13,423                                |                                    | 5,763             | 7,660                                   |
| BBI Software                                | 14,724                                |                                    | 5,198             | 9,526                                   |
| Caterpillar Backhoe                         | 28,951                                |                                    | 5,532             | 23,419                                  |
| Negotiable Note-Water Well-CDBG             | 286,801                               |                                    |                   | 286,801                                 |
| 2006 Ford Ranger Pickup                     | 10,894                                |                                    | 4,799             | 6,095                                   |
| 2006 Underground Trailer                    | 34,215                                |                                    | 6,682             | 27,533                                  |
| 2006 GMC Pickups                            | 22,397                                |                                    | 7,864             | 14,533                                  |
| Generator                                   |                                       | 47,960                             | 6,676             | 41,284                                  |
| Cap Loan – Water Improvements               | 89,143                                |                                    | 5,597             | 83,546                                  |
| Cap Loan – Water Well Repairs               | 54,627                                |                                    | 4,636             | 49,991                                  |
| Cap Loan – Water Improvements               | 71,288                                |                                    | 5,153             | 66,135                                  |
| <b>Total Business-type Activities</b>       | <u>793,696</u>                        | <u>47,960</u>                      | <u>85,718</u>     | <u>755,938</u>                          |
| <b>Total Government-wide Long-term Debt</b> | <u>\$ 1,183,895</u>                   | <u>\$ 682,737</u>                  | <u>\$ 182,871</u> | <u>\$ 1,683,761</u>                     |

See Independent Auditor's Report.

**CITY OF BAY SPRINGS, MISSISSIPPI  
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS  
SEPTEMBER 30, 2006**

**SCHEDULE 4**

| <u>NAME</u>         | <u>POSITION</u>     | <u>COMPANY</u>       | <u>BOND</u> |
|---------------------|---------------------|----------------------|-------------|
| J. E. Smith         | Mayor               | Western Surety, Ins. | \$ 10,000   |
| Mike Lucas          | Alderman            | Western Surety, Ins. | 20,000      |
| Steve Breland       | Alderman            | Western Surety, Ins. | 20,000      |
| Bob Cook            | Alderman            | Western Surety, Ins. | 20,000      |
| Donny E. Jones      | Alderman            | Western Surety, Ins. | 20,000      |
| James L. Nix        | Alderman            | Western Surety, Ins. | 20,000      |
| Judy Upton          | City Clerk          | Western Surety, Ins. | 60,000      |
| Tommy Boyd          | Municipal Gas Board | Western Surety, Ins. | 10,000      |
| Rhonda Dyess        | Deputy Clerk        | Western Surety, Ins. | 50,000      |
| Cynthia Johnson     | Deputy Clerk        | Western Surety, Ins. | 50,000      |
| James R. Herrington | Police Chief        | Western Surety, Ins. | 50,000      |
| Police Officers     | Police              | Western Surety, Ins. | 25,000      |

See Independent Auditor's Report.

**SPECIAL REPORTS**

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

Honorable Mayor, Members of the Board of  
Aldermen, and City Clerk  
City of Bay Springs, Mississippi

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2006, and have issued my report thereon dated February 2, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

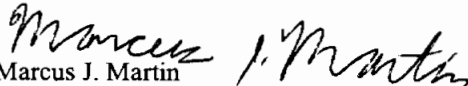
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Bay Springs, Mississippi's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Bay Springs, Mississippi's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

  
Marcus J. Martin  
Certified Public Accountant  
February 2, 2007

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

Honorable Mayor, Members of the Board of  
Aldermen, and City Clerk  
City of Bay Springs, Mississippi

Compliance

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

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Bay Springs, Mississippi's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on City of Bay Springs, Mississippi's compliance with those requirements.

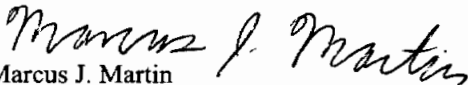
In my opinion, City of Bay Springs, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of City of Bay Springs, 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 my audit, I considered City of Bay Springs, 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

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

  
Marcus J. Martin  
Certified Public Accountant  
February 2, 2007

**LIMITED INTERNAL CONTROL AND COMPLIANCE  
REVIEW MANAGEMENT REPORT**

Honorable Mayor, Members of the Board of  
Aldermen, and City Clerk  
City of Bay Springs, Mississippi

In planning and performing my audit of the financial statements of the City of Bay Springs, Mississippi, for the year ended September 30, 2006, I considered the City of Bay Springs, Mississippi's internal control to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for audit areas not considered material to the City of Bay Springs, Mississippi's financial reporting, I have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements. Accordingly, I do not express such an opinion. This report does not affect my report dated February 2, 2007, on the financial statements of the City of Bay Springs, Mississippi.

These review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, my consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of my review procedures and compliance tests identified no instances of noncompliance with state laws and regulations and other matters that are opportunities for strengthening internal controls and operating efficiency.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than this party. However, this report is a matter of public record and its distribution is not limited.



Marcus J. Martin  
Certified Public Accountant  
February 2, 2007

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CITY OF BAY SPRINGS**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2006**

**Section 1: Summary of Auditor's Results**

***Financial Statements:***

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

***Federal Awards:***

- |  |             |
|--|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs:   | Unqualified |
| 5. Internal control over major programs:   |             |
| a. Material weaknesses identified?   | No          |
| b. Reportable conditions identified that are not considered to be material weaknesses?   | No          |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?   | No          |
| 7. Federal programs identified as major programs:  |             |
| Public Assistance Grants, CFDA No. 97.036  |             |
| 8. The dollar threshold used to distinguish between type A and type B programs:  | \$300,000   |
| 9. Auditee qualified as a low-risk auditee?  | No          |
| 10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No          |

**Section 2: Financial Statement Findings**

The results of my tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

**Section 3: Federal Award Findings and Questioned Costs**

The results of my tests did not disclose any findings and questioned costs related to federal awards.