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CITY OF HOLLY SPRINGS, MISSISSIPPI

AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2006

**WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF HOLLY SPRINGS, MISSISSIPPI
AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Holly Springs
Holly Springs, 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 of the City of Holly Springs, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Holly Springs, Mississippi's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Electric, Water, Sewer and Gas Departments, which represents 100.0% of the assets and revenues of the Proprietary Fund Types. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Electric, Water, Sewer and Gas Departments, is based on the reports of the other auditors.

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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the City has not recorded depreciation expense over the useful lives on capital assets acquired prior to October 1, 2002, in governmental activities. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would decrease the net assets, and increase expenses of the governmental activities. The amount by which this departure would effect net assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the City of Holly Springs, Mississippi, as of September 30, 2006, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the City of Holly Springs, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2007, on our consideration of City of Holly Springs, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and page 38 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Our opinion insofar as it relates to the Electric, Water, Sewer and Gas Departments which represents 100.0% of the assets and revenues of the Proprietary Fund Types, is based solely on the reports of other auditors. The accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

West Point, Mississippi
February 1, 2007

Watkins, Ward and Stafford, PLLC

City of Holly Springs, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2006
Unaudited

This Discussion and Analysis of the City of Holly Springs, Mississippi, financial performance provides an overall review of the City's financial activities for the year ended September 30, 2006. The intent of this discussion and analysis is to look at the City's 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 2006 were as follows:

- Total net assets increased \$1,168,016, or 3.5% from 2005.
- Total assets of governmental activities increased \$423,163, or 4.6% from 2005.
- Total liabilities decreased \$169,828, or 1.2% from 2005.
- In total, pooled cash and cash equivalents decreased by \$171,018, or 5%, from 2005.
- Overall, the book value of capital assets increased by \$933,295, or 2.9% 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 City of Holly Springs, Mississippi, 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 City, presenting both an aggregate view of the City's finances and a 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 City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Holly Springs, Mississippi, as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 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 City's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities – Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's electric, water, sewer and gas departments are reported here.

Reporting the City's Most Significant Funds

The fund financial statements begin on page 12 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by the State law and by bond covenants. However, the City Board established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

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

Proprietary funds – When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statement but provide more detail and additional information, such as cash flows, for proprietary funds.

The City of Holly Springs as a Whole

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

(Table 1)
Net Assets

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)	Percentage Change
	2006	2005	2006	2005	2006	2005		
Assets:								
Current and other assets	\$ 1,750,380	1,623,469	8,499,083	8,470,609	10,249,463	10,094,078	155,385	1.54%
Capital assets, net	7,876,865	7,580,613	25,730,648	25,093,605	33,607,513	32,674,218	933,295	2.86%
Total Assets	<u>9,627,245</u>	<u>9,204,082</u>	<u>34,229,731</u>	<u>33,564,214</u>	<u>43,856,976</u>	<u>42,768,296</u>	<u>1,088,680</u>	2.55%
Liabilities:								
Current and other liabilities	154,180	260,819	5,373,579	5,209,240	5,527,759	5,470,059	57,700	1.05%
Long-term liabilities:								
Due within one year	120,206	118,240	83,233	65,155	203,439	183,395	20,044	1.09%
Due in more than one year	937,364	1,002,519	2,612,653	2,704,578	3,550,017	3,707,097	(157,080)	-4.24%
Total Liabilities	<u>1,211,750</u>	<u>1,381,578</u>	<u>8,069,465</u>	<u>7,978,973</u>	<u>9,281,215</u>	<u>9,360,551</u>	<u>(79,336)</u>	-0.85%
Net Assets:								
Invested in capital assets, net of debt	6,821,261	6,459,854	23,034,762	22,323,872	29,856,023	28,783,726	1,072,297	3.73%
Restricted	286,227	203,764	407,177	510,744	693,404	714,508	(21,104)	-3.00%
Unrestricted	1,308,007	1,158,886	2,718,327	2,750,625	4,026,334	3,909,511	116,823	2.99%
Total Net Assets	<u>\$ 8,415,495</u>	<u>7,822,504</u>	<u>26,160,266</u>	<u>25,585,241</u>	<u>34,575,761</u>	<u>33,407,745</u>	<u>1,168,016</u>	3.50%

Total assets increased \$1.1 million.

Total liabilities decreased \$.08 million.

Total net assets increased \$1.2 million.

Table 2 shows the changes in Net Assets.

(Table 2)
Changes in Net Assets
2006

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)	Percentage Change
	2006	2005	2006	2005	2006	2005		
Program Revenues:								
Charges for services	\$ 565,795	583,345	28,121,346	23,694,650	28,687,141	24,277,995	4,409,146	18.16%
Operating grants and contributions	70,894	79,943			70,894	79,943	(9,049)	-11.32%
Capital grants and contributions	648,926	1,022,108			648,926	1,022,108	(373,182)	-36.51%
General revenues:							104,330	13.16%
Property taxes	897,041	792,711			897,041	792,711		
Intergovernmental	3,467,795	3,271,796			3,467,795	3,271,796	195,999	5.99%
Interest	31,329	18,384	101,370	90,032	132,699	108,416	24,283	22.40%
Miscellaneous	41,211	24,159			41,211	24,159	17,052	70.58%
Transfers in/(out)	150,000	150,000	(150,000)	(150,000)				
Total Revenues	5,872,991	5,942,446	28,072,716	23,634,682	33,945,707	29,577,128	4,368,579	14.77%
Program Expenses:								
General government	1,542,337	1,402,986			1,542,337	1,402,986	139,351	9.93%
Public safety	1,815,606	1,274,629			1,815,606	1,274,629	540,977	42.44%
Public works	934,884	1,001,003			934,884	1,001,003	(66,119)	6.61%
Cemetery	298,158	225,876			298,158	225,876	72,282	32.00%
Health and Welfare	5,091	6,120			5,091	6,120	(1,029)	-16.81%
Culture and recreation	242,028	236,584			242,028	236,584	5,444	2.30%
Community development	214,080	250,641			214,080	250,641	(36,561)	-14.59%
Intergovernmental	181,301	106,502			181,301	106,502	74,799	70.23%
Interest	46,515	47,064			46,515	47,064	(549)	-1.17%
Providing Services:								
Electric			19,739,315	17,801,265	19,739,315	17,801,265	1,938,050	10.89%
Water			1,097,302	1,018,335	1,097,302	1,018,335	78,967	7.75%
Sewer			523,138	539,532	523,138	539,532	(16,394)	-3.04%
Gas			6,137,936	4,311,491	6,137,936	4,311,491	1,826,445	64.72%
Total Expenses	5,280,000	4,551,405	27,497,691	23,670,623	32,777,691	28,222,028	4,555,663	16.14%
Increase (Decrease) in Net Assets	\$ 592,991	1,391,041	575,025	(35,941)	1,168,016	1,355,100	(187,084)	

Governmental Activities

Several revenue sources fund our governmental activities. Under the accrual basis of accounting, charges for services, grants and contributions accounted for \$1,285,615 or 21.9% of gross revenues. Intergovernmental accounted for \$3,467,795 or 59.0%, and property taxes accounted for \$833,690 or 14.2%.

Business-type Activities

While business-type activities are accounted for similarly to businesses and are primarily supported by user charges, the City attempts to keep these charges as low as possible.

The City's Funds

Information about the City's major governmental funds begins on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,722,991 and expenditures of \$5,714,239. Fund balances remained relatively constant while revenues exceeded expenditures of \$8,752. Net transfers and lease proceeds increased the change in fund balances to \$206,458.

General Fund Budgeting Highlights

The City'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 is the General Fund.

The General Fund's original budget was not amended during 2006. The fund's budgeted revenues were \$6,110,855 and actual revenues were \$6,816,262. The fund's budgeted expenditures were \$5,687,279 and actual expenditures were \$5,463,663.

Capital Assets and Long-term Obligations

Capital Assets

At the end of 2006 the City had \$33 million invested in a broad range of capital assets.

(Table 3)

**Capital Assets at Year End
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)	Percentage Change
	2006	2005	2006	2005	2006	2005		
Land	\$ 7,876,865	7,580,613	63,210	63,210	63,210	63,210		0.00%
Buildings and equipment			13,824,724	13,482,719	13,824,724	13,482,719	342,005	2.54%
Distribution system and related:			3,215,656	3,254,251	3,215,656	3,254,251	(38,595)	-1.19%
Electric			3,989,541	3,905,017	3,989,541	3,905,017	84,524	2.16%
Water			1,539,018	1,465,707	1,539,018	1,465,707	73,311	5.00%
Sewer			3,098,499	2,922,701	3,098,499	2,922,701	175,798	6.01%
Gas			25,730,648	25,093,605	33,607,513	32,674,218	933,295	2.86%
Construction in progress								
Total	\$ 7,876,865	7,580,613	25,730,648	25,093,605	33,607,513	32,674,218	933,295	2.86%

Debt

At year-end the City's outstanding debt consisted of:

(Table 4)
Outstanding Debt at Year-end

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)	Percentage Change
	2006	2005	2006	2005	2006	2005		
General obligation bonds	\$ 795,000	835,000			795,000	835,000	(40,000)	-4.79%
Revenue bonds			2,695,886	2,769,733	2,695,886	2,769,733	(73,847)	-2.67%
Capital leases	157,400	192,934			157,400	192,934	(35,534)	-18.42%
Compensated absences	105,170	92,825			105,170	92,825	12,345	13.30%
	<u>\$ 1,057,570</u>	<u>1,120,759</u>	<u>2,695,886</u>	<u>2,769,733</u>	<u>3,753,456</u>	<u>3,890,492</u>	<u>(137,036)</u>	<u>-3.52%</u>

New debt incurring during 2006 included \$47,706 of capital lease obligations in the general fund for two police automobiles.

Next Year's Budget

The City's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates and fees that will be charged for the business-type activities.

The total 2007 budget without transfers was:

Receipts	\$ 5,915,945
Expenditures	6,686,017

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Clerk at 160 South Memphis Street, Holly Springs, Mississippi 38635.

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>Assets:</u>			
Cash and cash equivalents	\$ 964,323	2,286,700	3,251,023
Investments	385,823		385,823
Receivables (Net):			
Accounts		3,423,126	3,423,126
Property taxes	16,041		16,041
Accrued interest			0
Other	269,559	92,331	361,890
Notes receivable (Net)	15,000		15,000
Internal balances	(198,954)	200,000	1,046
Inventories		410,965	410,965
Prepaid items		61,006	61,006
Restricted assets:			
Cash and cash equivalents	298,588	1,563,905	1,862,493
Investments		18,338	18,338
Unamortized debt discount and expense		6,608	6,608
Deferred debits		436,104	436,104
Capital assets, net of accumulated depreciation	7,876,865	25,730,648	33,607,513
Total Assets	<u>\$ 9,627,245</u>	<u>34,229,731</u>	<u>43,856,976</u>
<u>Liabilities:</u>			
Accounts payable	\$ 121,916	3,163,183	3,285,099
Accrued interest payable	8,802	11,385	20,187
Salaries payable	14,951		14,951
Due to other entities	8,511		8,511
Notes payable		610,865	610,865
Deferred credits		100,525	100,525
Other liabilities		291,451	291,451
Payable from restricted assets:			
Deposits		1,196,170	1,196,170
Noncurrent liabilities:			
Due within one year	120,206	83,233	203,439
Due in more than one year	937,364	2,612,653	3,550,017
Total Liabilities	<u>1,211,750</u>	<u>8,069,465</u>	<u>9,281,215</u>
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	6,821,261	23,034,762	29,856,023
Restricted for:			
Fire protection	67,881		67,881
Unemployment benefits	12,400		12,400
Home grants	31		31
Debt service	205,915	407,177	613,092
Unrestricted	1,308,007	2,718,327	4,026,334
Total Net Assets	<u>\$ 8,415,495</u>	<u>26,160,266</u>	<u>34,575,761</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Program Activities:						
Governmental Activities:						
General government	\$ 1,542,337	42,324		(1,500,013)		(1,500,013)
Public safety	1,815,606	98,980	604,213	(1,041,519)		(1,041,519)
Public works	934,884	395,234	-	(539,650)		(539,650)
Cemetery	298,158	18,602	-	(279,556)		(279,556)
Health and welfare	5,091			(5,091)		(5,091)
Culture and recreation	242,028	10,630	-	(231,398)		(231,398)
Community development	214,080		44,713	(169,367)		(169,367)
Intergovernmental	181,301	25	-	(181,276)		(181,276)
Interest on long-term debt	46,515			(46,515)		(46,515)
Total Governmental Activities	5,280,000	565,795	648,926	(3,994,385)		(3,994,385)
Business-type Activities:						
Electric	19,739,315	20,242,719		503,404		503,404
Water	1,097,302	1,210,633	-	113,331		113,331
Sewer	523,138	679,686		156,548		156,548
Gas	6,137,936	5,988,308		(149,628)		(149,628)
Total Business-type Activities	27,497,691	28,121,346	-	623,655		623,655
Total Government	\$ 32,777,691	28,687,141	648,926	(3,994,385)	623,655	(3,370,730)
General revenues:						
Taxes:						
Current year				\$ 833,690		833,690
Prior year, penalties and interest				63,351		63,351
Intergovernmental:						
Local				1,638,727		1,638,727
State				1,829,068		1,829,068
Interest				31,329	101,370	132,699
Miscellaneous				41,211		41,211
Transfers				150,000	(150,000)	-
Total General Revenues and Transfers				4,587,376	(48,630)	4,538,746
Change in net assets				592,991	575,025	1,168,016
Net assets at beginning of year, as adjusted				7,822,504	25,585,241	33,407,745
Net assets at end of year				\$ 8,415,495	26,160,266	34,575,761

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Cash and cash equivalents	\$ 688,442	275,881	964,323
Cash - restricted	298,588		298,588
Investments	385,823		385,823
Receivables (Net):			
Property taxes	16,041		16,041
Other	251,375	18,184	269,559
Notes receivable (Net)	15,000		15,000
Due from other funds	348	698	1,046
Total Assets	\$ 1,655,617	294,763	1,950,380
 <u>Liabilities:</u>			
Accounts payable	\$ 121,891	25	121,916
Salaries payable	14,951		14,951
Due to other funds	200,000		200,000
Due to other entities		8,511	8,511
Total Liabilities	336,842	8,536	345,378
 <u>Fund Balances:</u>			
Reserved for:			
Fire protection		67,881	67,881
Unemployment benefits		12,400	12,400
Home grants		31	31
Debt service		205,915	205,915
Unreserved	1,318,775		1,318,775
Total Fund Balances	1,318,775	286,227	1,605,002
 <u>Total Liabilities and Fund Balances</u>	 \$ 1,655,617	 294,763	 1,950,380

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Total fund balance - total governmental funds		\$ 1,605,002
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		7,876,865
Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds balance sheet.		(8,802)
Long-term liabilities are not due and payable in the current period and, therefore not reported in the governmental funds balance sheet:		
Due within one year	\$ 118,240	
Due in more than one year	939,330	(1,057,570)
Net Assets of Governmental Activities		\$ <u>8,415,495</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Revenues:	General	Other Governmental Funds	Total Governmental Funds
Taxes:			
Current year	\$ 833,690		833,690
Prior year, penalties and interest	63,351		63,351
Licenses and permits	38,444		38,444
Intergovernmental:			
Federal revenue	578,643	44,713	623,356
State shared:			
Sales tax	1,348,473	234,829	1,583,302
State grants	56,000		56,000
Liquor privilege tax	5,850		5,850
TVA in-lieu	112,637		112,637
Gasoline tax	11,225		11,225
General municipal aid	8,647		8,647
Homestead reimbursement	51,407		51,407
Local revenue	1,647,615		1,647,615
Charges for services	395,234		395,234
Fines and forfeits	98,980		98,980
Miscellaneous revenues	150,478	42,775	193,253
Total Revenues	5,400,674	322,317	5,722,991
Expenditures:			
General government	1,506,361		1,506,361
Public Safety:			
Police	932,851	599	933,450
Fire	1,110,999	8,517	1,119,516
Public Works:			
Highways and streets	528,778	7,076	535,854
Sanitation	348,495		348,495
Cemetery	442,776		442,776
Health and welfare	12,754		12,754
Culture and recreation	245,932		245,932
Community development	63,485	150,595	214,080
Debt service:			
Principal	83,240	40,000	123,240
Interest and fiscal charges	5,765	40,750	46,515
Intergovernmental	182,227	3,039	185,266
Total Expenditures	5,463,663	250,576	5,714,239
Excess of Revenues Over (Under) Expenditures	(62,989)	71,741	8,752
Other Financing Sources (Uses):			
Operating transfers in	150,000	10,722	160,722
Operating transfers out	(10,722)		(10,722)
Capital leases	47,706		47,706
Total Other Financing Sources (Uses)	186,984	10,722	197,706
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	123,995	82,463	206,458
Fund Balances:			
October 1, 2005	1,194,780	203,764	1,398,544
September 30, 2006	\$ 1,318,775	286,227	1,605,002

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	\$ 206,458
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current year.	497,576
Governmental funds report proceeds of capital leases as current year other financing source. However, the obligation under capital leases is shown as a liability on the Statement of Net Assets. Therefore, capital lease proceeds are not a financing source on the Statement of Activities. This is the amount of new capital leases for the current year.	(47,706)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not recorded as an expenditure in governmental funds.	(201,324)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items.	123,240

CITY OF HOLLY SPRINGS, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
(CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources, therefore, accrued interest expense is not reported as an expenditure in governmental funds.	\$ 27,092
The increase in compensated absences liability does not provide a current financial resource.	<u>(12,345)</u>
Change in Net Assets of Governmental Activities	\$ <u>592,991</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

	Business-type Activities Enterprise Funds				Total Proprietary Funds
	June 30, 2006	September 30, 2006			
	Electric Department	Water Department	Sewer Department	Gas Department	
Assets					
Current Assets:					
Cash and cash equivalents	\$ 940,521	753,310	162,066	430,803	2,286,700
Receivables:					
Accounts	2,640,635			782,491	3,423,126
Other	79,862	7,515	1,769	3,185	92,331
Inventories	264,212	77,161	24,589	45,003	410,965
Prepayments	24,650	29,559	883	5,914	61,006
Total Current Assets	<u>3,949,880</u>	<u>867,545</u>	<u>189,307</u>	<u>1,267,396</u>	<u>6,274,128</u>
Restricted Assets:					
Bond sinking funds	1,156,728	321,950	85,227		1,563,905
Due from other funds			200,000		200,000
Other investments	18,338				18,338
Total Restricted Assets	<u>1,175,066</u>	<u>321,950</u>	<u>285,227</u>	<u>-</u>	<u>1,782,243</u>
Non-current Assets:					
Capital assets:					
Land		62,092		1,118	63,210
Construction in progress	366,174	2,083,557		648,768	3,098,499
Other capital assets, net of accumulated depreciation	13,824,724	3,215,656	3,989,541	1,539,018	22,568,939
Unamortized debt discount and expense		6,608			6,608
Deferred debits	436,104				436,104
Total Non-current Assets	<u>14,627,002</u>	<u>5,367,913</u>	<u>3,989,541</u>	<u>2,188,904</u>	<u>26,173,360</u>
Total Assets	<u>\$ 19,751,948</u>	<u>6,557,408</u>	<u>4,464,075</u>	<u>3,456,300</u>	<u>34,229,731</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF FUND NET ASSETS (CONTINUED)
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

	Business-type Activities Enterprise Funds				Total Proprietary Funds
	June 30, 2006	September 30, 2006			
	Electric Department	Water Department	Sewer Department	Gas Department	
Liabilities					
Current liabilities:					
Accounts payable	\$ 2,528,472	375,921	54,503	204,287	3,163,183
Customer deposits	1,028,262	56,488		111,420	1,196,170
Accrued interest	11,385				11,385
Notes payable				610,865	610,865
Current portion of long-term debt		51,325	31,908		83,233
Accrued expenses		70,201	19,843	42,242	132,286
Other	159,165				159,165
Total Current Liabilities	<u>3,727,284</u>	<u>553,935</u>	<u>106,254</u>	<u>968,814</u>	<u>5,356,287</u>
Non-current liabilities:					
Due to other funds					0
Due to other entities					0
Deferred credits	100,525				100,525
Bonds payable		2,037,289	575,364		2,612,653
Other					0
Total Non-current Liabilities	<u>100,525</u>	<u>2,037,289</u>	<u>575,364</u>	<u>-</u>	<u>2,713,178</u>
Total Liabilities	<u>3,827,809</u>	<u>2,591,224</u>	<u>681,618</u>	<u>968,814</u>	<u>8,069,465</u>
Net Assets					
Invested in capital assets, net of related debt	14,190,898	3,272,691	3,382,269	2,188,904	23,034,762
Restricted:					
Debt service		321,950	85,227		407,177
Unrestricted	1,733,241	371,543	314,961	298,582	2,718,327
Total Net Assets	<u>\$ 15,924,139</u>	<u>3,966,184</u>	<u>3,782,457</u>	<u>2,487,486</u>	<u>26,160,266</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Business - type Activities Enterprise Funds				Total Proprietary Funds
	June 30, 2006	September 30, 2006			
	Electric Department	Water Department	Sewer Department	Gas Department	
Operating Revenues:					
Charges for services	\$ 20,242,719	1,210,633	679,686	5,988,308	28,121,346
Total Operating Revenues	<u>20,242,719</u>	<u>1,210,633</u>	<u>679,686</u>	<u>5,988,308</u>	<u>28,121,346</u>
Operating Expenses:					
Power purchased	15,459,688				15,459,688
Gas purchased				5,146,928	5,146,928
Operation and maintenance	3,617,140	822,438	338,014	863,373	5,640,965
Depreciation	658,337	173,839	151,449	100,585	1,084,210
Total Operating Expenses	<u>19,735,165</u>	<u>996,277</u>	<u>489,463</u>	<u>6,110,886</u>	<u>27,331,791</u>
Operating Income (Loss)	<u>507,554</u>	<u>214,356</u>	<u>190,223</u>	<u>(122,578)</u>	<u>789,555</u>
Nonoperating Revenues:					
Interest revenue	52,806	26,836	6,735	14,993	101,370
Nonoperating Expenses:					
Interest and fiscal charges	4,150	100,154	31,193	26,706	162,203
Miscellaneous		871	2,482	344	3,697
Total Nonoperating Expenses	<u>4,150</u>	<u>101,025</u>	<u>33,675</u>	<u>27,050</u>	<u>165,900</u>
Net Income (Loss) before Contributions and Transfers	556,210	140,167	163,283	(134,635)	725,025
Transfers out				(150,000)	(150,000)
Total Capital Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,000)</u>	<u>-</u>
Change in Net Assets	556,210	140,167	163,283	(284,635)	575,025
Net Assets - Beginning of Year	<u>15,367,929</u>	<u>3,826,017</u>	<u>3,619,174</u>	<u>2,772,121</u>	<u>25,585,241</u>
Net Assets - End of Year	<u>\$ 15,924,139</u>	<u>3,966,184</u>	<u>3,782,457</u>	<u>2,487,486</u>	<u>26,160,266</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Business-type Activities					Total Proprietary Funds
	Enterprise Funds					
	June 30, 2006	Water Department	Sewer Department	Gas Department	September 30, 2006	
Cash Flows from Operating Activities:						
Cash received from customers	\$ 19,636,623	1,191,821	677,446	6,296,423	27,802,313	
Interest income	52,806				52,806	
Other operating cash receipts		18,812	2,240	11,256	32,308	
Cash payments to suppliers for goods and services	(15,120,184)	(488,451)	(211,175)	(5,183,202)	(20,303,386)	
Operating expenses	(2,489,608)	(288,129)	(59,584)	(119,381)	(3,942,369)	
Maintenance		(21,533)	(10,620)	(177,063)	(467,094)	
Taxes	(1,108,916)				(1,318,132)	
Customer deposits	24,669				24,669	
Cash payments to bond sinking funds					0	
Net Cash Provided by (Used in) Operating Activities	995,390	412,520	398,307	74,898	1,881,115	
Cash Flows from Noncapital Financing Activities:						
Cash paid to City					(150,000)	
Net Cash Flows from Noncapital Financing Activities					(150,000)	
Cash Flows from Capital and Related Financing Activities:						
Acquisition of capital assets	(1,257,778)	(137,181)	(235,973)	(198,211)	(1,829,143)	
Short-term bank loan					0	
Grants received		(46,486)	(27,361)		(73,847)	
Principal payment on long-term debt		13,638			13,638	
Payments from sinking funds	110,810	(871)	(2,784)	(344)	109,595	
Miscellaneous cash receipts (payments)		(12,288)				
Payments to sinking funds		(100,154)	(33,675)	(26,706)	(160,535)	
Interest paid						
Net Cash Flows from Capital and Related Financing Activities	(1,146,968)	(283,342)	(299,793)	(225,261)	(1,940,292)	
Cash Flows from Investing Activities:						
Interest received	0	25,375	6,622	16,880	48,877	
Net Cash Flows from Investing Activities		25,375	6,622	16,880	48,877	
Net Increase (Decrease) in Cash and Cash Equivalents	(151,578)	154,553	105,136	(283,483)	(160,300)	
Cash and Cash Equivalents at Beginning of Year	1,092,099	598,757	56,930	714,286	2,462,072	
Cash and Cash Equivalents at End of Year	\$ 940,521	753,310	162,066	430,803	2,301,772	

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Business-type Activities Enterprise Funds						Total Proprietary Funds
	June 30, 2006		September 30, 2006				
	Electric Department	Water Department	Sewer Department	Gas Department			
Reconciliation of income from operations to net cash provided by operating activities:							
Income (loss) from operations	507,554	214,356	190,223	(122,578)		789,555	
Adjustments to reconcile income from operations to net cash provided by operating activities:							
Depreciation	658,337	174,464	151,449	123,389		1,107,639	
(Increase) Decrease in:							
Receivables	(616,703)			319,371		(297,332)	
Inventories	15,905	(23,387)	(10,553)	(1,823)		(19,858)	
Prepaid expenses	(10,628)	(23,433)	193	(2,040)		(35,908)	
Deferred debits and credits	65,250					65,250	
Sinking funds			105,001			105,001	
Increase (Decrease) in:							
Accounts payable and other liabilities	351,006	70,218	(38,006)	(247,321)		135,897	
Customer deposits	24,669	302		5,900		30,871	
						0	
						0	
						0	
Net Cash Provided by Operating Activities	\$ 995,390	\$ 412,520	\$ 398,307	\$ 74,898		\$ 1,881,115	

Reconciliation of income from operations to net cash provided by operating activities:
Income (loss) from operations
Adjustments to reconcile income from operations to net cash provided by operating activities:
Depreciation
(Increase) Decrease in:
Receivables
Inventories
Prepaid expenses
Deferred debits and credits
Sinking funds
Increase (Decrease) in:
Accounts payable and other liabilities
Customer deposits

Net Cash Provided by Operating Activities

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2006

	<u>Agency Funds</u>
<u>Assets:</u>	
Receivables (net):	
Property taxes	\$ <u>32,864</u>
Total Assets	<u>32,864</u>
<u>Liabilities:</u>	
Other liabilities	<u>32,864</u>
Total Liabilities	<u>32,864</u>
<u>Net Assets</u>	
Held in Trust for Others	\$ <u><u>-</u></u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2006

	<u>Agency Funds</u>
<u>Additions:</u>	
Property taxes	\$ 2,479,067
Total Additions	<u>2,479,067</u>
<u>Deductions:</u>	
Payments to school district	<u>2,479,067</u>
Total Deductions	<u>2,479,067</u>
Change in Net Assets	-
Net Assets - Beginning of Year	-
Net Assets - End of Year	<u><u>\$ -</u></u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Holly Springs, Mississippi, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the City has elected to follow (1) all GASB pronouncements and (2) all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinion, and Accounting Research Bulletins (ARB), no matter when issued, except those that conflict with a GASB pronouncement. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The City of Holly Springs, located in Marshall County, Mississippi, was incorporated in 1837, and operates under an elected Mayor-Board of Aldermen form of government. The City provides the following services to the citizenry: general administration; electricity, water, sewer, gas and garbage disposal; police and fire protection; economic development; street repair and library services. The primary sources of revenues are property taxes, utility billings and sales taxes. Various criteria are applied in order to determine the various funds and activities which should be reported as part of the City. Such criteria includes oversight responsibility by the elected officials such as decision-making authority, accountability to the City, legal and fiscal responsibility, and inter-agency relationships. All agencies meeting the above criteria are included in the financial statements of the City. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Each blended component unit has a September 30 year-end except for the Electric Department which has a June 30 year end in compliance with Tennessee Valley Authority's reporting regulations.

Included within the reporting entity:

City of Holly Springs Electric Department. The Electric Department's governing board is the City's governing body. The rates for user charges and bond issuance authorizations are determined by the government's governing body.

Note 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

City of Holly Springs Water Department. The Water Department's governing board is the City's governing body. The rates for user charges and bond issuance authorizations are determined by the government's governing body.

City of Holly Springs Sewer Department. The Sewer Department's governing board is the City's governing body. The rates for use charges and bond issuance authorization are determined by the government's governing body.

City of Holly Springs Gas Department. The Gas Department's governing board is the City's governing body. The rates for user charges and bond issuance authorizations are determined by the government's governing body.

Excluded from the reporting entity:

Holly Springs School District. The Holly Springs School District's governing board is appointed primarily by the City's governing body (four of the five members). The City does not hold title to any of the school's assets, nor does it have any right to the school's surpluses. The City does not have the ability to exercise influence over daily operations or approve budgets.

City of Holly Springs Housing Authority. The Housing Authority's governing board is appointed by the City's governing body. The City does not hold title to any of the Housing Authority's assets, nor does it have any rights to its surpluses. The City does not have the ability to exercise influence over daily operations or approve budgets.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is accountable.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments.

Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, tourism taxes, property taxes, franchise taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note 5 for information describing restricted assets.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The City reports the following Governmental Funds:

- a) *General Fund* – The General Fund is the City’s primary operating fund. It accounts for all financial resources of the City’s general government, except those required to be accounted for in another fund.
- b) *Special Revenue Funds* – Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes.
- c) *Debt Service Funds* – Debt Service Funds account for the servicing of general long-term debt.
- d) *Capital Projects Funds* – Capital Projects Funds account for the acquisition of fixed assets or construction of major capital projects (other than those financed by proprietary funds).

Proprietary Funds

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City reports the following Proprietary Funds:

- a) *Enterprise Funds* – Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business, primarily through user charges or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent.

- a) *Agency Funds* – Agency Funds are custodial in nature and do not present results of operations or have a measurement focus.

D. Major Funds

For 2006, the City reports the following major Governmental Funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major Enterprise Funds:

Electric Department – accounts for the operating activities of the City’s electric utility services.

Water Department – accounts for the operating activities of the City’s water utility services.

Sewer Department – accounts for the operating activities of the City’s sewer and sewer treatment facility utility services.

Gas Department – accounts for the operating activities of the City’s natural gas utility services.

E. Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market. The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

F. Inventories

Inventories of the enterprise funds are stated at cost as determined by the moving average method. The governmental funds record inventoriable items as expenses when purchased, thus inventories of supplies on hand are not reported as assets.

G. Capital Assets, Depreciation, and Amortization

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

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Governmental Activities:				
Buildings and equipment	\$ 6,400,914	497,576	-	6,898,490
Streets	1,455,803	-	-	1,455,803
Less accumulated depreciation	(276,104)	201,324	-	(477,428)
Governmental Activities Capital Assets, Net	\$ <u>7,580,613</u>	<u>296,252</u>	<u>-</u>	<u>7,876,865</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 63,210	-	-	63,210
Construction in progress	<u>2,922,701</u>	<u>175,798</u>	<u>-</u>	<u>3,098,499</u>
Total Capital Assets Not Being Depreciated	<u>2,985,911</u>	<u>175,798</u>	<u>-</u>	<u>3,161,709</u>

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Other Capital Assets:				
Distribution and collection systems	\$ 38,177,160	1,405,753		39,582,913
Buildings and equipment	<u>1,536,844</u>	<u>109,688</u>	-	<u>1,646,532</u>
Total Other Capital Assets	<u>39,714,004</u>	<u>1,515,441</u>	-	<u>41,229,445</u>
Less accumulated depreciation:				
Distribution and collection systems	16,356,532	943,001		17,299,533
Buildings and equipment	<u>1,249,778</u>	<u>111,195</u>	-	<u>1,360,973</u>
Total Accumulated Depreciation	<u>17,606,310</u>	<u>1,054,196</u>	-	<u>18,660,506</u>
Other capital assets, net	<u>22,107,694</u>	<u>461,245</u>	-	<u>22,568,939</u>
Business-type Activities Capital Assets, Net	<u>\$ 25,093,605</u>	<u>637,043</u>	-	<u>25,730,648</u>

Management has not recorded certain general infrastructure assets and prior year capital assets as required by GASB 34. These assets are presumed to be material in relation to the governmental activities. Therefore, the omission of these assets creates an adverse opinion on the governmental activities opinion unit.

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 50,723
Public safety:	
Police	41,298
Fire	44,048
Cemetery	8,427
Street	50,535
Health and Welfare	237
Recreation	3,566
Intergovernmental	<u>2,490</u>
Total Governmental Activities Depreciation Expense	\$ <u>201,324</u>
Business-type Activities:	
Electric	\$ 658,337
Water	174,464
Sewer	151,449
Gas	<u>123,389</u>
Total Business-type Activities Depreciation Expense	\$ <u>1,107,639</u>

Note 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

H. Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

I. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

J. Compensated Employee Absences

Employees can accumulate vacation days and sick days up to a maximum at which point any additional days are lost. Employees are completely vested in vacation days up to the maximum in that they can take them or be paid for them upon termination. Sick days may be taken only for bona fide sickness and are lost upon termination of employment.

The City accrues compensated absences when vested. The current portions of the Governmental Funds' compensated absences liabilities are recorded as accrued liabilities. The current and noncurrent portions are recorded in the government-wide financial statements. The amount of vacation recognized as expense is the amount earned during the year.

K. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Mississippi Municipal Liability Plan to cover such losses. The City is currently a defendant in several law suits in various stages. While the litigation is at too early a stage to accurately evaluate, legal representatives for the Mississippi Municipal Liability Plan anticipate the plan covering any judgment that may be assessed against it. Settled claims have not exceeded coverage in any of the past three years.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Use of Estimates

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

Note 2: PROPERTY TAX

Taxes are levied in September each year and are payable in the subsequent year between January 1 and February 1. Property taxes attach an enforceable lien on property as of January 1 of the year subsequent to that to which the tax applies.

The tax rates applicable to 2005 are as follows:

<u>City of Holly Springs</u>	<u>Mills</u>
General fund	25.00
Fire protection	<u>.25</u>
	<u>25.25</u>
<u>Separate School District</u>	
District maintenance	43.50
School special	1.09
Debt service	<u>4.92</u>
	<u>49.51</u>
Total	<u>74.76</u>

All real and personal property taxes are collected by Marshall County and remitted to the City the month following collection. Collected but unremitted taxes as of September 30, 2006, have been properly accrued in the financial statements.

Note 3: BUDGET POLICY

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

- A. Prior to September 30, the City Clerk submits to the Mayor and Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenses and expenditures and the means of financing them.
- B. Public notice is given of the City's budget meetings being open to the public, so that a public hearing is conducted on the budget.

Note 3: BUDGET POLICY (CONTINUED)

- C. The budget as submitted is reviewed by the Mayor and Aldermen and necessary revisions are made to the budget. Then the budget is approved prior to September 30.
- D. The budget is formally revised during July of each year or anytime a deficit is indicated.
- E. Budgetary comparisons are employed by management as a management control device during the year for all funds.
- F. Appropriations lapse at the end of each fiscal year.

Mississippi laws require that municipalities budget on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principal. Governmental accounting requires that the "budget to actual" statements be prepared according to budgetary laws and the statement of revenues, expenditures, and fund balance be prepared according to the modified-accrual basis (GAAP). The major reconciling items between the budgetary and GAAP presentations are presented on the "budget to actual" statements.

Note 4: CASH AND INVESTMENTS

Deposits

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 entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

These cash balances differ from the amounts shown in the financial statements because of in-transit items.

Investments

The City may invest its surplus funds in certificates of deposits, any bonds or direct obligations of the United States of America or the State of Mississippi, or in the bonds of any county, municipality or school district of Mississippi provided such bonds have been approved by a reputable bond attorney or have been validated by a decree of the Chancery Court. During 2006, the City invested only in bank certificates of deposit.

Note 5: Long-term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financials for the year ended September 30, 2006:

	<u>Beginning Balance</u>	<u>Additions/ Proceeds</u>	<u>Reductions/ Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable:	\$ 835,000		(40,000)	795,000	40,000
General obligation					
Capital Lease Obligations:					
Police autos	44,201	47,706	(31,984)	59,923	27,502
Fire trucks	86,793		(20,693)	66,100	21,328
Street sweeper	61,940		(30,563)	31,377	31,376
Total	<u>192,934</u>	<u>47,706</u>	<u>(83,240)</u>	<u>157,400</u>	<u>80,206</u>
Compensated absences	<u>92,825</u>	<u>12,345</u>		<u>105,170</u>	
Governmental Activities Total	1,120,759	60,051	(123,240)	1,057,570	120,206
Business Activities:					
Bonds payable:					
Water department	2,135,100		(46,486)	2,088,614	51,325
Sewer department	634,633		(27,361)	607,272	31,908
Total	<u>2,769,733</u>		<u>(73,847)</u>	<u>2,695,886</u>	<u>83,233</u>
Business Activities Total	<u>2,769,733</u>		<u>(73,847)</u>	<u>2,695,886</u>	<u>83,233</u>
Government-wide Total	<u>\$ 3,890,492</u>	<u>60,051</u>	<u>(197,087)</u>	<u>3,753,456</u>	<u>203,439</u>

Note 5: Long-term Liabilities (Continued)

Detail of bonds, notes and capital leases:

	Date Issued	Final Maturity	Range of Interest Rates at Issue Date	Original Amount	Governmental Activities	Business Activities
General Obligation Bonds:						
Tourism bonds	12/01/99	12/01/19	5.000% \$	1,000,000	795,000	
Revenue Bonds:						
Waterworks	06/19/79	05/23/14	5.000%	442,000		170,204
Waterworks	01/10/99	01/10/35	4.750%	889,000		825,189
Rural Development	11/01/02	11/01/37	4.625%	1,108,000		1,093,221
Sewer	08/31/81	06/22/16	5.000%	542,300		245,018
Sewer	03/20/96	03/20/29	5.000%	421,000		362,254
Capital Lease Obligations:						
Police autos (2)	02/24/05	02/15/07	3.280%	24,066	12,217	
Police autos (2)	07/18/06	07/18/09	3.990%	47,706	47,706	
Fire trucks (2)	02/15/04	02/15/09	3.087%	100,551	28,808	
Fire trucks (2)	02/24/05	02/15/09	3.410%	48,952	37,292	
Street sweeper	05/10/04	05/10/07	2.660%	91,711	31,377	
					<u>\$ 952,400</u>	<u>2,695,886</u>

Note 5: Long-term Liabilities (Continued)

The annual debt service requirements of bonds, notes and capital leases are as follows:

<u>Governmental Activities</u>		<u>General Obligation Bonds</u>		<u>Capital Leases</u>	
<u>Fiscal Year Ending 9/30</u>		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007-2008		\$ 80,000	78,497	\$ 80,206	5,300
2009		45,000	35,750	37,919	2,757
2010		45,000	33,500	39,275	1,403
2011		50,000	31,250	157,400	9,460
2012		50,000	28,750		
2013		55,000	26,250		
2014		55,000	23,500		
2015		60,000	20,750		
2016		65,000	17,750		
2017		65,000	14,500		
2018		70,000	11,250		
2019		75,000	7,750		
2020		80,000	4,000		
		\$ 795,000	333,497		
Business Activities					
<u>Fiscal Year Ending 9/30</u>		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007		\$ 51,325	96,287	\$ 31,908	27,700
2008		53,721	93,913	33,384	26,224
2009		56,205	91,428	34,928	24,680
2010		58,800	88,833	36,544	23,065
2011-2015		284,457	414,255	206,728	88,354
2016-2020		251,210	348,830	75,809	52,764
2021-2025		315,852	284,188	95,039	33,535
2026-2030		397,131	22,909	92,932	9,744
2031-2035		438,250	106,921		
2036-2040		181,663	16,697		
		\$ 2,088,614	1,564,261	\$ 607,272	286,066
Sewer Dept. Revenue Bonds					
<u>Fiscal Year Ending 9/30</u>		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007		\$ 31,908	27,700	\$ 31,908	27,700
2008		33,384	26,224	33,384	26,224
2009		34,928	24,680	34,928	24,680
2010		36,544	23,065	36,544	23,065
2011-2015		206,728	88,354	206,728	88,354
2016-2020		75,809	52,764	75,809	52,764
2021-2025		95,039	33,535	95,039	33,535
2026-2029		92,932	9,744	92,932	9,744
		\$ 607,272	286,066	\$ 607,272	286,066

Note 6: Transfers In/Out

The following schedule reconciles transfers made among the Municipal Funds for the fiscal year ended September 30, 2006:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Activities:		
General fund	\$ 150,000	10,722
Non-major governmental funds	10,722	
Business Activities:		
Gas Department		150,000
	<u>\$ 160,722</u>	<u>160,722</u>

Note 7: Interfund Receivables and Payables

Interfund receivables and payables at September 30, 2006, were as follows:

	<u>Due From</u>	<u>Due To</u>
Governmental Activities:		
General fund	\$ 348	200,000
Non-major governmental funds	698	
Business Activities:		
Sewer Department	200,000	
Other Non-major business-type funds		698
	<u>201,046</u>	<u>200,698</u>
Due from school district		348
	<u>\$ 201,046</u>	<u>201,046</u>

Note 8: PENSION PLAN

Plan Description. The City of Holly Springs, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800 444 PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and City of Holly Springs, Mississippi 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 are established and may be amended only by the State of Mississippi Legislature. The City of Holly Springs, Mississippi's contributions to PERS for the years ending September 30, 2006, 2005 and 2004 were \$374,966, \$407,161, and \$395,840, respectively, equal to the required contributions for each year.

Note 9: NO COMMITMENT DEBT

Long-term debt does not include amounts for Industrial Revenue Bonds issued under authority of Section 57-3-1 through Section 57-3-33, Miss. Code Ann. (1972). Industrial Revenue Bonds are issued to provide funds for direct financing leases to aid industries which manufacture, process or assemble agricultural or manufactured products or any industry engaged in storing or warehousing products of agriculture, mining or industry. These leases are administered by trustees with terms which provide for transfer of title of the property after all bonds are paid in full.

Bonds issued under provision of the above mentioned law do not constitute an indebtedness of the City within the meaning of any state constitutional provision or limitation, or never give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers, and such fact is plainly stated in the face of the bonds.

The City of Holly Springs did not have adequate records regarding these Industrial Revenue Bonds. Therefore, the total Industrial Revenue bonded indebtedness at September 30, 2006, could not be determined.

CITY OF HOLLY SPRINGS, MISSISSIPPI
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Current year	\$ 877,000	877,000	833,690	(43,310)
Prior year, penalties and interest	42,000	42,000	63,351	21,351
Licenses and permits	46,000	46,000	38,444	(7,556)
Intergovernmental:				
Local revenue	1,625,050	1,625,050	1,647,615	22,565
State revenue	1,713,825	1,713,825	1,594,239	(119,586)
Federal revenue	1,184,594	1,184,594	578,643	(605,951)
Charges for services	391,000	391,000	395,234	4,234
Fines and forfeits	115,000	115,000	98,980	(16,020)
Miscellaneous revenues	116,386	116,386	150,478	34,092
Total Revenues	<u>6,110,855</u>	<u>6,110,855</u>	<u>5,400,674</u>	<u>(710,181)</u>
Expenditures:				
General government	1,974,916	1,974,916	1,506,361	468,555
Public Safety:				
Police	1,022,346	1,022,346	932,851	89,495
Fire	1,250,957	1,250,957	1,110,999	139,958
Public Works:				
Highways and streets	703,535	703,535	528,778	174,757
Sanitation	380,886	380,886	348,495	32,391
Cemetery	439,401	439,401	442,776	(3,375)
Health and welfare	16,450	16,450	12,754	3,696
Culture and recreation	765,688	765,688	245,932	519,756
Community development	73,274	73,274	63,485	9,789
Debt Service:				
Principal			83,240	(83,240)
Interest and fiscal charges			5,765	(5,765)
Intergovernmental	188,809	188,809	182,227	6,582
Total Expenditures	<u>6,816,262</u>	<u>6,816,262</u>	<u>5,463,663</u>	<u>1,352,599</u>
Excess of Revenues Over (Under) Expenditures	<u>(705,407)</u>	<u>(705,407)</u>	<u>(62,989)</u>	<u>642,418</u>
Other Financing Sources (Uses):				
Operating transfers in	150,000	150,000	150,000	0
Operating transfers out			(10,722)	(10,722)
Capital leases			47,706	47,706
Total Other Financing Sources (Uses)	<u>150,000</u>	<u>150,000</u>	<u>186,984</u>	<u>36,984</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(555,407)</u>	<u>(555,407)</u>	<u>123,995</u>	<u>679,402</u>
Fund Balances:				
October 1, 2005	1,194,780	1,194,780	1,194,780	
September 30, 2006	<u>\$ 639,373</u>	<u>639,373</u>	<u>1,318,775</u>	<u>679,402</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2006

Federal Agency Pass-through Entity/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Homeland Security		
Direct Programs:		
Assistance to Firefighter Grants	97.044	\$ 497,080
Staffing for Adequate Fire and Emergency Response	97.083	57,133
Homeland Security Grant Program	97.067	24,430
Total U.S. Department of Homeland Security		<u>578,643</u>
 U.S. Department of Justice		
Direct Programs:		
Bulletproof Vest Partnership Program	16.607	599
Byrne Formula Grant Program	16.579	706
Total U.S. Department of Justice		<u>1,305</u>
 U.S. Department of Labor		
Direct Program:		
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	3,039
Total U.S. Department of Labor		<u>3,039</u>
 U.S. Department of Housing and Urban Development		
Passed through Mississippi Department of Economic Development		
Community Development Block Grants/Brownsfields Economic Development Initiative	14.246	7,075
Home Investment Partnership Program	14.239	34,000
Total U.S. Department of Housing and Urban Development		<u>41,075</u>
 Total Federal Financial Assistance		 \$ <u><u>624,062</u></u>

Note to Schedule

This schedule was prepared using the same basis of accounting and the same significant accounting policies, applicable, used for the general purpose financial statements.

**CITY OF HOLLY SPRINGS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Section 1: Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Holly Springs, Mississippi.
2. No material weaknesses in internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of City of Holly Springs, Mississippi, were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs were disclosed during the audit.
5. The auditors' report on compliance for the major federal award programs for City of Holly Springs, Mississippi, expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for City of Holly Springs, Mississippi, required to be reported in accordance with Section 510(a) of Circular A-133,
7. The program tested as major program was:

<u>Name</u>	<u>CFDA Number</u>
U.S. Department of Homeland Security – Assistance to Firefighters	97.044

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

Section 2: Findings Relating to the Financial Statements

None.

Section 3: Findings and Questioned Costs for Federal Awards

None.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section .315(b) of OMB Circular A-133, the City of Holly Springs, Mississippi has prepared and hereby submits the following summary schedule of prior audit findings as of September 30, 2006:

There were no prior year findings.

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



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

James L. Stafford, CPA
 Harry W. Stevens, CPA
 Paul A. Ray, CPA
 S. Keith Winfield, CPA
 William B. Staggers, CPA
 Ambrey R. Holder, CPA
 David M. Howell, CPA
 Michael W. McCully, CPA
 Mort Stroud, CPA
 Gary C. Hamilton, CPA
 R. Steve Sinclair, CPA

Michael L. Pierce, CPA
 Marsha L. McDonald, CPA
 Wanda S. Holley, CPA
 Robin Y. McCormick, CPA/PFS
 J. Randy Scrivner, CPA
 Kimberly S. Caskey, CPA
 Susan M. Lummus, CPA
 Thomas J. Browder, CPA
 Stephen D. Flake, CPA
 John N. Russell, CPA
 Kenny Dickerson, CPA

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

The Honorable Mayor and Board of Aldermen
 The City of Holly Springs
 Holly Springs, Mississippi

We have audited the financial statements of the governmental activities, of City of Holly Springs, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 1, 2007. We did not audit the financial statements of the Electric, Water, Sewer and Gas Departments which represent 100% of the assets and revenues of the business type activities of the City of Holly Springs. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on those financial statements, insofar as it relates to amounts included in the City of Holly Springs, was based solely on the report of the other auditors. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Holly Springs, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the

internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Board, 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.

West Point, Mississippi
February 1, 2007

Watkins, Ward and Stafford, PLLC

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



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
Harry W. Stevens, CPA
Paul A. Ray, CPA
S. Keith Winfield, CPA
William B. Stagers, CPA
Aubrey R. Holder, CPA
David M. Howell, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
Gary C. Hamilton, CPA
R. Steve Sinclair, CPA

Michael L. Pierce, CPA
Marsha L. McDonald, CPA
Wanda S. Holley, CPA
Robin Y. McCormick, CPA/PFS
J. Randy Scrivner, CPA
Kimberly S. Caskey, CPA
Susan M. Lummus, CPA
Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA
Kenny Dickerson, CPA

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

The Honorable Mayor and Board of Aldermen
The City of Holly Springs
Holly Springs, Mississippi

Compliance

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

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

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

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of the City Board, 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.

West Point, Mississippi
February 1, 2007

Nathan, Ward and Stafford, PLLC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
 WITH STATE LAWS AND REGULATIONS**

The Honorable Mayor and Board of Aldermen
 The City of Holly Springs
 Holly Springs, Mississippi

We have audited the financial statements of the governmental activities of the City of Holly Springs, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of our procedures and our audit of the general purpose financial statements did not disclose any instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of the City of Holly Springs' management. However, this report is a matter of public record and its distribution is not limited.

West Point, Mississippi
 February 1, 2007

Nathaniel Ward and Staff, PLLC