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CITY OF FAYETTE, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

RECEIVED
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STATE AUDITOR'S OFFICE

CITY OF FAYETTE, MISSISSIPPI
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September 30, 2006

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**BANKS, FINLEY,
WHITE & CO.**
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor Rogers King
and Honorable Members of the Board of Alderman
City of Fayette, Mississippi

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fayette, Mississippi (the City), 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fayette, Mississippi, as of September 30, 2006, and the respective changes in financial position, cash flows and budgetary comparison for the General Fund, and the Major Special Revenue Fund, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2007, on our consideration of the City of Fayette, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with the *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's discussion and analysis and budgetary comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Fayette, Mississippi basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of City of Fayette, Mississippi. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Banks, Finley, White & Co.

May 11, 2007

CITY OF FAYETTE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2006

This section of the City of Fayette's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2006. Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will provide additional explanations of the City's financial position and results of operations.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements include government-wide financial statements and fund financial statements. These two types of financial statements present the City's financial position and results of operation from differing perspectives which are described as follows:

GOVERNMENT - WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The City report all revenues and expenses regardless of when cash is received or paid. Furthermore, the government-wide statements include all of the City's assets (including infrastructure acquired after July 1, 1980) and All of the City's liabilities (including long-term debt).

The government-wide financial statements are divided into two categories, which are described as follows:

- ◆ **Governmental Activities** - Expenses incurred in connection with providing basic services including public safety, culture, recreation, public works and general administration are reported as governmental activities. The governmental activities are financed by taxes, license and permit fees, intergovernmental sources, and utility franchise arrangements.
- ◆ **Business - Type Activities** - Expenses associated with providing utility services are recovered through fees paid by the customers that utilize these services. These activities are operated in a manner similar to commercial enterprises. Accordingly, activities associated with these services are reported as business type activities.

FUND FINANCIAL STATEMENTS

Fund financial statements provide detailed information regarding the City's most significant activities and are not intended to provide information for the City as a whole. Funds are accounting devices that are used to account for specific sources of funds. The City has two types of funds that are described as follows:

- ◆ **Governmental Funds** - These funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, the governmental funds use a modified accrual basis of accounting that provides a short-term view of the City's finances. Assets reported by governmental funds are limited to amounts that are available for current needs. In addition, liabilities are limited to amounts that are expected to be paid from currently available assets.

CITY OF FAYETTE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2006

- ◆ **Proprietary Fund** - These funds are used to account for activities that function in a manner similar to commercial enterprises. Proprietary fund financial statements typically provide a more detail presentation of the information reported in the business-type activities portion of the government-wide financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, the following table present only current year data. In future years, comparative analysis of government-wide data will be presented.

NET ASSETS

A condensed version of the government-wide Statement of Net Assets is presented as follows:

	<u>Governmental</u> 2006	<u>Activities</u> 2005	<u>Business Type</u> 2006	<u>Activities</u> 2005	<u>Total</u> 2006	<u>Total</u> 2005
Assets:						
Current and Other Assets	\$ 489,007	\$ 423,417	175,428	163,215	\$ 664,435	\$ 586,632
Capital Assets	<u>499,329</u>	<u>496,333</u>	<u>1,076,048</u>	<u>1,208,822</u>	<u>1,575,377</u>	<u>1,705,155</u>
Total Assets	<u>\$ 988,336</u>	<u>\$ 919,750</u>	<u>1,251,476</u>	<u>1,372,037</u>	<u>\$ 2,239,812</u>	<u>\$ 2,291,787</u>
Liabilities:						
Current and Other Liabilities	\$ 170,555	\$ 178,626	297,073	262,166	\$ 467,628	\$ 440,792
Long-term Liabilities	<u>27,156</u>	<u>34,217</u>	<u>1,465,887</u>	<u>1,526,777</u>	<u>1,493,043</u>	<u>1,560,994</u>
Total Liabilities	<u>\$ 197,711</u>	<u>\$ 212,843</u>	<u>1,762,960</u>	<u>1,788,943</u>	<u>\$ 1,960,671</u>	<u>\$ 2,001,786</u>
Net Assets:						
Invested in Capital Assets (Net)	\$ 465,112	\$ 453,097	(386,000)	(317,955)	\$ 79,112	\$ 135,142
Restricted	-	-	43,291	38,392	43,291	38,392
Unrestricted	<u>325,513</u>	<u>253,810</u>	<u>(168,775)</u>	<u>(137,343)</u>	<u>156,738</u>	<u>116,467</u>
Total Net Assets	<u>\$ 790,625</u>	<u>\$ 706,907</u>	<u>(511,484)</u>	<u>(416,906)</u>	<u>\$ 279,141</u>	<u>\$ 290,001</u>

As the presentation appearing above demonstrates, the largest portion of the City's net assets (.505%) are invested in capital assets. Net assets invested in capital assets consist of land, buildings, equipment, and any infrastructure acquired prior to September 30, 2006 less any debt used to acquire assets that remains outstanding. The City uses these capital assets to provide services to its citizens; consequently, these amounts are not available for future spending.

CITY OF FAYETTE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2006

An additional portion of the net assets (16%) represent resources that are subject to restrictions that are imposed by agreements with the City's bondholders or requirements imposed by various revenue sources. The remaining unrestricted net assets (34%) may be used to meet the City's ongoing obligations to citizens and creditors.

CHANGES IN NET ASSETS

A condensed version of the government-wide Statement of Changes in Net Assets is presented as follows:

	<u>Governmental</u> 2006	<u>Activities</u> 2005	<u>Business Type</u> 2006	<u>Activities</u> 2005	<u>Total</u> 2006	<u>Total</u> 2005
Revenues:						
Program Revenue:						
Charges for services	\$ 38,655	\$ 17,724	539,147	535,423	\$ 577,802	\$ 553,147
Operating grants and contributions	37,642	7,474	-	-	37,642	7,474
Capital grants and contributions	3,742	182,138	-	-	3,742	182,138
General Revenue:						
Property taxes	230,549	188,398	-	-	230,549	188,398
Sales taxes	193,847	185,771	-	-	193,847	185,771
Franchise taxes	83,220	31,790	38,525	31,268	121,745	63,058
Licenses and permits	9,016	6,490	-	-	9,016	6,490
Fines and forfeits	107,263	107,488	-	-	107,263	107,488
Other	67,537	66,946	4,668	7,197	72,205	74,143
Total Revenue	<u>771,471</u>	<u>794,219</u>	<u>582,340</u>	<u>573,888</u>	<u>1,353,811</u>	<u>1,368,107</u>
Program Expenses:						
General Government						
Finance & Administrative	249,139	362,971	-	-	249,139	362,971
Public safety	427,823	507,054	-	-	427,823	507,054
Parks and recreation	1,999	1,999	-	-	1,999	1,999
Public works	-	-	5,757	-	5,757	-
Interest on long-term debt	3,035	2,719	-	-	3,035	2,719
Water/Sewer	-	-	676,918	806,312	676,918	806,312
Total Expenses	<u>681,996</u>	<u>874,743</u>	<u>682,675</u>	<u>806,312</u>	<u>1,364,671</u>	<u>1,681,055</u>
Increase (decrease) in Net Assets						
Before Transfers and Special Items	89,475	(80,524)	(100,335)	(232,424)	(10,860)	(312,948)
Transfers and Special Items	-	-	-	-	-	-
Change in Net Assets	89,475	(80,524)	(100,335)	(232,424)	(10,860)	(312,948)
Net Assets Beginning	706,907	786,713	(416,906)	(184,482)	290,001	602,231
Prior period adjustment	-	718	-	-	-	718
Net Assets Ending	<u>\$ 796,382</u>	<u>\$ 706,907</u>	<u>(517,241)</u>	<u>(416,906)</u>	<u>\$ 279,141</u>	<u>\$ 290,001</u>

CITY OF FAYETTE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2006

Governmental activities increased the City's net assets by \$89,475.

Business-type activities have not operated profitably; business-type net assets have decreased by \$(100,335).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported combined fund balances of \$796,382, which represents a increase of \$89,475 in comparison to the previous balance. In addition, the City's general fund, which is available for spending at the City's discretion, reported a fund balance of \$226,382. The general fund balance increased by \$74,042.

Amounts reported for business-type activities in the City's individual funds are identical to the business-type activities reported in the government-wide presentation.

GENERAL FUND BUDGET HIGHLIGHTS

The City's general fund is required to adopt a budget. Budget is amended as necessary and appropriations increased as a result of the rising cost described in the proceeding section.

CITY OF FAYETTE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2006

CAPITAL ASSET ADMINISTRATION

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

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<u>Additions:</u>			
Machinery and equipment	\$ 11,721	-	\$ 11,721
Total Additions	<u>\$ 11,721</u>	<u>-</u>	<u>\$ 11,721</u>

Highlights of the City's capital asset administration are provided as follows:

- ◆ The Fire fund utilized existing revenues to purchase a skid unit in the amount of \$11,721.

DEBT ADMINISTRATION

The City did not issue any new debt during the year ending September 30, 2006.

CITY OF FAYETTE, MISSISSIPPI
Statement of Net Assets
For the Year Ended September 30, 2006

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS			
Cash and cash equivalents	\$ 235,590	56,915	\$ 292,505
Certificate of deposits	24,655	-	24,655
Accounts receivable, net	34,824	75,196	110,020
Other receivables	66,685	-	66,685
Intergovernmental receivables	16,988	-	16,988
Due from other funds	110,265	26	110,291
Restricted Assets:			
Cash and cash equivalents	-	43,291	43,291
Capital Assets:			
Land	-	6,120	6,120
Buildings	-	27,500	27,500
Improvements other than buildings	35,984	1,042,428	1,078,412
Automotive and equipment	54,807	-	54,807
Construction in progress	408,538	-	408,538
TOTAL ASSETS	<u>\$ 988,336</u>	<u>1,251,476</u>	<u>\$ 2,239,812</u>
LIABILITIES			
Accounts payable, general	\$ 144,617	79,049	\$ 223,666
Payroll taxes payable	6,036	-	6,036
Accrued interest payable	-	2,917	2,917
Customer's deposits	-	44,375	44,375
Due to other funds	6,056	104,235	110,291
Noncurrent liabilities:			
Due within one year	13,846	66,497	80,343
Due in more than one year	27,156	1,465,887	1,493,043
Total Liabilities	<u>197,711</u>	<u>1,762,960</u>	<u>1,960,671</u>
Net ASSETS:			
Investment in capital assets, net of related debt	465,112	(386,000)	79,112
Restricted for:			
Debt service	-	43,291	43,291
Unreserved undesignated	325,513	(168,775)	156,738
Total Net Assets	<u>790,625</u>	<u>(511,484)</u>	<u>279,141</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 988,336</u>	<u>1,251,476</u>	<u>\$ 2,239,812</u>

The Accompanying Notes are an integral part of these Financial Statements.

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

	Program Revenues			Net (Expenses) Revenues Changes in Net Assets			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	
Primary Government:							
Governmental activities:							
Administration	\$ 249,139	-	7,474	-	(241,665)	-	\$ (241,665)
Public safety	427,823	-	30,168	3,742	(393,913)	-	(393,913)
Public works	5,757	38,655	-	-	32,898	-	32,898
Parks and recreation	1,999	-	-	-	(1,999)	-	(1,999)
Interest on long-term debt	3,035	-	-	-	(3,035)	-	(3,035)
Total governmental activities	687,753	38,655	37,642	3,742	(607,714)	-	(607,714)
Business-type activities:							
Water/Sewer	602,976	539,147	-	-	-	(63,829)	(63,829)
Interest on long-term debt	73,942	-	-	-	-	(73,942)	(73,942)
Total Business-type activities	676,918	539,147	-	-	-	(137,771)	(137,771)
Total Primary Government	\$ 1,364,671	577,802	37,642	3,742	(607,714)	(137,771)	\$ (745,485)
General Revenues:							
Property taxes					\$ 230,549	-	\$ 230,549
Sales taxes					193,847	-	193,847
Franchise taxes					83,220	38,525	121,745
Fines and report fees					107,263	-	107,263
License and permits					9,016	-	9,016
Miscellaneous					63,925	3,085	67,010
Unrestricted investment earnings					3,612	1,583	5,195
Total general revenues, special items, and transfers					691,432	43,193	734,625
Change in net assets					83,718	(94,578)	(10,860)
Net Assets - Beginning					706,907	(416,906)	290,001
Net Assets - Ending					\$ 790,625	(511,484)	\$ 279,141

The Accompanying Notes are an integral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
 Balance Sheet
 Governmental Funds
 For the Year Ended September 30, 2006

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 117,276	118,315	\$ 235,591
Certificate of deposits	-	24,655	24,655
Accounts receivable, net of allowances	34,824	-	34,824
Other receivables	66,685	-	66,685
Intergovernmental receivable	16,988	-	16,988
Due from other funds	110,139	126	110,265
TOTAL ASSETS	<u>\$ 345,912</u>	<u>143,096</u>	<u>\$ 489,008</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable, general	\$ 119,233	25,384	\$ 144,617
Payroll taxes payable	297	5,739	6,036
Due to other funds	-	6,056	6,056
Total Liabilities	<u>119,530</u>	<u>37,179</u>	<u>156,709</u>
Fund Balance			
Unreserved, reported in			
General fund	226,382	-	226,382
Debt service fund	-	37,265	37,265
Special revenue fund	-	68,652	68,652
Total Fund Equity	<u>226,382</u>	<u>105,917</u>	<u>332,299</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 345,912</u>	<u>143,096</u>	<u>\$ 489,008</u>

The Accompanying Notes are an integral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on
the Statement of Net Assets
For the Year Ended September 30, 2006

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

Total Fund Balances - Governmental Funds	\$ 332,298
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	465,112
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(6,785)</u>
Net assets of governmental activities	\$ <u>790,625</u>

The Accompanying Notes are an intergral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended September 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
General property taxes	\$ 230,549	-	\$ 230,549
Privilege licenses and permits	9,016	-	9,016
Intergovernmental revenues	231,489	18,765	250,254
Franchise taxes	83,220	-	83,220
Charges for services	-	38,655	38,655
Fines and report fees	107,263	-	107,263
Interest income	1,950	1,663	3,613
Miscellaneous	48,902	-	48,902
Total Revenues	<u>712,389</u>	<u>59,083</u>	<u>771,472</u>
EXPENDITURES:			
General Government:			
Administration	208,022	37,639	245,661
Public safety	417,247	4,389	421,636
Debt services:			
Principal	9,019	-	9,019
Interest and service charges	3,035	-	3,035
Capital outlay:			
Public safety	-	17,058	17,058
TOTAL EXPENDITURES	<u>637,323</u>	<u>59,086</u>	<u>696,409</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>75,066</u>	<u>(3)</u>	<u>75,063</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	45,000	4,450	49,450
Operating transfers out	(49,450)	-	(49,450)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,450)</u>	<u>4,450</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	70,616	4,447	75,063
Prior period adjustment	3,426	-	3,426
FUND BALANCE, OCT. 1	152,340	101,470	253,810
FUND BALANCE, SEPT. 30	<u>\$ 226,382</u>	<u>105,917</u>	<u>\$ 332,299</u>

The Accompanying Notes are an intergral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Net Assets Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2006

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

Net change in net asset balances - total governmental funds	\$ 75,063
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,997
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>5,658</u>
Change in net assets of governmental activities	<u>\$ 83,718</u>

The Accompanying Notes are an integral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
General Fund
Statement of Revenues, Expenditures, and Changes in Net Assets - Budget and Actual
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Property taxes	\$ 365,545	365,545	230,549	\$ (134,996)
Privilege licenses and permits	6,346	6,346	9,016	2,670
Intergovernmental revenues	6,450	6,450	231,489	225,039
Franchise taxes	32,272	32,272	83,220	50,948
Rent	43,000	43,000	-	(43,000)
Fines and report fees	115,118	115,118	107,263	(7,855)
Interest	-	-	1,950	1,950
Miscellaneous	<u>22,900</u>	<u>22,900</u>	<u>48,902</u>	<u>26,002</u>
TOTAL REVENUES	<u>591,631</u>	<u>591,631</u>	<u>712,389</u>	<u>120,758</u>
OPERATING DISBURSEMENTS:				
General Government				
Administration	307,478	307,478	208,022	99,456
Public Safety				
Police protection	325,325	325,325	417,247	(91,922)
Fire protection	9,500	9,500	-	9,500
Public Works				
Streets improvements	34,500	34,500	-	34,500
Debt service	<u>-</u>	<u>-</u>	<u>12,054</u>	<u>(12,054)</u>
Total Expenditures	<u>676,803</u>	<u>676,803</u>	<u>637,323</u>	<u>39,480</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(85,172)</u>	<u>(85,172)</u>	<u>75,066</u>	<u>160,238</u>
Other Financing Sources:				
Operating transfers out	<u>-</u>	<u>-</u>	<u>(49,450)</u>	<u>(49,450)</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>(49,450)</u>	<u>(49,450)</u>
Excess of Revenues & Other				
Sources Over(Under)				
Expenditures and other Uses	(85,172)	(85,172)	25,616	110,788
Fund Balance at beginning of year	<u>53,429</u>	<u>53,429</u>	<u>202,547</u>	<u>-</u>
Fund Balance at end of year	<u>\$ (31,743)</u>	<u>(31,743)</u>	<u>228,163</u>	<u>\$ 110,788</u>

The Accompanying Notes are an intergral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
Statement of Net Assets
Proprietary Fund
For the Year Ended September 30, 2006

	<u>Business Type Activities - Enterprise Funds</u>		<u>Totals</u>
	<u>Water/Sewer Fund</u>	<u>Nonmajor Enterprise Funds</u>	
Assets			
Cash and cash equivalents	\$ 56,915	-	\$ 56,915
Accounts receivable, net of allowances	75,196	-	75,196
Due from other funds	<u>26</u>	<u>-</u>	<u>26</u>
Total Current Assets	<u>132,137</u>	<u>-</u>	<u>132,137</u>
Restricted Assets:			
Cash and cash equivalents	-	43,291	43,291
Property, plant and Equipment, at Cost			
Land	6,120	-	6,120
Buildings	27,500	-	27,500
Water plant, distribution system and equipment	<u>4,370,263</u>	<u>-</u>	<u>4,370,263</u>
	4,403,883	-	4,403,883
Less: accumulated depreciation	<u>(3,327,835)</u>	<u>-</u>	<u>(3,327,835)</u>
Net property, plant and equipment	<u>1,076,048</u>	<u>-</u>	<u>1,076,048</u>
Total Assets	<u>\$ 1,208,185</u>	<u>43,291</u>	<u>\$ 1,251,476</u>
Liabilities and Net Assets			
Accounts payable	\$ 79,049	-	\$ 79,049
Compensated absences	1,773	-	1,773
Due to other funds	<u>104,235</u>	<u>-</u>	<u>104,235</u>
Current portion of long term debt:			
Compensated absences	<u>3,839</u>	<u>-</u>	<u>3,839</u>
Total current liabilities	<u>188,896</u>	<u>-</u>	<u>188,896</u>
Current Liabilities Payable from restricted Assets:			
Customer deposits	44,375	-	44,375
Accrued interest payable	2,917	-	2,917
Current portion of revenue bonds payable	<u>64,724</u>	<u>-</u>	<u>64,724</u>
Total Current liabilities payable from restricted assets	<u>112,016</u>	<u>-</u>	<u>112,016</u>
Long-Term Debt (less amounts classified as current)			
Revenue bonds(net of unamortized discount /premium)	<u>1,462,048</u>	<u>-</u>	<u>1,462,048</u>
Total long-term debt	<u>1,462,048</u>	<u>-</u>	<u>1,462,048</u>
Total Liabilities	<u>1,762,960</u>	<u>-</u>	<u>1,762,960</u>
Net Assets			
Investment in Capital Assets, net of related debt	(386,000)	-	(386,000)
Restricted for debt service	-	43,291	43,291
Unrestricted	<u>(168,775)</u>	<u>-</u>	<u>(168,775)</u>
Total Net Assets	<u>(554,775)</u>	<u>43,291</u>	<u>(511,484)</u>
Total Liabilities and Net Assets	<u>\$ 1,208,185</u>	<u>43,291</u>	<u>\$ 1,251,476</u>

The Accompanying Notes are an intergral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2006

	<u>Business -Type Activities - Enterprise Funds</u>		
	<u>Water/Sewer Fund</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>
Operating Revenues:			
Sales to customers	\$ 539,147	-	\$ 539,147
Franchise taxes	38,525	-	38,525
Other revenue	<u>2,189</u>	<u>-</u>	<u>2,189</u>
Total Operating Revenues	<u>579,861</u>	<u>-</u>	<u>579,861</u>
Operating Expenses:			
Personnel services	250,262	-	250,262
Supplies	2,512	-	2,512
Other services and charges	217,428	-	217,428
Depreciation	<u>132,774</u>	<u>-</u>	<u>132,774</u>
Total Operating Expenses	<u>602,976</u>	<u>-</u>	<u>602,976</u>
Operating income (loss)	<u>(23,115)</u>	<u>-</u>	<u>(23,115)</u>
Nonoperating revenues			
Interest income	844	739	1,583
Other income	896	-	896
Interest and service charges on long-term debt	<u>(73,942)</u>	<u>-</u>	<u>(73,942)</u>
Total nonoperating revenues	<u>(72,202)</u>	<u>739</u>	<u>(71,463)</u>
Net Income Before Operating Transfers	(95,317)	739	(94,578)
Operating Transfers In	-	4,160	4,160
Operating Transfers (Out)	<u>(4,160)</u>	<u>-</u>	<u>(4,160)</u>
Net Income (loss)	(99,477)	4,899	(94,578)
Retained Earnings October 1	<u>(455,298)</u>	<u>38,392</u>	<u>(416,906)</u>
Retained Earnings/Fund Balance September 30	<u>\$ (554,775)</u>	<u>43,291</u>	<u>\$ (511,484)</u>

The Accompanying Notes are an integral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
 Combined Statement of Cash Flows
 All Proprietary Fund Types
 For the Year Ended September 30, 2006

	<u>Business - Type Activities Enterprise Fund</u>		
	Water/Sewer Fund	Nonmajor Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 539,147	-	\$ 539,147
Receipts from other revenue	40,714	739	41,453
Payments to suppliers	(250,262)	-	(250,262)
Payments to employees	(219,940)	-	(219,940)
Net cash provided by (used for) operating activities	109,659	739	110,398
(Increase) Decrease in:			
Accounts receivable	(26,139)	-	(26,139)
Increase (Decrease) in:			
Accounts payable	2,619	-	2,619
Compensated absences payable	(1,687)	-	(1,687)
Due to other funds	33,552	-	33,552
Customer's deposits	1,300	-	1,300
Accrued interest payable	(94)	-	(94)
NET CASH PROVIDED BY OPERATING ACTIVITIES	119,210	739	119,949
CASH FLOWS USED FOR NONCAPITAL FINANCING ACTIVITIES:			
Operating transfers in	-	4,160	4,160
Operating transfers out	(4,160)	-	(4,160)
NET CASH FLOWS USED FOR NONCAPITAL ACTIVITIES	(4,160)	4,160	-
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interest earned on account	844	-	844
Interest paid on retirement of long-term debt	(73,942)	-	(73,942)
Other income	895	-	895
Repayment of long-term debt	(61,672)	-	(61,672)
NET CASH FLOWS USED BY FINANCING ACTIVITIES	(133,875)	-	(133,875)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,825)	4,899	(13,926)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	75,740	38,392	114,132
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 56,915	43,291	\$ 100,206
<u>Supplemental cash flow information:</u>			
Cash paid during the year:			
Interest Expense	\$ 73,942	-	\$ -

The Accompanying Notes are an integral part of these Financial Statements.

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fayette, Mississippi (the City) was incorporated under the provisions of Mississippi Law. The City is governed by its Mayor and a Board of Aldermen consisting of five members. Services provided to the citizens of Fayette include but are not limited to public safety (police and fire protection), streets, recreation, and utility services (water and sewer).

The City's accompanying policies conform to generally accepted accounting principals for governmental units. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Some of the City's more significant accounting policies are described as follows:

FINANCIAL REPORTING ENTITY

The accompanying financial statements reflect only the primary government of the City of Fayette. The primary government includes only those funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the City. The financial statements do not include the data of the component units necessary for general purpose financial reporting in conformity with generally accepted accounting principles.

BASIC FINANCIAL STATEMENTS

The basic financial statements include both government-wide and fund financial statements. Both government-wide and fund financial statements categorize activities as either governmental activities or business-type activities, which are described as follows:

1. Governmental activities involve government services that are normally supported by taxes and intergovernmental revenues.
2. Business-type activities rely on fees and charges for support and operate in a manner similar to private sector enterprises. Since proprietary funds operate in a manner similar to business enterprises, these funds follow certain pronouncements that are developed by the Financial Accounting Standards Board (FASB) for business enterprises. However, the City only applies those FASB pronouncement that were issued on or before November 30, 1989.

The government-wide and fund financial statements present the City's financial position and results of operations from differing perspectives which are described as follows:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. The effect of most interfund activity is eliminated from these financial statements. Furthermore, government-wide financial statements exclude any fiduciary activities which are reported in the fund financial statements.

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

Program revenues reported in the Statement of Activities consist of amounts that are directly associated with a governmental service or business-type activity. Program revenues include charges for services, fines, court cost, contributions associated with a particular function and most grants.

FUND FINANCIAL STATEMENTS

Funds are separate accounting entities that are designed to assist with demonstrating legal compliance and segregating transactions by activity. Separate financial statements are provided for governmental funds and business-type (enterprise) funds. In addition, separate financial statements are presented for any fiduciary activities. Major individual funds are reported as separate columns in the fund financial statements. The City's major funds are described as follows:

MAJOR GOVERNMENTAL FUNDS

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

MAJOR BUSINESS- TYPE FUNDS

Water System - The water system fund is used to account for the operation of the City's water system, which is supported by user charges.

Sewer System - The sewer system fund is used to account for the operation of the City's sewer system, which is supported by user charges and special taxes.

Business-Type funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with the funds ongoing operations. Principal operating revenues are charges to customers for water and sewer service.

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The basis of accounting and measurement focus used for various financial statement presentations are described as follows:

<u>Financial Statement Presentation</u>	<u>Basis of Accounting</u>	<u>Measurement Focus</u>
Government-Wide Financial Statements	Accrual Basis	Economic Resources
Fund Financial Statements:		
Governmental Funds	Modified Accrual Basis	Current Financial Resources
Proprietary Funds	Accrual Basis	Economic Resources

Under the accrual basis of accounting and the economic resources measurement focus, revenues are recorded when earned and expenses are recorded when a liability is incurred.

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

Under the modified accrual basis of accounting and the current financial resources measure focus revenue is recognized when it is considered measurable and available. Revenue is considered available if it is collected within 60 days of year end or if it is due under cost reimbursement arrangement. In addition, expenses are generally recorded when a liability has been incurred; however, debt service, claims and judgments are recorded as expenses when payment is made. Furthermore, when the current financial resources measure focus is used, amounts recorded as assets exclude capital assets and the acquisition of capital assets is treated as an expenditure. In addition, long-term debts are excluded from amounts reported as liabilities. Proceeds from issuing long-term debt is reported as an other financing source and repayment of long-term debt is reported as an expenditure.

BUDGETARY CONTROL

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The procedures detailed below are followed in establishing the budgetary data reflected in the financial statements.

The City Clerk and Mayor prepare a proposed budget based on an estimate of the revenues expected to be received in the next fiscal year and submits the proposal to the Board of Aldermen. A summary of the proposed budget is published and the public is notified that the proposed budget is available for public inspection. At the same time, a public hearing is set.

A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing. After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.

As required by state law, the budgets are amended whenever projected revenue fails to meet original expectations or when projected expenditures exceed original expectations. Budgetary amounts are presented as amended and all budgetary appropriations lapse at the end of the fiscal year.

CASH AND CASH EQUIVALENTS

the City deposits excess funds in financial institutions selected by the board. State statutes specify how these depositories are to be selected.

Cash consists of amounts on deposit in demand accounts and savings accounts. Cash and other deposits are valued at cost.

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, Mississippi Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits.

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of a failure of a financial institutions, the city will not be able to recover deposits or collateral securities that are in the possession of an outside party. The city does not have a formal policy for custodial credit risk. However, the Mississippi State Treasury manages the risk on behalf of the city. deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of September 30, 2006, none of the city's bank balance of \$74,042 was exposed to custodial credit risk.

Interest Rate Risk. The city does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The city does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the city will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The city does not have a formal investment policy that addresses custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the city. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the city. As of September 30, 2006, none of the city's bank balance of \$335,504 was exposed to custodial credit risk.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of September 30, 2006, the city had no investments.

Following is a list of the City's eligible investments, which in accordance with State statute are limited to the investment of funds in excess of sums required for immediate expenditure or current obligations:

- Certificates of deposit with municipal depositories approved annually by the State Treasurer
- bonds or direct obligations of the:
 - United States of America
 - State of Mississippi
 - County or Municipality of Mississippi
 - School Districts

State statute allows the investment of funds received from the sale of bonds, notes, or certificates of indebtedness which are not immediately required for disbursement for the purpose issued, in direct obligations issued by or guaranteed in full by the United States of America, or in certificates of deposit with approved municipal depositories.

INTERNAL ACTIVITY

Resources belonging to particular funds are commonly shared with other funds that need access to additional resources. When resources are provided without expectation of repayment, the transaction is reported as a transfer. Transfers are treated as a source of income by the recipient and as an expense or expenditure by the provider. If repayment is eventually expected to occur, interfund receivables and payables are recorded.

CITY OF FAYETTE, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

In preparing the government-wide financial statement, transfers are eliminated to present net transfers for governmental activities and business-type activities. In addition, interfund receivables and payables are eliminated to present a net internal balance for each type of activity.

Restricted Assets - Restricted assets represent resources that must be expended in a specific manner. Restrictions of this nature are imposed by various contractual obligations including grant agreements and bond covenants. Whenever restricted assets can be used to satisfy an obligation, the restricted assets are typically consumed before utilizing any unrestricted resources.

Capital Assets - Capital assets, which include property, equipment and infrastructure acquired after October 1, 2003, are reported as assets in the applicable governmental or business-type columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Assets reported in the fund financial statements for governmental funds exclude capital assets. Instead, the governmental funds report the acquisition of capital assets as expenditures rather than asset acquisitions.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value when received by the City.

Capital assets, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land Improvements	20
Heavy machinery and equipment	5-15
Computer equipment	3
Vehicles	3-10
Infrastructure	8-50

Interest is capitalized on proprietary funds assets constructed with the proceeds of tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on investment proceeds over the same period.

Compensated Absences - the City does not accumulate unpaid vacation, sick pay, and other employee benefit amounts because employees are not allowed to carry over significant amounts.

Use of Estimates - The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF FAYETTE, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

NOTE 2 - AD VALOREM TAXES

Ad valorem taxes are assessed on a calendar year basis and are due on or before December 31 in the year in which the tax is levied. Property taxes are recognized when the revenue is measurable and available. Available means due or past due and collected no longer than 60 days after the close of the current period. For the year ended September 30, 2006, the City levied and collected 30.00 mills of taxes for general corporate purposes of the City.

NOTE 3 - INTERFUND BALANCES AND TRANSFERS

Individual fund interfund receivable and payable balances are presented as of September 30, 2006 as follows:

	Interfund Receivables	Interfund Payables
General	\$ 110,265	\$ 6,056
Water/Sewer System Fund	26	104,235
Total	\$ 110,291	\$ 110,291

Individual fund interfund transfers are presented as of September 30, 2006 as follows:

	Transfer In	Transfer Out
General Fund	\$ 49,450	\$ 49,450

NOTE 4 - RECEIVABLES

Receivables at September 30, 2006 consisted of the following:

	Governmental Activities	Business-Type Activities
<u>Accounts Receivable</u>		
Charges for services	\$ -	\$ 93,998
Property taxes	36,402	-
Accounts receivable, other	66,685	-
Total Accounts Receivable	103,087	93,998
<u>Due From Other Governments</u>		
Sales Taxes	16,988	-
Total due from other governments	16,988	-
Less: allowance for uncollectibles	(1,578)	(18,802)
Receivables, net of allowance	\$ 118,497	\$ 75,196

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

NOTE 5 - FIXED ASSETS

A summary of general fixed asset transactions for the year ended September 30, 2006 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Non Depreciable Capital Assets				
Construction in process	\$ 408,538	-	-	\$ 408,538
Total non depreciable capital assets	<u>408,538</u>	<u>-</u>	<u>-</u>	<u>408,538</u>
Depreciable Capital Assets				
Buildings and Improvements	46,850	-	-	46,850
Automotive and equipment	243,949	-	-	243,949
Machinery and Equipment	104,094	11,721	-	115,815
Accumulated Depreciation	<u>(307,098)</u>	<u>(8,725)</u>	<u>-</u>	<u>(315,823)</u>
Total depreciable capital assets	87,795	2,996	-	90,791
Total Governmental Activities	<u>\$ 496,333</u>	<u>2,996</u>	<u>-</u>	<u>\$ 499,329</u>
Business-Type Activities:				
Non Depreciable Capital Assets				
Land and Right of Ways	\$ 6,120	-	-	\$ 6,120
Total nondepreciable capital assets	<u>6,120</u>	<u>-</u>	<u>-</u>	<u>6,120</u>
Depreciable Capital Assets				
Building	27,500	-	-	27,500
Water/Sewer system	4,370,263	-	-	4,370,263
Accumulated Depreciation	<u>(3,195,061)</u>	<u>(132,774)</u>	<u>-</u>	<u>(3,327,835)</u>
Net depreciable capital assets	1,202,702	(132,774)	-	1,069,928
Total Business-Type Activities	<u>\$ 1,208,822</u>	<u>(132,774)</u>	<u>-</u>	<u>\$ 1,076,048</u>

Depreciation expense charged to various functions presented on the statement of activities is presented as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Finance & Administrative	\$ 119	-	\$ 119
Police Protection	850	-	850
Public Works	5,757	-	5,757
Parks and Recreation	1,999	-	1,999
Water/Sewer System	-	132,774	132,774
Total Depreciation Expense	<u>\$ 8,725</u>	<u>132,774</u>	<u>\$ 141,499</u>

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

NOTE 6 - LONG-TERM DEBT

A summary of long-term debt transactions for the year ended September 30, 2006, were as follows:

Governmental activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable	\$ 43,236	-	(9,019)	\$ 34,217	\$ 9,743
Compensated absences	3,427	3,784	(426)	6,785	4,103
Total	<u>\$ 46,663</u>	<u>3,784</u>	<u>(9,445)</u>	<u>\$ 41,002</u>	<u>\$ 13,846</u>

Long-term debt activity for the year ended September 30, 2006, is presented as follows:

Business -type activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and notes payable	\$ 1,587,577	-	(60,805)	\$ 1,526,772	\$ 64,724
Compensated absences	7,299	3,840	(5,528)	5,611	3,839
Totals	<u>\$ 1,594,876</u>	<u>3,840</u>	<u>(66,333)</u>	<u>1,532,383</u>	<u>\$ 68,563</u>

BANK NOTE PAYABLE

Notes payable consist of the following as September 30, 2006:

A 7.75% note, payable to The Jefferson Bank, dated December 1, 2004 payable in monthly installments of \$1,004.46, which includes principal and interest, matures December 15, 2009. The note is secured by machinery and equipment.

The annual requirement to amortize this outstanding debt as of September 30, 2006 including interest payments of \$38,766 are as follows:

Year Ended September 30,	<u>Principal</u>	<u>Interest</u>
2007	\$ 9,743	\$ 2,311
2008	10,525	1,528
2009	11,371	683
2010	2,578	27
	<u>\$ 34,217</u>	<u>\$ 4,549</u>

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

REVENUE BOND

- A. On November 28, 1984, the City of Fayette issued a Combined Water and Sewer System Revenue Bond (the "Bond") of the City of Fayette, Mississippi (the "Municipality"), in the principal amount of one million two hundred eighty three thousand six hundred dollars (\$1,283,600), dated the date of delivery thereof, November 28, 1984, bearing interest at the rate of 5% per annum and being payable as to interest only on the 28th day of November in each of the years 1985 and 1986, and being payable as to principal and interest in equal monthly installments of \$6,686 in each of the years 1987 to 2019, inclusive.

The bond was issued for the purpose of improving, repairing and extending the combined water and sewer system of the Municipality, under the authority of the Constitution and statutes of the State of Mississippi, including Sections 21-27-11 to 21-27-69 Mississippi Code of 1972 and by further authority of resolutions duly adopted and proceedings regularly had by the Mayor and Board of Aldermen of the City of Fayette.

This bond was purchased by the USDA Rural Development Administration.

The annual requirement to amortize all bonded debt outstanding as of September 30, 2006 including interest payments of \$995,081 are as follows:

Year Ended September 30,	Principal	Interest
2007	\$ 44,214	\$ 36,018
2008	46,476	33,756
2009	48,854	31,378
2010	51,353	28,879
2011	53,981	26,251
2012 to 2020	<u>495,563</u>	<u>98,358</u>
	<u>\$ 740,441</u>	<u>\$ 254,640</u>

- B. On November 2, 1995, the City of Fayette issue a combined water and sewer system revenue bond (the "Bond") of the City of Fayette, Mississippi (the "Municipality"), in the principal amount of nine hundred forty four thousand dollars (\$944,000), dated the date of delivery thereof, November 2, 1995. The water revenue bond consisted of an issue in the amount of \$140,000 bearing interest at a rate of 4.50% per annum and issued in the amount of \$804,000 bearing interest at a rate of 5.0% per annum each being payable of interest only on the first and second anniversary dates of the bond. Principal payments with interest on the unpaid principal balance from date thereof, and paid in equal monthly installments of principal and interest in the amount of \$686 for the \$140,000 bond issue and three thousand nine hundred thirty seven dollars \$3,937 monthly payments for the \$804,000 bond issue. The payments will begin on the third anniversary date of the bond and continuing through the thirty-fifth anniversary date of the bond; provided that the final payment of the entire indebtedness, if no sooner paid, shall be due and payable thirty-five (35) years from the date thereof.

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

The bonds were issued for the purpose of improving, repairing and extending the combined water and sewer system of the Municipality, under the authorization of the Constitution and statutes of the State of Mississippi, including sections 21-27-11 to 21-27-69 Mississippi Code of 1972 and further authority of resolutions duly adopted and proceedings regularly had by the Mayor and Board of Aldermen of the City of Fayette.

The bonds were purchased by the U.S. Department of Agriculture and the Rural Economic and Community Development.

The annual requirement to amortize the bonded debt outstanding as of September 30, 2006 including interest payments of \$1,254,494 are as follows for the Enterprise Fund:

Year Ended September 30,	Water Bond		Sewer Bond	
	Principal	Interest	Principal	Interest
2007	\$ 17,509	29,735	3,001	\$ 5,231
2008	18,314	28,930	3,139	5,093
2009	19,155	28,089	3,283	4,949
2010	20,035	27,209	3,434	4,798
2011	20,955	26,289	3,592	4,640
2012 to 2032	<u>572,765</u>	<u>256,796</u>	<u>101,153</u>	<u>46,400</u>
	<u>\$ 668,733</u>	<u>397,048</u>	<u>117,602</u>	<u>\$ 71,111</u>

NOTE 7 - DEFINED BENEFIT PENSION PLANS

The City does not offer any type of retirement or pension plan to its employees.

NOTE 8 - COMPENSATION OF ELECTED OFFICIALS

Per diem payments to the Board of Aldermen and salaries paid to the Mayor for the year ended September 30, 2006 were as follows:

	Position	Amount
Rogers King	Mayor	\$ 20,988
Kenneth Coffie	Alderman	6,000
Claudine Middleton	Alderwoman	6,000
Arnold Clark, Jr.	Alderman	6,000
Marcus Walton	Alderman	6,000
Vernie Washington	Alderman	6,000
Hattie Davis	City Clerk	26,500
Cynthia Perryman	Deputy City Clerk	26,200
Mac Arthur Doss	Police Chief	18,491

CITY OF FAYETTE, MISSISSIPPI
Notes to the Financial Statements
September 30, 2006

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The City has been named as a defendant in several lawsuits as of September 30, 2006. These suits are at various stages in the legal system. It is not possible to predict at this time the extent of the City's liability. Losses, if any, are not expected to exceed available insurance coverage.

NOTE 10 - RESERVED FUND BALANCES AND RETAINED EARNINGS

Various bond covenants require the City to maintain cash reserves that can only be used under specific circumstances. Since these funds are available only under specific circumstances, the amounts are presented as restricted.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks of loss are covered by participation in a public entity risk pool that operates as a common insurance program and by acquiring commercial insurance coverage. Claims resulting from these risks have historically not exceeded insurance coverage.

NOTE 12 - PROPERTY TAXES RECEIVABLE AND PROPERTY TAX CALENDAR

Property taxes receivable are recorded in the general fund after the general fund budget is approved by the Board of Aldermen/Alderwomen. At fiscal year-end, the receivable represent delinquent taxes.

Property taxes on real, personal and public utilities attach as an enforceable lien on the levy date or January 1 for the preceding calendar year. Hinds County bill and collect the real, personal and ad valorem taxes for the City of Fayette, Mississippi. The taxes are remitted to the City on a monthly basis.

The taxes are due on or before February 1; however, installment payments can be made one-half of balance due February 1 and one-fourth each on May 1 and August 1. Major tax payments are received February through May, are recognized as revenue in the year received. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received.

CITY OF FAYETTE, MISSISSIPPI

SUPPLEMENTARY INFORMATION

September 30, 2006

SCHEDULE A

CITY OF FAYETTE, MISSISSIPPI
 Combined Balance Sheet
 Nonmajor Governmental Funds
 For the Year Ended September 30, 2006

	<u>Fire Fund</u>	<u>Garbage Fund</u>	<u>Debt Service</u>	<u>Homeland Security</u>	<u>Wildlife Fishery</u>	<u>Jobs Bill</u>	<u>Total</u>
ASSETS							
Cash	\$ 89,161	14,292	12,812	-	-	2,050	\$ 118,315
Certificate of deposit	-	-	24,655	-	-	-	24,655
Due from other funds	-	-	-	126	-	-	126
TOTAL ASSETS	\$ 89,161	14,292	37,467	126	-	2,050	\$ 143,096
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payables	\$ 11,721	13,537	-	126	-	-	\$ 25,384
Payroll taxes payable	-	5,739	-	-	-	-	5,739
Due to other funds	-	6,056	-	-	-	-	6,056
Total Liabilities	11,721	25,332	-	126	-	-	37,179
Fund Balances:							
Unreserved							
Undesignated	77,440	(11,040)	37,467	-	-	2,050	105,917
TOTAL LIABILITIES AND FUND BALANCES	\$ 89,161	14,292	37,467	126	-	2,050	\$ 143,096

SCHEDULE B

CITY OF FAYETTE, MISSISSIPPI
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 Nonmajor Governmental Funds
 For the Year ended September 30, 2006

	<u>Fire Fund</u>	<u>Garbage Fund</u>	<u>Debt Service</u>	<u>Homeland Security</u>	<u>Wildlife Fishery</u>	<u>Jobs Bill</u>	<u>Total</u>
Revenues							
Intergovernmental revenues	\$ 15,023	-	-	3,742	-	-	\$ 18,765
Charges for services	-	38,655	-	-	-	-	38,655
Interest income	<u>1,461</u>	<u>-</u>	<u>202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,663</u>
Total Revenues	<u>16,484</u>	<u>38,655</u>	<u>202</u>	<u>3,742</u>	<u>-</u>	<u>-</u>	<u>59,083</u>
EXPENDITURES:							
General government	-	37,639	-	-	-	-	37,639
Public safety	4,389	-	-	-	-	-	4,389
Capital Outlay	<u>13,316</u>	<u>-</u>	<u>-</u>	<u>3,742</u>	<u>-</u>	<u>-</u>	<u>17,058</u>
Total Expenditures	<u>17,705</u>	<u>37,639</u>	<u>-</u>	<u>3,742</u>	<u>-</u>	<u>-</u>	<u>59,086</u>
Excess of Revenues Over (Under Expenditures	<u>(1,221)</u>	<u>1,016</u>	<u>202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Operating transfers in	-	4,450	-	-	-	-	4,450
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>4,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,450</u>
Excess of Revenues and Other Sources Over (Under Expenditures	<u>(1,221)</u>	<u>5,466</u>	<u>202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,447</u>
Fund Balance, October 1, 2005	<u>78,661</u>	<u>(16,506)</u>	<u>37,265</u>	<u>-</u>	<u>-</u>	<u>2,050</u>	<u>101,470</u>
Fund Balance, September 30, 2006	\$ <u>77,440</u>	\$ <u>(11,040)</u>	\$ <u>37,467</u>	<u>-</u>	<u>-</u>	<u>2,050</u>	\$ <u>105,917</u>

SCHEDULE C

CITY OF FAYETTE, MISSISSIPPI
 Schedule of Cash Receipts and Disbursements
 Reserve Accounts Required by Farmers Home Administration
 Enterprise Fund
 Year Ended September 30, 2006

	<u>Depreciation Fund</u>	<u>Contingency Fund</u>	<u>Bond & Interest Fund</u>	<u>Total</u>
Cash and investment at beginning of year	\$ <u>9,495</u>	<u>9,495</u>	<u>19,402</u>	\$ <u>38,392</u>
Cash Receipts:				
Transfer from Operating account	1,040	1,040	2,080	4,160
Interest income	<u>183</u>	<u>183</u>	<u>373</u>	<u>739</u>
Total Receipts	<u>1,223</u>	<u>1,223</u>	<u>2,453</u>	<u>4,899</u>
Total cash and investments available	<u>10,718</u>	<u>10,718</u>	<u>21,855</u>	<u>43,291</u>
Total cash disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and Investment at End of Year	\$ <u>10,718</u>	<u>10,718</u>	<u>21,855</u>	\$ <u>43,291</u>

SCHEDULE D

CITY OF FAYETTE, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2006

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond Amount</u>
Rogers King	Mayor	U S F & G	\$ 25,000
Kenneth Coffie	Alderman	U S F & G	5,000
Arnold Clark, Jr.	Alderman	U S F & G	5,000
Vernie Washington	Alderman	U S F & G	5,000
Claudine Middleton	Alderman	U S F & G	5,000
Marcus Walton	Alderwoman	U S F & G	5,000
Hattie Davis	Deputy Clerk	U S F & G	10,000
Cynthia Perryman	Deputy Clerk	U S F & G	10,000
Mac Arthur Doss	Police Chief	U S F & G	50,000

CITY OF FAYETTE, MISSISSIPPI
 Schedule of Long-Term Debt
 September 30, 2006

	Balance Outstanding Oct. 1, 2005	During Fiscal Year		Balance Outstanding Sept. 30, 2006
		Issued	Retired	
Revenue Bonds				
91-01 Revenue Bond	\$ 782,503	-	42,067	\$ 740,436
92-03 Revenue Bond	685,473	-	16,743	668,730
91-05 Revenue Bond	<u>119,601</u>	<u>-</u>	<u>1,995</u>	<u>117,606</u>
Total Revenue Bonds	<u>1,587,577</u>	<u>-</u>	<u>60,805</u>	<u>1,526,772</u>
Other Debt				
Note payable	<u>43,236</u>	<u>-</u>	<u>9,019</u>	<u>34,217</u>
Total other debt	<u>43,236</u>	<u>-</u>	<u>9,019</u>	<u>34,217</u>
Total Long-Term Debt	\$ <u>1,630,813</u>	<u>-</u>	<u>69,824</u>	\$ <u>1,560,989</u>

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

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grant Number	Current Year Federal Expenditures
<u>U.S. Department of Justice</u>			
Universal Hiring Grant	16.710	1995-CF-WX- 4448	30,168
TOTAL U. S. DEPARTMENT OF JUSTICE			<u>30,168</u>
<u>U. S. Department of Homeland Security</u>			
Pass through State of Mississippi Department of Public Safety Homeland Security Grant	97.036	2005	3,742
TOTAL U. S. DEPT. OF HOMELAND SECURITY			<u>3,742</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 33,910</u>

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grant Number	Principal Balance at Sept. 30, 2005	Principal Retired During the year	Current Year Federal Expenditures
<u>OTHER FEDERAL AWARDS</u>					
The City of Fayette, MS has the following loans payable to Rural Development Administration at September 30, 2006 which was used to make improvements on its water and sewer system:					
5% note dated November 28, 1984	10.770	91-01	\$ 782,503	42,067	\$ 740,436
4.5% note dated November 2, 1995	10.770	92-03	685,473	16,743	668,730
4.5% note dated November 2, 1995	10.770	91-05	<u>119,601</u>	<u>1,995</u>	<u>117,606</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,587,577</u>	<u>60,805</u>	<u>\$ 1,526,772</u>

CITY OF FAYETTE, MISSISSIPPI
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

BASIS OF PRESENTATION

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



**BANKS, FINLEY,
WHITE & CO.**
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Mayor Rogers King
and Honorable Members of the Board of Alderman
Fayette, Mississippi

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Fayette, Mississippi (the City), as of and for the year ended September 30, 2006, which collectively comprise the City of Fayette, Mississippi's basic financial statements and have issued our report thereon dated May 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

This report is intended solely for the information of the Mayor, Board of Alderman, management, and the 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.

Banks, Finley, White & Co.

May 11, 2007



**BANKS, FINLEY,
WHITE & CO.**

CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Mayor Rogers King
and Honorable Members of the Board of Aldermen
Fayette, Mississippi

Compliance

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

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Mayor, Board of Aldermen, 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.

Banks, Foley, White & Co.
May 11, 2007



**BANKS, FINLEY,
WHITE & CO.**

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor Rogers King, and
Honorable Members of the Board of Alderman
of the City of Fayette, Mississippi

We have audited the accompanying financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fayette, Mississippi (the City) as of and for the year ended September 30, 2006, which collectively comprise the City of Fayette, Mississippi's basic financial statements and have issued our report thereon dated May 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States America and the standards applicable to financial audits contained in *Governmental Auditing Standards*.

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with state laws and regulations.

This report is intended solely for the information of the Mayor, Board of Alderman, 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.

Banks, Finley, White & Co.

May 11, 2007

CITY OF FAYETTE, MISSISSIPPI
AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2006

There were no prior year findings.

CITY OF FAYETTE, MISSISSIPPI
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued on the basic financial statements. | Unqualified |
| 2. | Material noncompliance relating to the basic financial statements. | None |
| 3. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | None |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | None |

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? | None |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | None |
| 6. | Any audit findings reported as required by Section __.510(a) of Circular A-133? | None |
| 7. | Federal programs identified as major programs:
U. S. Department of Agriculture
Rural Development Administration Loans CFDA 10.770 | |
| 8. | The dollar threshold used to distinguish between type A and Type B programs: | \$300,000 |
| 9. | Auditee did qualify as a low-risk auditee. | |

Section 2 - Finding Financial Statements Audit

NONE

Section 3 - Findings and Questioned Costs - Major Federal Award Program Audit

NONE