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TOWN OF HEIDELBERG, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

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AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1	
FINANCIAL STATEMENTS		
Statement of Net Assets	2	
Statement of Activities	3	
Balance Sheet – Governmental Fund	4	
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets	5	
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund	6	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	7	
Statement of Net Assets – Proprietary Fund	8	
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	9	
Statement of Cash Flows – Proprietary Fund	10	
Notes to Financial Statements	11	
REQUIRED SUPPLEMENTARY INFORMATION		17
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) General Fund (and each major special revenue fund).....	18	
Notes to the Required Supplementary Information	19	
SUPPLEMENTAL INFORMATION		20
Schedule of Expenditures of Federal Awards	21	
Schedule of Investments – All Funds	22	
SPECIAL REPORTS		23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24	
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	25	
SCHEDULE OF FINDINGS AND QUESTIONED COSTS		27

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

Honorable Mayor, Members of the
Board of Aldermen, and Town Clerk
Town of Heidelberg, Mississippi

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

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

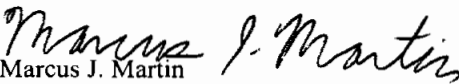
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Heidelberg, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 26, 2007, on my consideration of the Town of Heidelberg, Mississippi's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Town of Heidelberg, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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


Marcus J. Martin
Certified Public Accountant
September 26, 2007

**Town of Heidelberg
Statement of Net Assets
September 30, 2006**

EXHIBIT 1

ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash, Cash Equivalents, and Investments	\$ 1,394,246	\$ 409,393	\$ 1,803,639
Restricted Assets - Cash and Investments	2,005		2,005
Receivables (net of uncollectibles):			
Property Taxes	31,000		31,000
Accounts	51,258	29,781	81,039
Intergovernmental	204,277		204,277
Other	65,563		65,563
Prepaid Items	11,574		11,574
Capital Assets (net of accumulated depreciation):			
Land	140,600	2,815	143,415
Buildings	45,500		45,500
Improvements Other Than Buildings	5,715		5,715
Mobile Equipment	150,519	1,427	151,946
Other Furniture and Equipment	45,273		45,273
Water and Sewer Lines and Facilities		1,451,179	1,451,179
Infrastructure	46,724		46,724
Total Assets	\$ 2,194,254	\$ 1,894,595	\$ 4,088,849
 LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts Payable	\$ 124,416	\$ 6,421	\$ 130,837
Other Accrued Liabilities		84,120	84,120
Customer Deposits		42,534	42,534
Compensated Absences	14,282	7,140	21,422
Deferred Revenue	31,000		31,000
Total Liabilities	169,698	140,215	309,913
Net Assets:			
Invested in Capital Assets, Net of Related Debt	434,331	1,455,421	1,889,752
Unrestricted	1,590,225	298,959	1,889,184
Total Net Assets	2,024,556	1,754,380	3,778,936
Total Liabilities and Net Assets	\$ 2,194,254	\$ 1,894,595	\$ 4,088,849

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

Town of Heidelberg
Statement of Activities
For the Year Ended September 30, 2006

EXHIBIT 2

Function/Programs:	Program Revenues			Business-Type Activities		Total
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	
Governmental Activities:						
General Government	\$ 136,758				\$ (136,758)	\$ (136,758)
Public Safety	268,200				(268,200)	(268,200)
Public Works	681,157		516,515	2,000	(162,642)	(162,642)
Culture and Recreation	36,334				(36,334)	(36,334)
Total Governmental Activities	1,122,449	-	516,515	2,000	(603,934)	(603,934)
Business-Type Activities:						
Water and Sewer	238,091	166,372				
Total Functions/Programs	\$ 1,360,540	\$ 166,372	\$ 516,515	\$ 2,000	(71,719)	(71,719)
					(71,719)	(675,653)
					(603,934)	(675,653)
General Revenues:						
Property Tax					43,465	43,465
Franchise Tax					175,365	175,365
Sales Tax					404,301	404,301
Licenses and Permits					3,525	3,525
Intergovernmental, Not Restricted to Specific Functions/Programs					149,706	149,706
Fines and Forfeits					37,735	37,735
Other Revenue					300,368	307,623
Gain on sale of assets					50,000	50,000
Transfers					(8,430)	-
Total General Revenues and Transfers					1,156,035	1,171,720
Change in Net Assets					552,101	496,067
Net Assets, Beginning of Year					1,472,455	3,282,869
Net Assets, End of Year					\$ 2,024,556	\$ 3,778,936

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

**Town of Heidelberg
Balance Sheet
Governmental Fund
September 30, 2006**

EXHIBIT 3

	Governmental Fund
	General Fund
ASSETS	
Cash, Cash Equivalents and Investments	\$ 1,394,246
Restricted Cash and Investments	2,005
Property Tax Receivable	31,000
Accounts Receivable - Net	51,258
Intergovernmental Receivable	204,277
Other Receivable	65,563
Prepaid Items	11,574
Total Assets	\$ 1,759,923
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 124,416
Deferred Revenue	31,000
Total Liabilities	155,416
 Fund Balances:	
Reserved for:	
Unreserved:	
Undesignated	1,604,507
Total Fund Balances (Deficits)	1,604,507
Total Liabilities and Fund Balances	\$ 1,759,923

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

**Town of Heidelberg
 Reconciliation of the Balance Sheet
 to the Statement of Net Assets
 Governmental Fund
 September 30, 2006**

EXHIBIT 3.1

Fund Balances - Total Governmental Funds		\$ 1,604,507
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Governmental Capital Assets	\$ 1,181,982	
Less: Accumulated Depreciation	<u>(747,651)</u>	434,331

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

Compensated Absences	<u>(14,282)</u>	<u>(14,282)</u>
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Net Assets of Governmental Activities		<u><u>\$ 2,024,556</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Heidelberg
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended September 30, 2006

EXHIBIT 4

	Governmental Fund
	General Fund
REVENUES	
Property Taxes	\$ 43,465
Licenses and Permits	178,890
Intergovernmental	1,072,522
Fines and Forfeitures	37,735
Miscellaneous	300,368
Total Revenues	1,632,980
EXPENDITURES	
Current:	
General Government	125,011
Public Safety	249,058
Public Works	680,456
Culture and Recreation	36,334
Total Expenditures	1,090,859
Excess (Deficiency) of Revenues Over Expenditures	542,121
OTHER FINANCING SOURCES AND (USES)	
Transfers Out	(8,430)
Proceeds from Sale of Assets	75,000
Total Other Financing Sources and (Uses)	66,570
Net Change in Fund Balances	608,691
Fund Balances (Deficits) - Beginning	995,816
Fund Balances (Deficits) - Ending	\$ 1,604,507

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

Town of Heidelberg
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Fund
to the Statement of Activities
For the Year Ended September 30, 2006

EXHIBIT 4.1

Net Change in Fund Balances - Total Governmental Funds **\$ 608,691**

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

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for Capital Assets	\$ 20,200	
Current Year Depreciation	<u>(46,217)</u>	(26,017)

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources.

Proceeds from the Sale of Capital Assets	(75,000)	
Gain from the Sale of Capital Assets	<u>50,000</u>	(25,000)

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

Change in Long-term Compensated Absences		<u>(5,573)</u>
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Change in Net Assets of Governmental Activities		<u><u>\$ 552,101</u></u>
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The notes to the financial statements are an integral part of this statement.

**Town of Heidelberg
Statement of Net Assets
Proprietary Fund
September 30, 2006**

EXHIBIT 5

	Enterprise Fund Water & Sewer
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 140,938
Investments	268,455
Accounts Receivable	29,781
Total Current Assets	439,174
Noncurrent Assets:	
Capital Assets:	
Land	2,815
Water and Sewer Lines and Facilities	3,026,506
Mobile Equipment	53,928
Less Accumulated Depreciation	(1,627,828)
Total Noncurrent Assets	1,455,421
Total Assets	1,894,595
LIABILITIES	
Current Liabilities:	
Accounts Payable	6,421
Customer Deposits	42,534
Other Accrued Liabilities	84,120
Total Current Liabilities	133,075
Noncurrent Liabilities:	
Compensated Absences Payable	7,140
Total Noncurrent Liabilities	7,140
Total Liabilities	140,215
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,455,421
Unrestricted	298,959
Total Net Assets	\$ 1,754,380

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

Town of Heidelberg
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2006

EXHIBIT 6

	Enterprise Fund
	Water & Sewer
Operating Revenues:	
Charges for Services-Water	\$ 70,187
Charges for Services-Sewer	54,302
Charges for Services-Garbage	41,883
Total Operating Revenues	166,372
Operating Expenses:	
Personnel Services	68,830
Contractual Services, Materials, and Supplies	4,931
Other Services and Charges	92,284
Depreciation	72,046
Total Operating Expenses	238,091
Operating Income (Loss)	(71,719)
Nonoperating Revenues (Expenses):	
Interest Income	7,255
Total Nonoperating Revenues (Expenses)	7,255
Income (Loss) Before Transfers	(64,464)
Transfers In	8,430
Change in Net Assets	(56,034)
Total Net Assets as Restated - Beginning	1,810,414
Total Net Assets - Ending	\$ 1,754,380

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

**Town of Heidelberg
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2006**

EXHIBIT 7

	Enterprise Fund Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 166,128
Cash payments to suppliers	(103,248)
Cash payments to employees	(53,252)
Net cash provided (used) by operating activities	9,628
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers from other funds	8,430
Net cash provided (used) by noncapital financing activities	8,430
Net increase (decrease) in cash and cash equivalents	18,058
Cash and cash equivalents, October 1	122,880
Cash and cash equivalents, September 30	\$ 140,938
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (71,719)
Adjustments:	
Depreciation expense	72,046
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(1,594)
Increase (decrease) in accounts payable	(6,033)
Increase (decrease) in other accd liabilities	10,360
Increase (decrease) in customer deposits	1,350
Increase (decrease) in compensated absences payable	5,218
Total adjustments	81,347
Net cash provided (used) by operating activities	\$ 9,628

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

TOWN OF HEIDELBERG
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Town of Heidelberg, Mississippi, operates under a Mayor, Aldermen form of government and provides the following services as authorized by its character: public safety (police and volunteer fire protection), highways and streets, sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services.

B. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the Town as a whole. The statements include all nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

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

Fund Financial Statements:

Fund financial statements of the Town are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting

The Government-wide, Proprietary Fund and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the Town. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The Town's Proprietary Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

TOWN OF HEIDELBERG
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The Town reports the following major Governmental Fund:

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

The Town reports the following major Proprietary Fund:

Water and Sewer Fund – This fund accounts for the provision of water and sewer services to customers within the service area.

D. Capital Assets

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

Pursuant to GASB Statement 34, small governmental entities (less than \$10 million in annual revenue) are not required to retroactively state the values of infrastructure purchased or constructed in prior years. Therefore, infrastructure acquired prior to October 1, 2002 has not been recorded, unless the value was already included in the Town's inventory of capital assets.

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

Building & Improvements	20-40 Years
Machinery & Equipment	5-10 Years
Other Furniture & Equipment	5-10 Years
Infrastructure	20-50 Years
Water & Sewer Lines & Facilities	5-20 Years

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Allowances for Doubtful Accounts

The Town uses the direct write-off method for writing off uncollectible accounts. This is done at the end of each year after reviewing accounts. The difference between this method and the reserve method, which is required by accounting principles generally accepted in the United States of America, is immaterial.

G. Encumbrances

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

TOWN OF HEIDELBERG
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Prepaid Items

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

J. Sick and Vacation Leave

The Town allows for five days sick leave per year, with no maximum accumulation of unused leave. Annual leave is accumulated at a rate of one day per month of employment. All unused sick leave and annual leave shall be counted as creditable service for the purpose of the retirement system, but employees will not be paid for accumulated leave. Accumulated leave from the Town's previous policy in the amount of \$14,282 for governmental activities and \$7,140 for business-type activities is payable to certain employees upon termination and has been recorded as long-term liabilities.

K. Equity Classifications

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

L. Surety Bonds

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

M. Mississippi Municipal Compliance Questionnaire

The Mississippi Municipal Compliance Questionnaire was completed and entered into the Town's Minute Book as prescribed by law.

NOTE 2 – CASH AND INVESTMENTS

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

TOWN OF HEIDELBERG
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Code Sec. 21-33-323 allows municipalities to invest their surplus funds. The Town may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts.

All investments of the Town throughout the year and at year-end were interest bearing time certificates of deposit which are recorded at cost plus interest earned at September 30, 2006. The market value equals the carrying amount of these investments.

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

The Town's deposits, which includes all cash accounts and certificates of deposits, with a carrying value of \$1,805,644 and a bank balance of \$1,813,866 at September 30, 2006, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

NOTE 3 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 165,600		\$ (25,000)		\$ 140,600
Total capital assets not being depreciated	165,600	-	(25,000)	-	140,600
<i>Capital assets being depreciated:</i>					
Buildings	265,000				265,000
Improvements other than buildings	6,189				6,189
Mobile equipment	507,517	12,500			520,017
Other furniture and equipment	192,610	7,700			200,310
Infrastructure	49,866				49,866
Total capital assets being depreciated	1,021,182	20,200	-	-	1,041,382
<i>Less accumulated depreciation for:</i>					
Buildings	(212,666)	(6,834)			(219,500)
Improvements other than buildings	(227)	(247)			(474)
Mobile equipment	(346,194)	(23,304)			(369,498)
Other furniture and equipment	(141,283)	(13,754)			(155,037)
Infrastructure	(1,064)	(2,078)			(3,142)
Total accumulated depreciation	(701,434)	(46,217)	-	-	(747,651)
Total capital assets being depreciated, net	319,748	(26,017)	-	-	293,731
Governmental activities capital assets, net	\$ 485,348	\$ (26,017)	\$ (25,000)	\$ -	\$ 434,331

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 6,174
Public Safety	31,642
Highways and Streets	8,401
Total Depreciation Expense	<u>\$ 46,217</u>

TOWN OF HEIDELBERG
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 2,815				\$ 2,815
Total capital assets not being depreciated	2,815	-	-	-	2,815
<i>Capital assets being depreciated:</i>					
Water and sewer lines and facilities	3,026,506				3,026,506
Mobile Equipment	53,928				53,928
Total capital assets being depreciated	3,080,434	-	-	-	3,080,434
<i>Less accumulated depreciation for:</i>					
Water and sewer lines and facilities	(1,503,281)	(72,046)			(1,575,327)
Machinery and equipment	(52,501)				(52,501)
Total accumulated depreciation	(1,555,782)	(72,046)	-	-	(1,627,828)
Total capital assets being depreciated, net	1,524,652	(72,046)	-	-	1,452,606
Business-type activities capital assets, net	\$ 1,527,467	\$ (72,046)	\$ -	\$ -	\$ 1,455,421

NOTE 4 – LONG TERM DEBT

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 Town, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a town issues bonds to repair or replace washed out or collapsed bridges on the public roads of the Town. As of September 30, 2006, the Town had no outstanding debt.

NOTE 5 – RISK MANAGEMENT

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

NOTE 6 – PROPERTY TAXES

Property taxes on real and personal property, exclusive of automobiles, become an enforceable lien on January 1, for the preceding year. Taxes are levied before September 15, and are due before February 1. The Town bills and collects its own property taxes, except for automobile ad valorem. The Town's levy on automobile taxes is collected by Jasper County and remitted to the Town monthly. Jasper County also remits to the Town a pro-rata share of road and bridge taxes collected by them. The Town levies taxes based on 15% of fair value of property. The Town may levy taxes as necessary to meet bonded debt retirement. Tax millage levies for the current fiscal year were as follows:

<u>Fund</u>	<u>Millage</u>	<u>Purpose</u>
General Fund	9	General

NOTE 7 – DEFINED BENEFIT PENSION PLAN

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

TOWN OF HEIDELBERG
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the Town is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005 and 2004 were \$34,526, \$31,071, and \$27,174, respectively, equal to the required contributions for each year.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Heidelberg
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2006

	General Fund			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 40,200	\$ 40,200	\$ 43,348	\$ 3,148
Licenses, commissions and other revenue	117,700	117,700	165,907	48,207
Fines and forfeitures	40,000	40,000	37,735	(2,265)
Intergovernmental revenues	449,050	449,050	535,037	35,987
Interest Income	8,000	8,000	9,604	1,604
Miscellaneous revenues	53,700	53,700	345,513	291,813
Total Revenues	708,650	708,650	1,137,144	428,494
EXPENDITURES				
Current:				
General government	208,700	211,400	179,980	31,420
Public safety	279,800	291,300	262,447	28,853
Public works	207,300	216,000	143,802	72,198
Culture and recreation	50,675	27,775	23,261	4,514
Total Expenditures	746,475	746,475	609,490	136,985
Excess of Revenues over (under) Expenditures	(37,825)	(37,825)	527,654	291,509
OTHER FINANCING SOURCES (USES)				
Other financing sources	37,825	154,325	-	(154,325)
Other financing uses	-	-	-	-
Total Other Financing Sources and Uses	37,825	154,325	-	(154,325)
Net Change in Fund Balance	-	116,500	527,654	137,184
Fund Balances - Beginning	995,815	995,815	995,815	-
Fund Balances - Ending	\$ 995,815	\$ 1,112,315	\$ 1,523,469	\$ 137,184

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

Town of Heidelberg, Mississippi
Notes to the Required Supplementary Information
For the Year Ended September 30, 2006

A. Budgetary Information.

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

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

The Board of Aldermen has not taken any official action to authorize anyone to transfer budgeted amounts between departments within any fund. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Fund. Formal budgetary control is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

Mississippi law requires that municipalities budget governmental funds on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. Capital project funds, however, are budgeted per project and do not lapse at year-end. The required budgetary basis is therefore not considered a generally accepted accounting principle.

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	<u>Governmental Fund</u>
	General Fund
Budget (Cash Basis)	\$ 527,654
Increase (Decrease)	
Net adjustments for revenue accruals	570,835
Net adjustments for expenditure accruals	(489,798)
GAAP Basis	<u>\$ 608,691</u>

SUPPLEMENTAL INFORMATION

**TOWN OF HEIDELBERG, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

SCHEDULE 1

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
MAJOR FEDERAL AWARDS			
<u>U.S. Department of Homeland Security</u>			
Passed-through the Mississippi Emergency Management Agency Public Assistance Grants	97.036	1604-DR-MS	\$ <u>605,250</u>
Total Expenditures of Major Federal Awards			<u>605,250</u>
OTHER FEDERAL AWARDS			
<u>U.S. Department of Homeland Security</u>			
Passed-through the Mississippi Emergency Management Agency State Domestic Preparedness Equipment Support Program	97.004	N/A	<u>6,895</u>
Total Expenditures of Other Federal Awards			<u>6,895</u>
Total Expenditures of Federal Awards			<u>\$ 612,145</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Significant Accounting Policies

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

**TOWN OF HEIDELBERG, MISSISSIPPI
SCHEDULE OF INVESTMENTS – ALL FUNDS
SEPTEMBER 30, 2006**

SCHEDULE 2

GENERAL FUND:

3.26% Certificate of Deposit, 12 Month	\$ 303,509
3.26% Certificate of Deposit, 12 Month	179,104
3.94% Certificate of Deposit, 12 Month	<u>225,189</u>
	<u>707,802</u>

ENTERPRISE FUND:

3.26% Certificate of Deposit, 12 Month	<u>268,455</u>
	<u>268,455</u>

TOTAL INVESTMENTS **\$ 976,257**

See accompanying notes to financial statements and Independent Auditor's Report.

SPECIAL REPORTS

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

Honorable Mayor, Members of the
Board of Aldermen, and Town Clerk
Heidelberg, Mississippi

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Heidelberg, Mississippi, as of and for the year ended September 30, 2006, and have issued my report thereon dated September 26, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

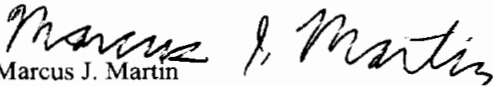
Internal Control over Financial Reporting

In planning and performing my audit, I considered the Town of Heidelberg, Mississippi's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in 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. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

Compliance and Other Matters

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

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


Marcus J. Martin
Certified Public Accountant
September 26, 2007

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

Honorable Mayor, Members of the
Board of Aldermen, and Town Clerk
Heidelberg, Mississippi

Compliance

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

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

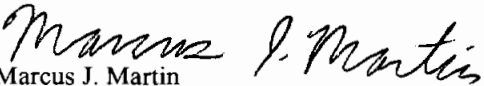
In my opinion, the Town of Heidelberg, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

Internal Control Over Compliance

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

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

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


Marcus J. Martin
Certified Public Accountant
September 26, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Town of Heidelberg
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's report issued on financial statements: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Reportable condition identified that is not considered to be a material weakness? | No |
| 3. Noncompliance material to the financial statements? | No |

Federal Awards:

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

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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