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AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

TOWN OF GUNTOWN, MISSISSIPPI

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

**TOWN OF GUNTOWN, MISSISSIPPI
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INDEPENDENT AUDITOR'S REPORT

Mayor and Board of Aldermen
Guntown, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, as of and for the year ended September 30, 2006, which collectively comprise the Town or Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Guntown, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Guntown, as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 11, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Guntown's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund

financial statements 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 and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on them.

Land Sonnier, P. A.
Certified Public Accountants
Tupelo, Mississippi
January 18, 2007

Town of Guntown
Management's Discussion and Analysis
For the Year Ended September 30, 2006

Unaudited

This Discussion and Analysis of The Town of Guntown financial performance provides an overall review of the Town's financial activities for the year ended September 30, 2006. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for the year ended September 30, 2006 were as follows:

Total net assets increased \$904,082 or 30.8% from 2005.

Total assets of governmental activities increased \$377,814, or 63.8% from 2005.

Total liabilities decreased by \$88,774 or 9.9% from 2005.

In total, equity in pooled cash and cash equivalents increased \$139,757 or 17.8%, from 2005.

Overall, the book value of capital assets increased by over \$675,000 from 2005.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Town of Guntown as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Town, presenting both an aggregate view of the Town's finances and longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the Town's most significant funds and other non-major funds.

REPORTING THE TOWN OF GUNTOWN AS A WHOLE

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the Town to provide services to our citizens, the view of the Town as a whole looks at all financial transactions and asks the question, "How did we do financially during the year ended September 30, 2006?" The Statement of Net Assets and the Statement of Activities answer this question.

These statements include all assets and liabilities, using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Town's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the Town as a whole, the financial position of the Town has improved or diminished. However, in evaluating the overall position of the Town, non-financial information such as changes in the Town's tax base and the condition of the Town's capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, all of the Town's activities are reported as Governmental Activities, which include all of the Town's services including police, fire, administration, and all other departments. The Town of Guntown has no Component units.

Reporting the Town of Guntown's Most Significant Funds

Fund Financial Statements

The analysis of the Town's major funds begins on page 6. Fund financial reports provide detailed information about the Town's major funds. Based on restrictions on the use of monies, the Town has established many funds, which account for the multitude of services provided to the Town's residents. However, these fund financial statements focus on the Town's most significant funds. In the case of the Town of Guntown, the Town's major funds are the General, Special Revenue, and Water and Sewer.

Fund Financial Statements

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

Proprietary funds are reported in the fund financial statements and generally report services for which the Town charges customers a fee. There is one kind of proprietary fund. This is an enterprise fund. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements.

Proprietary Fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements.

Recall that the Statement of Net Assets looks at the Town as a whole. Table 1 provides a summary of the Town's net assets for 2005 compared to 2006.

**TOWN OF GUNTOWN, MISSISSIPPI
SUMMARY OF NET ASSETS - TABLE I
FOR THE FISCAL YEARS ENDED SEPTEMBER 30**

	Governmental Activities		Business Type Activities		Totals		Amount Change
	2006	2005	2006	2005	2006	2005	
Current and Other Assets	\$ 184,489	\$ 160,782	\$ 742,321	\$ 626,271	\$ 926,810	\$ 787,053	\$ 139,757
Capital Assets - Net	<u>784,645</u>	<u>430,538</u>	<u>2,938,900</u>	<u>2,617,456</u>	<u>3,723,545</u>	<u>3,047,994</u>	<u>675,551</u>
Total Assets	<u>\$ 969,134</u>	<u>\$ 591,320</u>	<u>\$ 3,681,221</u>	<u>\$ 3,243,727</u>	<u>\$ 4,650,355</u>	<u>\$3,835,047</u>	<u>\$ 815,308</u>
Long-Term Liabilities	\$ 00	\$ 00	\$ 720,858	\$ 774,127	\$ 720,858	\$ 774,127	(\$ 53,269)
Other Liabilities	<u>24,645</u>	<u>12,792</u>	<u>65,830</u>	<u>113,188</u>	<u>90,475</u>	<u>125,980</u>	<u>(35,505)</u>
Total Liabilities	<u>\$ 24,645</u>	<u>\$ 12,792</u>	<u>\$ 786,688</u>	<u>\$ 887,315</u>	<u>\$ 811,333</u>	<u>\$ 900,107</u>	<u>(\$ 88,774)</u>
Net Assets:							
Invested in Capital Assets							
Net of Related Debt	\$ 784,645	\$ 430,538	\$ 2,218,042	\$ 1,807,797	\$ 3,002,687	\$ 2,238,335	\$ 764,352
Restricted	00	00	00	00	00	00	00
Unrestricted	<u>159,844</u>	<u>147,990</u>	<u>676,491</u>	<u>548,615</u>	<u>836,335</u>	<u>696,605</u>	<u>139,730</u>
Total Net Assets	<u>\$ 944,489</u>	<u>\$ 578,528</u>	<u>\$ 2,894,533</u>	<u>\$ 2,356,412</u>	<u>\$ 3,839,022</u>	<u>\$ 2,934,940</u>	<u>\$ 904,082</u>

Total assets increased \$815,000. Equity in current assets increased \$140,000. Capital assets increased \$676,000. The increase in capital assets is due to an inventory of capital assets that revealed assets not listed on previous inventories.

Net assets of the Town's governmental activities increased by \$367,000, with unrestricted net assets increasing \$12,000.

Table II shows the Changes in Net Assets for the year ended September 30, 2006 and the year ended September 30, 2005.

The Town's Water and Sewer utility operates as a business type fund. During the year ended September 30, 2006, the Fund realized an increase in current assets of \$116,000; an increase in capital assets of \$321,000; a decrease in liabilities of \$100,000; and net assets increased \$538,121. The increase in assets is due largely to the taking an inventory of capital assets. This inventory resulted in counting capital assets that had not been included in prior inventories.

The Town as a whole increased total net assets by \$904,000. Total assets increased 21%; liabilities decreased 10% and total net assets increased 31%.

**TOWN OF GUNTOWN, MISSISSIPPI
CHANGES IN NET ASSETS - TABLE II
FISCAL YEARS ENDED SEPTEMBER 30**

Governmental
Activities

Business Type
Activities

Totals

	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>Amount</u> <u>2005</u>	<u>Change</u>
Revenues:							
Program Revenues:							
Charges for Services	\$ 7,536	\$ 10,417	\$ 385,835	\$ 345,311	\$ 393,371	\$ 355,728	\$ 37,643
Operating Grants and Contributions	32,480	00	00	00	32,480	00	32,480
Capital Grants and Contributions	14,948	6,385	2,551	00	17,499	6,385	11,114
General Revenues:							
Sales Taxes	141,092	143,902	00	00	141,092	143,902	(2,810)
Property Taxes	182,036	149,924	00	00	182,036	149,924	32,112
Franchise Taxes	22,283	24,364	00	00	22,283	24,364	(2,081)
Fines	65,182	68,310	00	00	65,182	68,310	(3,128)
Other Revenues	<u>33,240</u>	<u>14,662</u>	<u>20,530</u>	<u>419</u>	<u>53,770</u>	<u>15,081</u>	<u>38,689</u>
Total Revenues	<u>\$ 498,797</u>	<u>\$ 417,964</u>	<u>\$ 408,916</u>	<u>\$ 345,730</u>	<u>\$ 907,713</u>	<u>\$ 763,694</u>	<u>\$ 144,019</u>
Expenses:							
General Government	\$ 194,405	\$ 332,011	\$ 00	\$ 00	\$ 194,405	\$ 332,011	(\$ 137,606)
Police	245,947	135,809	00	00	245,947	135,809	110,138
Fire	34,383	13,602	00	00	34,383	13,602	20,781
Recreation	11,452	8,257	00	00	11,452	8,257	3,195
Water & Sewer Utilities	00	00	430,418	292,494	430,418	292,494	137,924
Transfers (In) Out		<u>00</u>	<u>(50,000)</u>		<u>00</u>	<u>50,000</u>	<u>00</u>
							<u>00</u>
							<u>00</u>
							<u>00</u>
							<u>00</u>
							<u>00</u>
Total Expenses	<u>\$ 486,187</u>	<u>\$ 439,679</u>	<u>\$ 430,418</u>	<u>\$ 342,494</u>	<u>\$ 916,605</u>	<u>\$ 782,173</u>	<u>\$ 134,432</u>
Change in Net Assets	\$ 12,610	(\$ 21,715)	(\$ 21,502)	\$ 3,236	(\$ 8,892)	(\$ 18,479)	\$ 9,587
Beginning Net Assets	578,528	172,705	2,356,412	2,353,176	2,934,940	2,525,881	409,059
Prior Year Adjustments	<u>353,351</u>	<u>00</u>	<u>559,623</u>	<u>00</u>	<u>912,974</u>	<u>00</u>	<u>912,974</u>
Ending Net Assets	<u>\$ 944,489</u>	<u>\$ 150,990</u>	<u>\$ 2,894,533</u>	<u>\$ 2,356,412</u>	<u>\$ 3,839,022</u>	<u>\$ 2,507,402</u>	<u>\$1,331,620</u>

Governmental Activities

Several revenues sources fund our Governmental Activities. Under the accrual basis of accounting, sales tax collections accounted for 28%; property taxes accounted for 37%; and fines accounted for 13% of gross revenues.

On the cash basis of accounting the Town has increased Sales Tax Collections since 2001 by \$28,709 or 25.5%. Property Tax Collections have increased by \$80,203 or 78.8%. These increases can be attributed to expansion of the Town Limits and aggressive economical development.

Major expense activities, under the accrual basis of accounting included police protection 51% and fire protection 7% or 58% on security of persons and property. The Town is committed to providing basic services that our residents expect.

All Governmental Funds had a total revenues of \$498,797 and expenditures of \$486,187. The Town added 63 homes to the tax base through annexation.

The Fund Balance of The General Fund increased \$365,961. An inventory of assets revealed an increase in capital assets of \$354,107 that had not been included in the Town's Capital Assets previously.

The Business Type Activity, the Water and Sewer Fund, recorded an increase in water and sewer sales of \$40,524 for a 12% increase. This increase is due primarily to a rate increase of 10% during the year. The Town anticipates an additional increase of 10% in rates in the 2007 year. This increase is due to bond payments requirements as a result of the 2004 sewer expansion.

It is the intention of Town officials to provide adequate, safe water and sewer services to its citizens.

There was a decrease in net assets of the Water and Sewer Utility of \$22,000.

General Fund Budgeting Highlights

The Town's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of the year ended September 30, 2006, the Town amended its general fund budget. All recommendations for a budget change come from the Town Clerk to the Town Board of Aldermen for ordinance enactment on the change. The Town does not allow budget changes that modify line items within departments without Board approval. With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments. For the General Fund, original budgeted revenues were \$429,943, final budget amounts were \$437,563, and actual revenue collections were \$498,797. Three major factors contributing to the increase of actual revenues over budgeted amounts were increased revenues for the categories of Property and Other Taxes, and Fines.

The Town of Guntown's ending unencumbered cash balance in the general fund was \$156,279 above the final budgeted amount.

Capital Assets and General Long-Term Obligations
Capital Assets

Table 3
Capital Assets at September 30, 2006

	Balance 10-01-05	Additions	Deductions	Additions (Deductions) By Inventory	Balance Sept. 30, 2006
Governmental Activities:					
Non-Depreciable Assets:					
Land	\$ 67,720	\$ 00	\$ 00	\$ 253,000	\$ 320,720
Depreciable Assets:					
Buildings	214,613	00	00	00	214,613
Equipment	49,739	00	00	66,986	116,725
Motor Vehicles	367,634	8,719	4,830	(31,725)	339,798
Total Depreciable Assets	\$ 631,986	\$ 8,719	\$ 4,830	\$ 35,261	\$ 671,136
Accumulated Depreciation:					
Buildings	\$ 17,487	\$ 5,187	\$ 00	\$ 25,829	\$ 48,503
Equipment	17,719	2,764	00	(6,118)	14,365
Motor Vehicles	233,962	12,851	00	(102,470)	144,343
Total Accumulated Depreciation	\$ 269,168	\$ 20,802	\$ 00	(\$ 82,759)	\$ 207,211
Assets-Net of Depreciation	<u>\$ 430,538</u>				<u>\$ 784,645</u>
Business Type Activities:					
Non-Depreciable Assets:					
Land	\$ 34,878	\$ 00	\$ 00	\$ 00	\$ 34,878
Depreciable Assets:					
Water and Sewer Plant	3,063,461	00	00	331,112	3,394,573
Equipment	100,214	00	00	220,943	321,157
Motor Vehicles	28,898	00	00	00	28,898
Total Depreciable Assets	\$ 3,192,573	\$ 00	\$ 00	\$ 552,055	\$ 3,744,628
Accumulated Depreciation:					
Buildings	\$ 552,230	\$ 67,890	\$ 00	\$ 76,568	\$ 696,688
Equipment	39,967	13,625	00	71,319	124,911
Motor Vehicles	17,798	1,209	00	00	19,007
Total Accumulated Depreciation	\$ 609,995	\$ 82,724	\$ 00	\$ 147,887	\$ 840,606
Assets Net of Depreciation	<u>\$ 2,617,456</u>				<u>\$ 2,938,900</u>

Capital Assets increased because of the taking of an inventory of Capital Assets had been omitted from prior inventories of assets.

General Long-Term Obligations

At September 30, 2006, the Town of Guntown had \$746,858 in outstanding Revenue Bonds.

Table 4
Outstanding Notes and Revenue Bond Obligations at Year End

Governmental:	<u>2006</u>	<u>2005</u>
Notes	\$ 2,440	\$ 1,627
Business Type:		
Revenue Bonds	746,858	769,695
Total	\$ 749,298	\$ 769,695

The Proprietary Fund (Water and Sewer) Revenue bonds range in age from 1974 through 2004. The final maturity of the last bond issue will be June, 2044.

The Town will issue new bonds in the 2007 fiscal year to expand the sewage and sewage disposal system in the amount of \$1,346,500.

During the last five years the Town has constructed a new Town Hall that houses the general government offices and police department offices. In the same period a major addition was made to the sewer system.

The Town's Mayor and Board of Aldermen are striving to increase new development in the commercial and residential areas. The plan is to develop at a pace that can continue to provide the required Town services at a reasonable tax rate.

Contacting the Town's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jimmy Anderson, Mayor at 1589 Main Street, Guntown, Mississippi.

**TOWN OF GUNTOWN, MISSISSIPPI
GOVERNMENT WIDE
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

EXHIBIT I-A

	Governmental Activities	Business Type Activities	Total
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash	\$ 179,552	\$ 688,314	\$ 867,866
Accounts Receivable-Service	00	53,009	53,009
Accrued Interest Receivable	00	998	998
Due From Other Funds	4,758	00	4,758
Prepaid Interest	<u>179</u>	<u>00</u>	<u>179</u>
Total Current Assets	<u>\$ 184,489</u>	<u>\$ 742,321</u>	<u>\$ 926,810</u>
<u>Non-Current Assets (Net of Accumulated Depreciation)</u>			
Land	\$ 320,720	\$ 34,878	\$ 355,598
Buildings	166,110	00	166,110
Motor Vehicles	12,770	9,891	22,661
Equipment	285,045	196,246	481,291
Water-Sewer Plant	<u>00</u>	<u>2,697,885</u>	<u>2,697,885</u>
Total Non-Current Assets	<u>\$ 784,645</u>	<u>\$ 2,938,900</u>	<u>\$ 3,723,545</u>
 Total Assets	 <u>\$ 969,134</u>	 <u>\$ 3,681,221</u>	 <u>\$ 4,650,355</u>
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Accounts Payable	\$ 8,995	\$ 8,511	\$ 17,506
Compensated Absences Payable	00	3,000	3,000
Payroll Withholdings Payable	8,452	00	8,452
Customer Meter Deposits	00	12,652	12,652
Due to Other Funds	4,758	00	4,758
Accrued Interest Payable	00	15,667	15,667
Notes Payable	<u>1,627</u>	<u>22,800</u>	<u>24,427</u>
Total Current Liabilities	<u>\$ 23,832</u>	<u>\$ 62,630</u>	<u>\$ 86,462</u>
<u>Non-Current Liabilities:</u>			
Notes Payable	<u>\$ 813</u>	<u>\$ 724,058</u>	<u>\$ 724,871</u>
 Total Liabilities	 <u>\$ 24,645</u>	 <u>\$ 786,688</u>	 <u>\$ 811,333</u>
<u>Net Assets:</u>			
Invested in Capital Assets			
Net of Related Debt	\$ 783,832	\$ 2,192,042	\$ 2,975,874
Unrestricted	<u>160,657</u>	<u>702,491</u>	<u>863,148</u>
 Total Net Assets	 <u>\$ 944,489</u>	 <u>\$ 2,894,533</u>	 <u>\$ 3,839,022</u>

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

TOWN OF GUNTOWN, MISSISSIPPI

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Net (Expenses) Revenues and Changes In Net Assets

EXHIBIT I-B

	<u>Program Revenues</u>		<u>Primary Government</u>		<u>Net (Expenses) Revenues and Changes In Net Assets</u>		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<u>Primary Government:</u>							
Governmental Activities							
General Government	\$ 194,405	\$ 7,536	\$ 32,480	\$ 14,948	(\$ 139,441)	\$ 00	(\$ 139,441)
Police Department	245,947	00	00	00	(245,947)	00	(245,947)
Fire Department	34,383	00	00	00	(34,383)	00	(34,838)
Culture and Recreation	11,452	00	00	00	(11,452)	00	(11,452)
Total Government Activities	<u>\$ 486,187</u>	<u>\$ 7,536</u>	<u>\$ 32,480</u>	<u>\$ 14,948</u>	<u>(\$ 431,223)</u>	<u>\$ 00</u>	<u>(\$ 431,223)</u>
<u>Business Type Activities:</u>							
Water/Sewer Fund	<u>\$ 430,418</u>	<u>\$ 385,835</u>	<u>\$ 00</u>	<u>\$ 2,551</u>	<u>\$ 00</u>	<u>(\$ 42,032)</u>	<u>(\$ 42,032)</u>
Total Business Type Activities	<u>\$ 430,418</u>	<u>\$ 385,835</u>	<u>\$ 00</u>	<u>\$ 2,551</u>	<u>\$ 00</u>	<u>(\$ 42,032)</u>	<u>(\$ 42,032)</u>
Total Primary Government	<u>\$ 916,605</u>	<u>\$ 393,371</u>	<u>\$ 32,480</u>	<u>\$ 17,499</u>	<u>(\$ 431,223)</u>	<u>(\$ 42,032)</u>	<u>(\$ 473,255)</u>
<u>General Revenues:</u>							
Taxes - Property					\$ 182,036	\$ 00	\$ 182,036
Taxes - Sales					141,092	00	141,092
Taxes - Franchise					22,283	00	22,283
Fines					65,182	00	65,182
Other Revenues					33,240	20,530	53,770
Total General Revenues					<u>\$ 443,833</u>	<u>\$ 20,530</u>	<u>\$ 464,363</u>
Changes in Net Assets					\$ 12,610	(\$ 21,502)	(\$ 8,892)
Net Assets - Beginning as Restated					<u>931,879</u>	<u>2,916,035</u>	<u>3,847,914</u>
Net Assets - Ending					<u>\$ 944,489</u>	<u>\$ 2,894,533</u>	<u>\$ 3,839,022</u>

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

**TOWN OF GUNTOWN, MISSISSIPPI
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

	MAJOR FUNDS		TOTAL
	General	Special Revenue	Governmental Funds
<u>ASSETS</u>			
Cash	\$ 137,843	\$ 41,709	\$ 179,552
Due From Other Funds	00	4,758	4,758
Prepaid Interest	<u>00</u>	<u>179</u>	<u>179</u>
Total Assets	<u>\$ 137,843</u>	<u>\$ 46,646</u>	<u>\$ 184,489</u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 3,676	\$ 5,319	\$ 8,995
Payroll Withholding Payable	8,452	00	8,452
Due to Other Funds	708	4,050	4,758
Notes Payable	<u>00</u>	<u>1,627</u>	<u>1,627</u>
Total Liabilities	<u>\$ 12,836</u>	<u>\$ 10,996</u>	<u>\$ 23,832</u>
 <u>FUND BALANCES</u>			
Unreserved Reported In:			
General Fund	\$ 125,007	\$ 00	\$ 125,007
Special Revenue Fund	<u>00</u>	<u>35,650</u>	<u>35,650</u>
Total Fund Balances	<u>\$ 125,007</u>	<u>\$ 35,650</u>	<u>\$ 160,657</u>
Total Liabilities and Fund Balances	<u>\$ 137,843</u>	<u>\$ 46,646</u>	<u>\$ 184,489</u>

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

**TOWN OF GUNTOWN, MISSISSIPPI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

EXHIBIT I-D

Total Fund Balance - Total Governmental Funds	\$	160,657
Capital Assets of \$991,856. Net of accumulated depreciation of (\$207,211) are not financial resources and, therefore, are not reported in the funds. See note 18 for additional detail.		784,645
Long-Term Liabilities of \$1,627 are not due and payable in the current period and are not reported in the funds. See note 19 for detail.		(<u>813</u>)
Net Assets of Governmental Activities		<u>\$</u> <u> </u> <u> </u> <u>9</u> <u>4</u> <u>4</u> <u>4</u> <u>8</u> <u>9</u>

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

**TOWN OF GUNTOWN, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

EXHIBIT I-E

	<u>FUNDS</u>		Total Governmental Funds
	General	Special Revenue	
Revenues:			
Ad Valorem Taxes	\$ 107,004	\$ 53,396	\$ 160,400
Payment in Lieu of Taxes	21,636	00	21,636
Privilege Taxes	3,910	00	3,910
Franchise Taxes	22,283	00	22,283
Permits	19,815	00	19,815
Sales Tax	141,092	00	141,092
Rents	19,461	00	19,461
Grants and Donations	1,102	31,377	32,479
Court Fines	00	65,182	65,182
Interest Earned	3,207	53	3,260
Other Income	1,979	2,470	4,449
Total Revenue	<u>\$ 341,489</u>	<u>\$ 152,478</u>	<u>\$ 493,967</u>
Expenditures:			
General Government	\$ 205,857	\$ 00	\$ 205,857
Special Revenue:			
Police	00	245,947	245,947
Fire	00	34,383	34,383
Total Expenditures	<u>\$ 205,857</u>	<u>\$ 280,330</u>	<u>\$ 486,187</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 135,632	(\$ 127,852)	\$ 7,780
Other Financing Sources (Uses):			
Sale of Assets	<u>\$ 00</u>	<u>\$ 4,830</u>	<u>\$ 4,830</u>
Net Change in Fund Balance	\$ 135,632	(\$ 123,022)	\$ 12,610
Fund Balance Beginning	398,017	180,511	578,528
Prior Period Adjustments - Capital Assets	<u>295,396</u>	<u>57,955</u>	<u>353,351</u>

Fund Balance Ending	\$ <u>829,045</u>	\$ <u>115,444</u>	\$ <u>944,489</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF GUNTOWN, MISSISSIPPI
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT I-F

Net Change in Fund Balances - Total Governmental Funds (Exhibit I-E)			\$ <u>12,610</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF GUNTOWN, MISSISSIPPI
GENERAL FUND - COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CASH BASIS (NON-GAPP)-ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT I-G

	Original Budget	Revision	Revised Budget	Total Actual	Favorable (Unfavorable) Variance
Revenues:					
Property Taxes	\$ 223,000	\$ 00	\$ 223,000	\$ 160,400	(\$ 62,600)
Franchise Taxes	00	00	00	22,283	22,283
Sales Taxes	130,000	00	130,000	141,092	11,092
In Lieu Taxes	24,000	00	24,000	21,636	(2,364)
Permits and Licenses	5,350	00	5,350	23,725	18,375
Rent	5,700	00	5,700	19,461	13,761
Grants and Donations	24,142	00	24,142	32,479	8,337
Court Fines	25,000	00	25,000	65,182	40,182
Interest Earned	190	00	190	3,260	3,070
Other Income	7,500	00	7,500	4,449	(3,051)
Total Revenue	<u>\$ 444,882</u>	<u>\$ 00</u>	<u>\$ 444,882</u>	<u>\$ 493,967</u>	<u>\$ 49,085</u>
Expenditures:					
General Government	\$ 297,953	\$ 00	\$ 297,953	\$ 181,785	\$ 116,168
Police	155,800	7,620	163,420	239,279	(75,859)
Fire	41,645	00	41,645	18,008	23,637
Recreational	17,860	00	17,860	17,035	825
Total Expenditures	<u>\$ 513,258</u>	<u>\$ 7,620</u>	<u>\$ 520,878</u>	<u>\$ 456,107</u>	<u>\$ 64,771</u>

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

TOWN OF GUNTOWN, MISSISSIPPI
GENERAL FUND - COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CASH BASIS (NON-GAPP)-ALL GOVERNMENTAL FUND TYPES (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT I-G

	Original Budget	Revision	Revised Budget	Total Actual	Favorable (Unfavorable) Variance
Excess Revenues:					
Over Expenditures				\$ 37,860	
Other Financing Sources (Uses)					
Cash Restated 9-30-05				(\$ 8,975)	
Transfer Adjustment				(10,000)	
Capital Improvement				(<u>116</u>)	
				(\$ 19,091)	
Fund Balance 9-30-05				<u>160,782</u>	
Fund Balance Restated 9-30-05				<u>141,691</u>	
Fund Balance 9-30-06				<u><u>\$ 179,551</u></u>	

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

**TOWN OF GUNTOWN, MISSISSIPPI
 PROPRIETARY FUND-STATEMENT OF REVENUE, EXPENDITURES, AND
 CHANGES IN FUND BALANCE BUDGET AND ACTUAL - CASH BASIS (NON-GAPP)
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

EXHIBIT I-4

	Original Budget	Revision	Revised Budget	Total Actual	Favorable (Unfavorable) Variance
<u>Revenues:</u>					
Water Sales	\$ 200,000	\$ 00	\$ 00	\$ 227,922	\$ 27,922
Sewer Sales	82,000	00	00	106,914	24,914
Service Connections and Bags	13,000	00	00	22,665	9,665
FHA Grant	00	00	00	2,551	2,551
Interest Earned	900	00	00	17,441	16,541
Other Income	<u>6,000</u>	<u>00</u>	<u>00</u>	<u>20,530</u>	<u>14,530</u>
Total Revenues	<u>\$ 301,900</u>	<u>\$ 00</u>	<u>\$ 00</u>	<u>\$ 398,023</u>	<u>\$ 96,123</u>
<u>Expenditures:</u>					
Personal Services	\$ 83,000	\$ 44,000	\$ 127,000	\$ 150,534	(\$ 25,534)
Supplies	80,600	00	80,600	92,340	(11,740)
Other Charges and Services	<u>246,393</u>	<u>12,800</u>	<u>259,193</u>	<u>96,742</u>	<u>162,451</u>
Total Expenditures	<u>\$ 409,993</u>	<u>\$ 56,800</u>	<u>\$ 466,793</u>	<u>\$ 339,616</u>	<u>\$ 127,177</u>
<u>Other Financing Sources (Uses):</u>					
Debt Reduction	\$ 46,000	\$ 00	\$ 00	(\$ 42,300)	\$ 3,700
Decrease - Meter Deposits	<u>00</u>	<u>00</u>	<u>00</u>	<u>45,936</u>	<u>45,936</u>
Total Other Sources (Uses)	<u>\$ 46,000</u>	<u>\$ 00</u>	<u>\$ 00</u>	<u>\$ 3,636</u>	<u>\$ 49,636</u>
				\$ 62,043	
<u>Fund Balance September 30, 2005</u>				<u>626,271</u>	
<u>Fund Balance September 30, 2006</u>				<u>\$ 688,314</u>	

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

TOWN OF GUNTOWN, MISSISSIPPI
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2006

EXHIBIT I-I

<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash	\$ 688,314
Accounts Receivable	53,009
Accrued Interest Receivable	<u>998</u>
Total Current Assets	\$ 742,321
 <u>Non-Current Assets (Net of Depreciation):</u>	
Land	\$ 34,878
Motor Vehicles	9,891
Equipment	196,246
Water - Sewer Plant	<u>2,697,885</u>
Total Non-Current Assets	\$ <u>2,938,900</u>
 Total Assets	 \$ <u>3,681,221</u>
 <u>Current Liabilities:</u>	
Accounts Payable	\$ 8,511
Compensated Absences	3,000
Accrued Interest Payable	12,652
Customer Meter Deposits	15,667
Notes Payable-Due in Twelve Months	<u>22,800</u>
Total Current Liabilities	\$ 62,630
 <u>Non-Current Liabilities:</u>	
Notes Payable	<u>724,058</u>
Total Liabilities	\$ <u>786,688</u>
 <u>Net Assets:</u>	
Invested In Capital Assets	.
Net of Related Debt	\$ 2,192,042
Unrestricted	<u>702,491</u>
 <u>Net Assets of Business Type Activities</u>	 <u>\$ 2,894,533</u>

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

**TOWN OF GUNTOWN, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

EXHIBIT I-J

Operating Revenues:

Water Sales	\$	232,820	
Sewer Sales		106,914	
Service Connections and Bags		16,124	
Sewer Connections		<u>6,541</u>	
Total Charges for Services	\$		362,399
Other Income			<u>20,530</u>
Total Operating Revenue	\$		<u>382,929</u>

Operating Expenses:

Personal Services	\$	150,534	
Materials and Supplies		99,862	
Other Services and Charges		61,215	
Depreciation		<u>82,724</u>	
Total Operating Expenses			<u>394,335</u>

Operating (Loss) (\$ 11,406)

Non-Operating Revenue (Expense):

FHA Grant	\$	2,551	
Interest Earned		18,439	
Interest on Revenue Bonds		<u>(36,085)</u>	
Total Non-Operating Revenue (Expense)			<u>(15,095)</u>

Change in Net Assets of Business Type Activities (\$ 26,501)

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

TOWN OF GUNTOWN, MISSISSIPPI

**STATEMENT OF CASH FLOWS-PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

		Enterprise Fund Water - Sewer Fund
Cash Flows From Operating Activities:		
Net Operating Income (Loss)	(\$	11,406)
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Depreciation Expense		82,724
Increase in Accounts Receivable	(4,898)
Increase in Accounts Payable		7,117
Decrease in Meter Deposits		<u>45,936</u>
		\$ 119,473
Cash Flows From Capital And Related:		
Financing Activities:		
Grant Received	\$	2,551
Principal Payments on Bonds	(23,650)
Principal Paid on Lease	(18,650)
Interest Paid on Bonds	(<u>35,122)</u>
		(74,871)
Cash Flows From Investing Activities:		
Interest Income	\$	<u>17,441</u>
		\$ 17,441
Net Increase in Cash and Cash Equivalents		\$ 62,043
Cash and Cash Equivalents - September 30, 2005		<u>626,271</u>
Cash and Cash Equivalents - September 30, 2006		\$ <u>688,314</u>

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

**TOWN OF GUNTOWN, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Guntown, Mississippi was incorporated under the laws of the State of Mississippi and operates under the Mayor - Board of Aldermen form of government and provides services authorized by its charter granted in 1850.

The accounting and reporting framework and the more significant accounting principles and practices of Guntown are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Town's financial activities for the fiscal year ended September 30, 2006.

The accompanying financial statements of the Town have been prepared in accordance with accounting principles (GAAP) generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

GASB Statement No. 34 creates new basic financial statements for reporting on the Town's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements prepared on the modified accrual basis of accounting, which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A). This analysis is similar to analysis the private sector provides in their annual report.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon after.

Statement of Net Assets - The Statement of Net Assets is designed to display the financial position of the primary government and its directly presented component units. Governments will report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and will report depreciation expense - the cost of “using up” capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expenses of individual functions are compared to the revenues generated by the function (for instance, through user charges or intergovernment grants).

Budgetary Comparison Schedules - Many governments revise their original budgets over the course of the year for a variety of reasons. Under the new reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government’s original budget to the current comparison of final budget and actual results.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the Town as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental type. In the Government-Wide Statement of Net Assets, the governmental activities column is presented on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The Government-Wide Statement of Activities reflects both the gross and net costs per functional category (Police, Fire, Public Works, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenue, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (Police, Fire, Public Works, etc.). The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

**TOWN OF GUNTOWN, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

The net cost (by function) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). Historically, the previous financial reporting model did not summarize or present net cost by function or activity.

This government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Town's actual experience conforms to the budget fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the government column of the government-wide presentation.

The focus of the Statement No. 34 model is on the Town as a whole and the fund financial statements. The focus of the fund financial statements is on the major individual funds of the governmental activities and the fiduciary funds. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

3. BASIS OF PRESENTATION

Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. Funds that meet these criteria are labeled as such. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section of this report.

**TOWN OF GUNTOWN, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

4. MAJOR GOVERNMENTAL FUNDS

The measurement focus of the governmental funds (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The following is a description of the major governmental funds of the Town:

- A. General Fund - The General Fund is the general operating fund of the Town. General tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenses, fixed charges, and capital improvement costs not paid through other funds are paid from this fund.
- B. Special Revenue Fund - The funds (police and fire) are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

5. PROPRIETY FUNDS

Enterprise Funds are used to account for operations:

- A. That are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.
- B. Or where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The following is a description of the major proprietary funds of the Town:

Water & Sewer Fund - All revenues and expenses for the Town's public works are located in this fund. This is an enterprise fund.

**TOWN OF GUNTOWN, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

6. NON-CURRENT GOVERNMENTAL ASSETS/LIABILITIES

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these

records to be maintained and incorporates the information into the governmental column in the Government-Wide Statement of Net Assets.

7. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The Government-Wide Statements of Net Assets, statement of activities, and pension trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the balance sheet.

The fund financial statements are maintained on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term “available” is limited to collection within sixty days of the fiscal year end. Levies that are made prior to the fiscal year end, but are not available, are deferred. Interest income is recorded as earned.

Federal and State reimbursement type grants are recorded as revenue when related eligible expenditures are met. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred. All other revenue items reported in the fund financial statements are considered “available” when the cash is received by the Town one year after its fiscal year.

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

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgements, are recorded only when payment is due.

TOWN OF GUNTOWN, MISSISSIPPI NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

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

8. ENCUMBRANCES

An encumbrance system is maintained to account for commitments resulting from approved purchase orders, work orders and contracts. All encumbrances lapse at year-end; accordingly, no encumbrances were outstanding at September 30, 2006.

9. BUDGETS AND BUDGETARY INFORMATION

The budget is adopted annually by the Mayor and the Board of Aldermen, and subsequent amendments are made during the year on the approval of the Mayor and Board or, when allowed, upon authority of Town management, as described in the following paragraphs.

All funds of the Town of Guntown, Mississippi, governmental and enterprise, are budgeted, and are presented in the accompanying financial statements. For comparison purposes, the final, amended budget is utilized, and it is presented on a cash basis of accounting as required by the State of Mississippi, which is not consistent with generally accepted accounting principles. All budgetary appropriations lapse at year-end.

The legal level of control, that is the level on which actual expenditures may not legally exceed appropriations, is the major expenditure classifications within departments. Such classifications are personnel services, supplies, other charges, services and capital outlay.

All amendments to the budget to the legal level of control must be approved by the Town of Guntown's mayor and Board of Aldermen. Management is allowed to amend, without governing body approval, any budget "line items;" that is, amounts below the legal level of control.

The expenditure budget adopted and approved by the duly elected members of the governing authority of the Town of Guntown is the appropriation ordinance of said municipality.

As allowed by statute, the expenditure budget was amended and approved by the duly elected members of the governing authority of the Town of Guntown. Such amendments are included in the reported budgetary data.

TOWN OF GUNTOWN, MISSISSIPPI NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

10. FUND RESERVES

Reserves reported in the Governmental Funds Balance Sheet are used to indicate that a portion of the fund balance is not appropriable for expenditures or is legally segregated for a specific future use. The Town's reserves are reported in Note 19 IV.

11. CASH AND OTHER DEPOSITS AND CASH EQUIVALENTS

The Town deposits excess funds in the financial institutions selected by the Mayor and Board of Aldermen in accordance with state statutes.

Cash consists of amounts on deposit with a financial institution in non-interest bearing accounts. Other deposits consist of interest-bearing demand accounts, saving accounts and certificates of deposit with maturities of 12 months or less. Cash and other deposits are valued at cost.

Various restrictions on deposits are imposed by state statutes. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer.

For purposes of the combined statements of cash flows, the municipality considers to be cash equivalents all highly liquid investments and certificates of deposit if they have a maturity of twelve months or less when acquired.

The carrying amount on the Town's deposits with financial institutions was \$867,864 and the bank's balance was \$870,976.

12. INVESTMENTS

The Town is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved; or in interest-bearing time deposits with any financial institution approved for the deposit of state funds.

13. ACCOUNTS RECEIVABLE

Accounts receivable are reported in the Government-Wide Statement of Net Assets and the Governmental Funds Balance Sheet Net of Allowances for Uncollectible Receivables.

TOWN OF GUNTOWN, MISSISSIPPI NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

14. RESTRICTED NET ASSETS

Certain proceeds from bonds, notes, and loans, as well as resources for debt service payments, court services, and public improvement monies are classified as restricted net assets reported on the Government-Wide Statement of Net Assets because their use is limited by applicable bond

covenants and restrictions.

15. FIXED ASSETS AND LONG-TERM LIABILITIES

In the governmental funds, the cost incurred for the purchase or construction of general fixed assets are recorded as capital outlay expenditures.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the statement of activities.

All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included in retained earnings. The Town has chosen to follow FASB statements and interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncement. The capital assets threshold for the proprietary funds is the same as it is for governmental funds which is described in detail below.

In accordance with GASB Statement No. 34, infrastructure has been capitalized. Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

**TOWN OF GUNTOWN, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Capital asset thresholds are generally classified as follows:

Land		N/A
Infrastructure		N/A
Furniture, Vehicles, and Equipment	\$	5,000
Improvements other than Buildings	\$	25,000
Buildings	\$	50,000

Estimated useful lives, in years, for depreciable assets are as follows:

Computer Equipment and Peripherals	3 years
Vehicles and Equipment	5 years
Heavy Equipment (backhoes, dozers, front-end loaders, tractors, etc.)	10 years
Furniture and Fixtures	7 years
Improvements other than Buildings	20 years
Buildings	40 years
Infrastructure:	
Roads	20 years
Concrete bridges	50 years
Timber bridges	30 years

16. ACCUMULATED UNPAID VACATION AND SICK TIME

Accumulation of vacation or sick time is not allowed by the Town in excess of the current year's allowance. The time must be used or lost.

17. PROPERTY TAXES

Property held on January 1 of any given year (or brought into the State by March 1 of the same year) is assessed for taxation in the ensuing fiscal year. Such levy, which establishes a lien against the underlying property, is made by the Town in its September board meeting. The assessed value of property on January 1, 2005 upon which the levy was based, was \$6,821,716. The taxes thus assessed are due and payable as follows:

1 st installment	(50% of liability)	on or before February 1
2 nd installment		on or before May 1
Final installment		on or before August 1

If taxes remain unpaid, the property subject to a tax lien is sold for taxes on the fourth Monday of August.

**TOWN OF GUNTOWN, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

18. CAPITAL ASSETS

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

Balance				Additions (Deductions)	Balance
10-01-05	Additions	Deductions	By Inventory		Sept. 30, 2006

Governmental Activities:

Non-Depreciable Assets:

Land	\$ 67,720	\$ 00	\$ 00	\$ 253,000	\$ 320,720
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Depreciable Assets:

Buildings	214,613	00	00	00	214,613
Equipment	49,739	00	00	66,986	116,725
Motor Vehicles	367,634	8,719	4,830	(31,725)	339,798
Total Depreciable Assets	\$ 631,986	\$ 8,719	\$ 4,830	\$ 35,261	\$ 671,136

Accumulated Depreciation:

Buildings	\$ 17,487	\$ 5,187	\$ 00	\$ 25,829	\$ 48,503
Equipment	17,719	2,764	00	(6,118)	14,365
Motor Vehicles	233,962	12,851	00	(102,470)	144,343
Total Accumulated Depreciation	\$ 269,168	\$ 20,802	\$ 00	(\$ 82,759)	\$ 207,211

Assets-Net of Depreciation	\$ 430,538				\$ 784,645
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Business Type Activities:

Non-Depreciable Assets:

Land	\$ 34,878	\$ 00	\$ 00	\$ 00	\$ 34,878
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Depreciable Assets:

Water and Sewer Plant	3,063,461	00	00	331,112	3,394,573
Equipment	100,214	00	00	220,943	321,157
Motor Vehicles	28,898	00	00	00	28,898
Total Depreciable Assets	\$ 3,192,573	\$ 00	\$ 00	\$ 552,055	\$ 3,744,628

Accumulated Depreciation:

Buildings	\$ 552,230	\$ 67,890	\$ 00	\$ 76,568	\$ 696,688
Equipment	39,967	13,625	00	71,319	124,911
Motor Vehicles	17,798	1,209	00	00	19,007
Total Accumulated Depreciation	\$ 609,995	\$ 82,724	\$ 00	\$ 147,887	\$ 840,606

Assets Net of Depreciation	\$ 2,617,456				\$ 2,938,900
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**TOWN OF GUNTOWN, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

19. GENERAL LONG-TERM OBLIGATIONS

I. Changes in General Long-Term Obligations

Business-type Activities:

	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
Revenue Bonds:				

1974 Revenue Bonds	\$ 35,487	\$ 00	\$ 7,999	\$ 27,488
1979 Revenue Bonds	44,896	00	8,780	36,116
1987 Revenue Bonds	22,432	00	2,623	19,809
1992 Revenue Bonds	86,925	00	1,999	84,926
2004 Revenue Bonds	<u>579,955</u>	<u>00</u>	<u>1,436</u>	<u>578,519</u>
Total	<u>\$ 769,695</u>	<u>\$ 00</u>	<u>\$ 22,837</u>	<u>\$ 746,858</u>

II. Current Outstanding General Long-Term Obligations:

	Date of Obligation	Date of Maturity	Interest Rate	Original Amount	Balance 9-30-2006
Revenue Bonds:					
1974 Revenue Bonds	10-22-74	10-22-14	5.000 %	\$ 160,000	\$ 27,488
1979 Revenue Bonds	1-26-79	1-26-19	5.000 %	173,000	36,116
1987 Revenue Bonds	7-21-87	7-21-17	7.875 %	50,000	19,809
1992 Revenue Bonds	11-4-92	11-4-26	5.500 %	102,000	84,926
2004 Revenue Bonds	6-8-04	6-8-39	4.375 %	581,000	578,519

III. Summary of Annual Debt Service Requirements to Maturity - Annual Principal & Interest

Revenue Bonds

The Town issues revenue bonds to provide funds for water & sewer improvements.

Year Ending September 30,	Principal	Interest	Total
2007	\$ 32,506	\$ 33,807	\$ 66,313
2008	33,816	32,494	66,310
2009	32,555	30,739	63,294
2010	21,687	29,289	50,976
2011	17,146	28,407	45,553
2012-2016	74,576	130,462	205,038

**TOWN OF GUNTOWN, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Revenue Bonds (cont.)

Year Ending September 30,	Principal	Interest	Total
2017-2021	\$ 89,581	\$ 112,248	\$ 201,829
2022-2026	112,345	89,485	201,830
2027-2031	117,284	62,081	179,365

2032-2036	131,936	36,059	167,995
2036 - After	<u>83,426</u>	<u>5,990</u>	<u>89,416</u>
Total	<u>\$ 746,858</u>	<u>\$ 591,061</u>	<u>\$ 1,337,919</u>

IV. The Bond Covenant requires the Town to maintain the following reserves:

Issue Date	Operation and Maintenance	Cushion	Contingent	Depreciation	Total
1974	\$ 00	\$ 7,200	\$ 1,200	\$ 2,400	\$ 10,800
1979	2,250	4,800	2,400	3,600	13,050
1987	00	2,400	1,200	1,200	4,800
1992	00	3,600	1,800	1,800	7,200
2004*	<u>80,000</u>	<u>17,607</u>	<u>8,803</u>	<u>8,803</u>	<u>115,213</u>
Totals	<u>\$ 82,250</u>	<u>\$ 35,607</u>	<u>\$ 15,403</u>	<u>\$ 17,803</u>	<u>\$ 151,063</u>

* The 92-11 Bond Covenant requires maintaining the existing Bond Covenant required funds in the amount established under the above bond issues.

The Town has sufficient funds reserved to cover the above requirements.

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the Town 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 county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2006, the amount of outstanding debt was equal to 0% of the latest property assessments because revenue bonds are specifically exempted debt.

20. RISK MANAGEMENT

The Town 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. The Town carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

TOWN OF GUNTOWN, MISSISSIPPI NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

21. DEFINED BENEFIT PENSION PLAN

Plan Description - The Town 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 report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The Town's contributions to PERS for the fiscal year ending June 30, 2006 was \$25,306, which equaled the required contributions for the year.

22. DISCLOSURE OF LOSS CONTINGENCY

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

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

TOWN OF GUNTOWN, MISSISSIPPI NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

23. SUBSEQUENT EVENTS

The Town is starting a new water project in the 2007 fiscal year with a cost of \$1,346,500.00. This project will be financed by a CAP loan and a USDA Bond Issue.

24. PENDING OR THREATENING LITIGATION

The Town's attorney states that there are no pending litigation matters, claims or assessments as

of the audit report date.

SUPPLEMENTARY INFORMATION

**TOWN OF GUNTOWN, MISSISSIPPI
RECONCILIATION OF AD VALOREM TAX ASSESSMENTS
TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Taxable Assessed Value	Mills	Tax
<u>Assessed Valuation and Millage:</u>			
Real Property	\$ 4,246,166	26.4	\$ 112,098
Personal Property	799,868	26.4	21,117
Automobiles and Mobile Homes	<u>1,775,682</u>	<u>26.4</u>	<u>46,878</u>
Total Assessment	<u>\$ 6,821,716</u>	26.4	\$ 180,093

Adjustments:

Homestead Exemption Loss	(\$ 14,647)	
Tax Collector's Fees	(4,553)	
Homestead Reimbursement	<u>3,904</u>	(<u>15,296</u>)

Total to Account For \$ 164,797

Collections Credited to Funds:

General Fund	\$ 107,242	
Police Fund	42,031	
Fire Fund	<u>7,117</u>	
Total Collections	\$ 156,390	

Adjustments:

2006 Settled in 2007 Fiscal Year	4,019	
Personal Delinquents	<u>1,652</u>	
Total Accounted For		<u>162,061</u>

Balance Represented By:

Tax Undercollected		<u>\$ 2,736</u>
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**TOWN OF GUNTOWN
SCHEDULE OF SURETY BONDS
SCHEDULE D-2
SEPTEMBER 30, 2006**

<u>Name</u>	<u>Position</u>	<u>Company</u>		<u>Bond</u>
Jimmy Anderson	Mayor	USF&G	\$	50,000
Betty Moore	Clerk	USF&G		105,000
Carolyn Floyd	Alderwoman	St. Paul Surety		10,000
Wayne Phelps	Alderman	St. Paul Surety		10,000
Ronny Lindsey	Alderman	St. Paul Surety		10,000
Greg Cagle	Alderman	St. Paul Surety		10,000
Petey Hopkins	Alderman	St. Paul Surety		10,000

Michael Hall	Police Chief	Fidelity & Deposit	50,000
Tonya Vandevander	Deputy Clerk	Fidelity & Deposit	10,000

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*

Board of Aldermen
 Town of Guntown, Mississippi

We have audited the accompanying financial statements of the governmental activities and business-type activities, and the aggregate remaining fund information of Town of Guntown, Mississippi as of and for the year ended September 30, 2006, which collectively comprise the Town of Guntown, Mississippi's basic financial statements and have issued our report thereon dated September 30, 2006. 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 Town of Guntown, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Town of Guntown, Mississippi's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings I, II, III and IV.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and , accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Guntown, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. We did not find instances of noncompliance.

This report is intended solely for the information and use of the Mayor and 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.

Land Sonnier, P. A.

Certified Public Accountants
Tupelo, Mississippi
January 18, 2007

**TOWN OF GUNTOWN, MISSISSIPPI
FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

FINDING I: Internal Control - There is not adequate separation of duties in the administrative office due to the fact that the administrative personnel consists of one clerk and one deputy clerk.

RECOMMENDATION: Recognizing the fact of limited staff in the administrative office, we recommend separation of duties to the fullest extent possible.

FINDING II: Cash - Bank accounts and petty cash funds were not reconciled to the General Ledger and petty cash disbursements were not expensed.

RECOMMENDATION: We recommend that all cash accounts be reconciled to the General Ledger accounts monthly and that petty cash funds be recorded in the books of account to each fund and designated expense account as

reimbursements to petty cash are made.

FINDING III: Cash - A bank account carried on the General Ledger could not be confirmed with the bank. The account from a prior year could not be found.

RECOMMENDATION: Trace each bank account to a bank statement or savings certificate each month.

FINDING IV: Payroll - Payroll checks are issued prior to the close of the payroll period.

RECOMMENDATION: Payroll checks should be issued after the close of the pay period, preferably from one day to one week after the end of the pay period.

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

Mayor and Board of Aldermen
Town of Guntown, Mississippi

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Guntown, Mississippi as of and for the year ended September 30, 2006, and have issued our report thereon dated January 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As required by the state legal compliance audit program prescribed by the Office of the

State Auditor, I have also performed procedures to test compliance with certain state laws and regulations. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion of the Town's compliance with these requirements. Accordingly, I do not express such an opinion.

With respect to the items tested, the results of those procedures and our audit of the primary government financial statements disclosed no instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of the Mayor and 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.

Land Sonnier, P. A.
Certified Public Accountants
Tupelo, Mississippi
January 18, 2007