CITY OF HOUSTON, MISSISSIPPI

Audited Financial Statements
For the Year Ended September 30, 2006

WATKINS, WARD and STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HOUSTON, MISSISSIPPI

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CITY OF HOUSTON, MISSISSIPPI

FINANCIAL AUDIT REPORT

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

Mayor and Board of Aldermen
City of Houston, Mississippi

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi, as of September 30, 2006, and the respective changes in financial position, 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 January 24, 2007, on our consideration of the City of Houston, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 8 and the Budgetary Comparison Schedule and corresponding notes on pages 35 through 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

January 24, 2007

Watkins, Ward and Stafford, PLLC

CITY OF HOUSTON, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Houston's financial performance provides an overall narrative review of the city's financial activities for the years ended September 30, 2006 and 2005. The intent of this discussion and analysis is to look at the city's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased $417,814 which represents a 5% increase from fiscal year 2005.
- General revenues account for $2,187,509 in revenue, or 61% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $1,396,991 or 39% of total revenues.
- The City had $3,166,686 in expenses; only $1,396,991 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of $2,187,509 were adequate to provide for these programs.
- Among the major funds, the General Fund had $2,180,174 in revenues and $1,967,575 in expenditures. The General Fund's fund balance increased $139,709 over the prior year. The Library Fund had $72,560 in revenues and $62,968 in expenditures. The Library Fund's fund balance increased $9,592 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by $87,627.
- Long-term debt decreased by $208,832. In addition, the liability for compensated absences increased by $3,216 from the prior fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements 3) proprietary fund financial statements, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include police, fire, public works, parks & recreation, library, and general administration.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

> **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 describe 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 that can be found on pages 13 and 15.
>
> **Proprietary Funds.** When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in the 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 proprietary fund is the same as business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 33 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 33-36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets: Net assets may serve over time as a useful indicator of government's financial position. In the case of the City, assets exceeded liabilities by $8,806,175 as of September 30, 2006 and by $8,387,011 as of September 30, 2005.

The City's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the City's net assets for the fiscal year ended September 30:

	2006	2005
Current assets	$ 1,611,605	1,249,020
Capital assets, net	10,368,299	10,455,926
Total assets	11,979,904	11,704,946
Current liabilities	394,487	150,244
Long-term debt outstanding	2,779,242	3,167,691
Total liabilities	3,173,729	3,317,935
Net assets:		
Invested in capital assets, net of related debt	7,409,440	7,288,235
Restricted	43,677	34,571
Unrestricted	1,353,058	1,064,205
Total net assets	$ 8,806,175	8,387,011

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

- The principal retirement of $252,033 of long-term debt.
- Increase in the liability for compensated absences in the amount of $3,216.

Changes in net assets: The City's total revenues for the fiscal year ended September 30, 2006 and 2005 were $3,584,500 and $3,931,947. The total cost of all programs and services was $3,166,686 and $3,073,420. The following table presents a summary of the changes in net assets for the fiscal year ended September 30:

	2006	2005
Revenues:		
Program revenues	$ 1,396,991	$ 1,859,249
General revenues	2,187,509	2,072,698
Total revenues	3,584,500	3,931,947
Expenses:		
Governmental Activities	2,294,256	2,267,821
Business-type Activities	872,430	805,599
Total expenses	3,166,686	3,073,420
Increase in net assets	$ 417,814	$ 858,527

- **Governmental activities:**

  Phase III of the Houston Airport project was begun in 2006 and completed in early 2007, consisting of complete renovations to the terminal building/pilot's lounge and the addition of a PAPI approach lighting system. Previous phases of the project expanded the runway from 3,000 feet to 3,800 feet, added turnarounds to the runway, added a game fence on the perimeter, and overlaid the runway, taxiways, apron, and access road. The work was funded almost entirely with federal and state grants and has greatly enhanced the prospects for industrial development in the area.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of $693,927, an increase of $202,585. $650,250 or 94% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion.

The General Fund is the principal operating fund of the City. The increase in fund balance in the General Fund for the fiscal year was $139,709. The increase in fund balance in the Library Fund for the fiscal year was $9,592. The fund balance in the Other Governmental (Non-Major funds) increased in the amount of $53,284.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised the annual operating budget.

A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund and the major special revenue fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of September 30, 2006, the City's total net capital assets were $10,368,299 including land, buildings, improvements, infrastructure, vehicles, and furniture and equipment. This amount represents an decrease of $87,627 from the previous year.

Additional information of the City's capital assets can be found in Note 5 on page 28 of this report.

Debt Administration. At September 30, 2006, the City had $2,958,859 in long-term debt outstanding, of which $220,207 is due within one year. In addition, the liability for compensated absences increased by $3,216 from the prior year.

Additional information of the City's long-term debt can be found in Note 7 on pages 29-32 of this report.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the City Clerk's Office at 120 East Madison Street, Houston, MS 38851, telephone 662-456-2328.

CITY OF HOUSTON

FINANCIAL STATEMENTS

CITY OF HOUSTON
Statement of Net Assets
September 30, 2006

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 701,456	706,413	1,407,869
Property tax receivable	11,875		11,875
Accounts receivable, net		100,511	100,511
Fines receivable, net	4,438		4,438
Intergovernmental receivables	57,507		57,507
Other receivables, net	14,668		14,668
Internal balances	2,721		2,721
Inventories		12,016	12,016
Capital assets, net	5,400,196	4,968,103	10,368,299
Total Assets	6,192,861	5,787,043	11,979,904
LIABILITIES			
Claims payable	64,328		64,328
Accrued interest payable	5,660	3,926	9,586
Accrued wages payable	34,410	6,958	41,368
Internal Balance		2,721	2,721
Customer deposits		52,603	52,603
Long-term liabilities			
Due within one year:			
Capital related debt	119,249	100,958	220,207
Non-capital debt	1,956	1,718	3,674
Due in more than one year:			
Capital related debt	338,527	2,400,125	2,738,652
Non-capital debt	37,155	3,435	40,590
Total Liabilities	601,285	2,572,444	3,173,729
NET ASSETS			
Invested in capital assets, net of related debt	4,942,420	2,467,020	7,409,440
Restricted net assets:			
Expendable:			
Debt service	43,677		43,677
Nonexpendable			
Unrestricted (deficit)	605,479	747,579	1,353,058
Total Net Assets	$ 5,591,576	3,214,599	8,806,175

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

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

Exhibit 2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 415,255	159,061		253,879	(2,315)		(2,315)
Public safety	923,733	75,205			(848,528)		(848,528)
Public works	782,971				(782,971)		(782,971)
Health and welfare					0		0
Culture and recreation	147,053				(147,053)		(147,053)
Conversation of natural resources					0		0
Economic development and assistance					0		0
Interest on long-term debt	22,864				(22,864)		(22,864)
Other debt	2,380				(2,380)		(2,380)
Total Governmental Activities	2,294,256	234,266	0	253,879	(1,806,111)	0	(1,806,111)
Business-type activities:							
Water & Sewer	872,430	908,846			0	36,416	36,416
Total business-type activities	872,430	908,846	0	0	0	36,416	36,416
Total Primary Government	$ 3,166,686	1,143,112	0	253,879	(1,806,111)	36,416	(1,769,695)

General revenues:			
Taxes:			
Property taxes	$ 938,391		938,391
Sales taxes	941,606		941,606
Franchise tax	132,407		132,407
Unrestricted gifts and donations			0
Unrestricted investment income	41,138		41,138
Miscellaneous	130,523	3,444	133,967
Transfers	24,110	(24,110)	0
Total General Revenues, Special Item, Extraordinary Item and Transfers	2,208,175	(20,666)	2,187,509
Changes in Net Assets	402,064	15,750	417,814
Net Assets - Beginning	5,188,162	3,198,849	8,387,011
Cumulative effect of GASB Statement 34 adjustments			0
Prior period adjustment	1,350		1,350
Net Assets - Beginning restated	5,189,512	3,198,849	8,388,361
Net Assets - Ending	$ 5,591,576	3,214,599	8,806,175

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

CITY OF HOUSTON
Balance Sheet - Governmental Funds
September 30, 2006

Exhibit 3

	Major Funds			
	General Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 450,842	103,433	147,181	701,456
Property tax receivable	9,588	824	1,463	11,875
Fines receivable	4,438			4,438
Intergovernmental Receivables	12,276		45,231	57,507
Other receivables	14,668			14,668
Due from other funds	5,776		3,258	9,034
Total Assets	$ 497,588	104,257	197,133	798,978
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims Payable	16,602		43,203	59,805
Retainage Payable			4,523	4,523
Accrued Payroll	$ 31,607	1,330	1,473	34,410
Due to other funds	6,313			6,313
Total Liabilities	54,522	1,330	49,199	105,051
Fund balances:				
Reserved for:				
Debt Service			43,677	43,677
Unreserved, reported in:				
General fund	443,066			443,066
Special revenue funds		102,927	105,248	208,175
Capital project funds			(991)	(991)
Total Fund Balances	443,066	102,927	147,934	693,927
Total Liabilities and Fund Balances	$ 497,588	104,257	197,133	798,978

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

CITY OF HOUSTON
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2006

Exhibit 3-1

			Amount
Total fund balance - governmental funds (Exhibit 3)		$	693,927
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			5,400,196
Capital assets net of depreciation as of 10-1-05	5,314,040		
Plus capital outlay expenditures made during the year	290,689		
Less loss on disposal of capital asset	(1,303)		
Less depreciation expense recorded during the year	(203,230)		
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.			(502,547)
Long-tem liabilities	(496,887)		
Accrued interest on bonds	(5,660)		
Total net assets - governmental activities (Exhibit 1)		$	5,591,576

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

CITY OF HOUSTON

Exhibit 4

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

	Major Funds			
	General Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	$ 736,451	70,869	131,071	938,391
Licenses, commissions and other revenue	11,931			11,931
Fines and forfeitures	75,205			75,205
Intergovernmental revenues	1,069,377		274,622	1,343,999
Charges for services	159,061			159,061
Interest income	41,138			41,138
Miscellaneous revenues	87,011	1,691	13,783	102,485
Total Revenues	2,180,174	72,560	419,476	2,672,210
EXPENDITURES				
Current:				
General government	373,657			373,657
Public safety	833,890			833,890
Public works	641,642			641,642
Health and welfare				0
Culture and recreation		62,968	84,008	146,976
Capital outlay	58,528		253,879	312,407
Economic development and assistance				0
Debt service:				
Principal	56,675		100,000	156,675
Interest	3,183		22,925	26,108
Other			2,380	2,380
Total Expenditures	1,967,575	62,968	463,192	2,493,735
Excess of Revenues over (under) Expenditures	212,599	9,592	(43,716)	178,475
OTHER FINANCING SOURCES (USES)				
Transfers in	24,110		97,000	121,110
Transfers out	(97,000)			(97,000)
Total Other Financing Sources and Uses	(72,890)	0	97,000	24,110
SPECIAL ITEM				0
EXTRAORDINARY ITEM				0
Net Changes in Fund Balances	139,709	9,592	53,284	202,585
Fund Balances - Beginning	303,357	93,335	93,300	489,992
Prior period adjustment			1,350	1,350
Fund Balance - Beginning restated	303,357	93,335	94,650	491,342
Fund Balances - Ending	$ 443,066	102,927	147,934	693,927

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

CITY OF HOUSTON

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended September 30, 2006

Net changes in fund balances - total governmental funds (Exhibit 4)		$	202,585
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. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays $290,689 exceeded depreciation $(203,230) in the current period.			87,459
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments $ 156,675 exceeded debt proceeds $43,201 .			113,474
Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.			(1,303)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:			
Compensated absences	(3,394)		
Accrued interest on bonds	3,243		(151)
Change in net assets of governmental activities (Exhibit 2)		$	402,064

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

CITY OF HOUSTON
Statement of Net Assets
Proprietary Funds
September 30, 2006

Exhibit 5

	Enterprise Fund Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	$ 706,413
Accounts receivable, net	100,511
Inventories	12,016
Total Current Assets	818,940
Noncurrent assets:	
Restricted cash and cash equivalents:	
Bonds	
Deposits	
Capital assets:	
Land	137,099
Machinery	100,885
Buildings	61,800
Infrastructure	7,598,959
Less accumulated depreciation	(2,930,640)
Total Noncurrent assets	4,968,103
Total assets	5,787,043
LIABILITIES	
Current Liabilities:	
Accrued wages payable	6,958
Internal Balances	2,721
Customer Deposits	52,603
Bonds, notes, and loans payable	100,958
Total Current Liabilities	163,240
Noncurrent Liabilities	
Compensated absence	5,153
Accrued interest payable	3,926
Bonds, notes, and loans payable	2,400,125
Total noncurrent liabilities	2,409,204
Total liabilities	2,572,444
NET ASSETS	
Invested in capital assets, net of related debt	2,467,020
Unrestricted (deficit)	747,579
Total Net Assets	$ 3,214,599

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

CITY OF HOUSTON
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2006

Exhibit 6

	Proprietary Fund Water and Sewer
OPERATING REVENUES	
Charges for services	$ 908,846
Miscellaneous	3,444
Total operating revenues	912,290
OPERATING EXPENSES	
Personal services	268,129
Materials and supplies	45,187
Utilities	112,551
Repairs and maintenance	37,419
Insurance	
Depreciation	195,034
Miscellaneous	68,274
Total operating expenses	726,594
Operating income(loss)	185,696
NONOPERATING REVENUES (EXPENSES)	
Interest expense	145,836
Loss on sale of capital assets	
Total nonoperating revenue (expenses)	145,836
Income (loss) before contributions and transfers	39,860
Transfers In	
Transfers Out	24,110
Change in net assets	15,750
Total net assets beginning	3,198,849
Prior period adjustments	
Restated beginning net assets	3,198,849
Total net assets ending	$ 3,214,599

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

CITY OF HOUSTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Exhibit 7

Cash Flows From Operating Activities		
Operating Income	$	185,696
Adjust net income to cash provided by operations:		
Depreciation Expense		195,034
Increase in accounts receivable		(7,203)
Decrease in inventory		
Decrease in accounts payable		
Decrease in accrued liabilities		(2,965)
Net cash flows from operating activities		370,562
Cash Flows From Noncapital Financing Activities		
Transfers to other funds		(24,110)
Net Cash Flows From Noncapital Financing Activities		(24,110)
Cash Flows From Capital and Related Financing Activities		
Principal paid on capital debt		(95,358)
Interest paid on capital debt		(145,836)
Addition to capital assets		(21,250)
Net Cash Flows From Noncapital Financing Activities		(262,444)
Cash Flows From Investing Activities		
Increase in meter deposits		2,345
Net Cash Flows From Investing Activities		2,345
Net Increase (Decrease) in Cash and Cash Equivalents		86,353
Cash and Cash Equivalents at Beginning of Year		620,060
Cash and Cash Equivalents at End of Year	$	706,413

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

CITY OF HOUSTON
Statement of Fiduciary Assets and Liabilities
September 30, 2006

Exhibit 8

		Agency Funds
ASSETS		
Cash and investments	$	4,852
Total Assets	$	4,852
LIABILITIES		
Intergovernmental payables		4,852
Total Liabilities	$	4,852

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

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Houston was incorporated in 1837 under the laws of the State of Mississippi and operates under a Mayor-Board of Aldermen form of government and provides public safety, streets and sidewalks, water and sewerage, sanitation, health and social services, culture, recreation, education, public improvements, planning and zoning and general administrative services.

B. Basis of Presentation

The city'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 about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the financial condition of the governmental activities of the city 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 city's governmental 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 city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the city.

Fund Financial Statements:

Fund financial statements of the city 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 three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined.

The funds of the City are described below:

Governmental Funds

General Fund

The general fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Funds

The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Debt Service Funds

The Debt Service Funds account for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the city other than debt service payments made by enterprise funds. Ad valorem taxes are used for the payment of principle and interest on the City's judgment.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City's only enterprise fund consists of the Water and Sewer fund.

Fiduciary Funds (Not included in government wide statements)

Expendable Trust Fund

The expendable trust fund is used to account for funds that are to be used for book purchases by the City.

Major Funds

The City reports two major funds as follows:

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

Library Fund – This fund is used to account for the cultural activities of the public library.

C. **Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes as "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Cash and Investments.

For the purpose of the Statement of Net Assets cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments in governmental securities are stated at fair value. However, the city did not invest in any governmental securities during the fiscal year.

E. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

F. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available finance resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

G. Capital Assets.

Capital acquisition and construction are reflected as expenditures in governmental fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statement. All purchased capital assets are stated at historical cost where

records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds.

	Capitalization Thresholds	Estimated Useful Life
Land	$ 0	n/a
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy will correspond with the amounts for the asset classification, as listed above.

H. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

I. 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 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 appropriate or are legally segregated for a specific purpose.

J. Property Tax Revenues.

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Aldermen, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and

collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

K. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

L. Compensated Absences.

The city has adopted a policy of compensation for accumulated unpaid employee benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

2. Deposits

Deposits:

The carrying amount of the city's total deposits with financial institutions at September 30, 2006 and 2005, was $1,412,301 and $1,112,678, and the bank balance was $1,551,568 and $1,214,797. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. 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.

3. Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2006:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund		Amount
Major Funds:			
General Fund	Water & Sewer Fund	$	5,776
Nonmajor governmental funds	Water & Sewer Fund		3,258
Total		$	9,034

The amount payable to the nonmajor governmental funds represents a loan from the fire protection fund to the water & sewer fund. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

Transfer In	Transfer Out		Amount
Major Funds:			
General Fund	Water & Sewer Fund	$	24,110
Nonmajor Governmental Funds	General Fund		97,000
Total		$	121,110

All interfund transfers were routine and consistent with the activities of the fund making the transfer.

4. Intergovernmental Receivables.

State of Mississippi	$ 14,538
Department of Transportation – FAA	42,969
	$ 57,507

5. Capital Assets.

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

Governmental Activities:

		Balance Oct. 1, 2005	Additions	Deletions	Balance Sept. 30, 2006
Non-depreciable capital assets:					
Land	$	304,808	0	0	304,808
Construction in progress		0	211,921	(166,690)	45,231
Total non-depreciable capital assets		304,808	211,921	(166,690)	350,039
Depreciable capital assets:					
Buildings		1,072,581	0	0	1,072,581
Improvements		213,730	0	0	213,730
Infrastructure		5,700,501	171,796	0	5,872,297
Furniture and equipment		378,861	30,461	0	409,322
Vehicles		573,761	43,201	(13,032)	603,930
Total depreciable capital assets		7,939,434	245,458	(13,032)	8,171,860
Less accumulated depreciation for:					
Buildings		452,363	16,759	0	469,122
Improvements		111,119	4,581	0	115,700
Infrastructure		1,575,164	148,217	0	1,723,381
Furniture and equipment		289,976	18,471	0	308,447
Vehicles		501,580	15,202	(11,729)	505,053
Total accumulated depreciation		2,930,202	203,230	(11,729)	3,121,703
Total depreciable capital assets, net		5,009,232	42,228	(1,303)	5,050,157
Governmental activities capital assets, net	$	5,314,040	254,149	(167,993)	5,400,196
Business-type Activities:					
Land	$	137,099	0	0	137,099
Buildings		61,800	0	0	61,800
Improvements		0	0	0	0
Infrastructure		7,598,959		0	7,598,959
Machinery and Equipment		79,635	21,250	0	100,885
Vehicles		0	0	0	0
Total Capital Assets		7,877,493	21,250	0	7,898,743
Less Accumulated Depreciation:					
Buildings		39,520	1,235	0	40,755
Improvements		0	0	0	0
Infrastructure		2,624,415	189,973	0	2,814,388
Machinery and Equipment		71,672	3,825	0	75,497
Total Accumulated Depreciation		2,735,607	195,033	0	2,930,640
Business-type Activities Capital Assets, net	$	5,141,886	-173,783	0	4,968,103

Depreciation expense was charged to the following functions:

		Amount
Governmental Activities		
General government	$	40,939
Public safety		20,974
Public works		141,316
Total governmental activities depreciation expense	$	203,229

6. Claims and Judgments

Risk Financing.

The city finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The city pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is $500,000 for law enforcement personnel and $350,000 for all other employees for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

7. Long-term Debt.

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-like activities.

Governmental Activities:

As of September, 30 2006, the governmental long-term debt of the financial reporting entity consisted of the following:

Description and Purpose		Amount Outstanding	Interest Rate	Final Maturity Date
A. General Obligation Bonds:				
$1,000,000, 1994 Series Street Improvement Bonds, due in annual installments of $45,000 to $90,000 with interest paid semi-annually.	$	265,000	4.0 to -5.5%	03/01/09
$220,000, 2002 Series Street Improvement Bonds, due in annual installments of $20,000 to $25,000 with interest paid semi-annually.		160,000	4.1%	11/01/12
Total General Obligation Bonds	$	425,000		
Current Portion	$	105,000		
Noncurrent Portion	$	320,000		

B. Capital Leases:

$23,853, Capital Lease issued November 25, 2005 due in monthly installments of $705.83 (2006 Ford)	$	17,522	4.15%	12/25/08
$19,348, Capital Lease issued February 25, 2006 due in monthly installments of $572.52 (2006 GMC)		15,254	4.15%	02/25/09
Total Capital Leases	$	32,776		
Current Portion	$	14,249		
Noncurrent Portion	$	18,527		

C. Compensated Absences:

Current Portion	$	1,956
Noncurrent Portion		37,155
Total Compensated Absences	$	39,111
Total Governmental Activities Debt	$	496,887
Current Portion	$	121,205
Noncurrent Portion	$	375,682

As of September 30, 2006, the long-term debt payable from proprietary fund resources consisted of the following:

A. Revenue Bonds

$530,000, 1974 Series, combined water and sewer system bonds, due in monthly installments of $2,795.	$	79,530	5.00%	01/01/09
$280,000, 1988 Series, combined water and sewer system bonds, due in annual installments of $10,000 to $25,000 with interest paid semi-annually		50,000	7.75%	05/01/08
$2,356,000, 1998 Series, combined water and sewer system bonds, due in monthly installments of $12,085.		2,117,566	4.875%	03/02/30
$200,000, 1989 Series, combined water and sewer system junior lien bonds, due in annual installments of $5,000 to $20,000 with interest paid semi-annually.		50,000	7.3 to 9%	06/01/09
$224,000, 2000 Series, combined water and sewer system bonds, due in monthly installments of $1,080.		203,987	4.375%	12/30/10
Total Revenue Bonds	$	2,501,083		
Current Portion	$	100,958		
Noncurrent Portion	$	2,400,125		

B.	Compensated Absences:		
	Current Portion	$	1,718
	Noncurrent Portion		3,435
		$	5,153
	Total Business-Activities Debt	$	2,506,236
	Current Portion	$	102,676
	Noncurrent Portion	$	2,403,560

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2006.

		Balance Oct. 1 2005	Additions	Deductions	Balance Sept. 30 2006	Amounts Due Within One Year
Governmental Activities						
Bonds Payable	$	525,000		100,000	425,000	105,000
Loans Payable		46,250		46,250	0	0
Capital Leases Payable		0	43,201	10,425	32,776	14,249
Compensated Absences		35,716	3,395		39,111	1,956
Total Governmental Activities	$	606,966	46,596	156,675	496,887	121,205
Business-Type Activities						
Revenue Bonds	$	2,591,247		90,164	2,501,083	100,958
Loans Payable		5,194		5,194	0	0
Compensated Absences		5,332		179	5,153	1,718
Total Business-Type Activities	$	2,601,773	43,201	95,537	2,506,236	102,676

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
September 30	Principal	Interest	Principal	Interest
2007	119,249	18,589	100,958	138,085
2008	124,852	14,703	105,819	130,262
2009	113,675	6,832	90,687	122,331
2010	25,000	3,588	75,562	115,956
2011	25,000	2,563	77,160	94,762
2012 and after	50,000	2,050	2,050,897	848,763
	457,776	48,325	2,501,083	1 450,159

Legal Debt Margin – The amount of debt, excluding specific exempted debt, that can be incurred by the city is limited by the state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the city. As of September 30, 2006, the amount of outstanding debt was equal to 2.09% of the latest property assessments.

8. Contingencies.

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

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

9. Defined Benefit Pension Plan.

Plan Description. City of Houston, 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.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the city is required to contribute at an actuarially determined rate. The current rate is 10.75% 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's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005, and 2004 were $115,570, $107,805 and $95,142, respectively, equal to the required contributions for each year.

10. Subsequent Events.

Subsequent to September 30, 2006, the city had no subsequent events that were required to be disclosed in the notes to the financial statements.

CITY OF HOUSTON

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOUSTON, MISSISSIPPI
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2006

		Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES					
Property taxes	$	668,900	664,900	710,665	45,765
Road and bridge privilege taxes		22,500	22,500	25,786	3,286
Licenses, commissions and other revenue		10,700	10,700	11,931	1,231
Fines and forfeitures		45,000	55,000	75,205	20,205
Special assessments					0
Intergovernmental revenues		938,352	975,852	1,069,377	93,525
Charges for services		160,000	160,000	159,061	(939)
Interest income		20,000	38,000	41,138	3,138
Miscellaneous revenues		135,900	182,900	87,011	(95,889)
Total Revenues		2,001,352	2,109,852	2,180,174	70,322
EXPENDITURES					
Current:					
General government		367,650	386,050	373,657	12,393
Public safety		848,095	860,465	833,890	26,575
Public works		686,720	702,970	641,642	61,328
Debt service:					
Principal		45,104	45,104	56,675	(11,571)
Interest				3,183	(3,183)
Capital Outlay		39,000	50,133	58,528	(8,395)
Total Expenditures		1,986,569	2,044,722	1,967,575	77,147
Excess of Revenues over (under) Expenditures		14,783	65,130	212,599	147,469
OTHER FINANCING SOURCES (USES)					
Long-term debt issued					0
Refunding bonds issued					0
Proceeds from sale of capital assets					0
Premiums on bonds issued					0
Compensation for loss of capital assets					0
Transfers in				24,110	24,110
Transfers out		(108,200)	(98,200)	(97,000)	1,200
Payment to bond refunding escrow agent					0
Discount on bonds issued					0
Other financing sources					0
Other financing uses					0
Total Other Financing Sources and Uses		(108,200)	(98,200)	(72,890)	25,310
Net Change in Fund Balance		(93,417)	(33,070)	139,709	172,779
Fund Balances - Beginning		303,357	303,357	303,357	0
Fund Balances - Ending	$	209,940	270,287	443,066	172,779

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

CITY OF HOUSTON, MISSISSIPPI
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Library Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	$ 72,450	72,450	70,869	(1,581)
Miscellaneous revenues	1,350	1,350	1,691	341
Total Revenues	73,800	73,800	72,560	(1,240)
EXPENDITURES				
Current:				
Culture and recreation	90,255	90,255	62,968	27,287
Total Expenditures	90,255	90,255	62,968	27,287
Excess of Revenues over (under) Expenditures	(16,455)	(16,455)	9,592	26,047
OTHER FINANCING SOURCES (USES)				
Other financing uses				0
Total Other Financing Sources and Uses	0	0	0	0
Net Change in Fund Balance	(16,455)	(16,455)	9,592	26,047
Fund Balances - Beginning	93,335	93,335	93,335	0
Fund Balances - Ending	$ 76,880	76,880	102,927	26,047

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and revisions.

The budget is adopted by the board of aldermen and filed with the taxing authority. Amendments can be made on the approval of the board. By statute, final budget revisions must be approved on or before the date established by the State of Mississippi. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

CITY OF HOUSTON, MISSISSIPPI

SUPPLEMENTAL INFORMATION

CITY OF HOUSTON, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
September 30, 2006

EMPLOYEE	POSITION	SURETY	AMOUNT OF BOND
Bobby H. Sanderson	City Clerk	Union Ins.	50,000
	City Clerk	Brierfield	86,000
	City Clerk	Tabb Ins.	166,000
Barbara Buggs	Deputy Clerk	Tabb	23,000
Angela McFarland	Deputy Clerk	Tabb	23,000
Mary Harville	Deputy Clerk	Tabb	22,500
Kathy Smith	Deputy Clerk	Tabb	22,500
Billy Voyles	Police Chief	Union Ins.	50,000
Stacey W. Parker	Mayor	Western Surety	50,000
Policemaen*	Officers	Fidelity & Deposit	25,000
Dispatchers*	Dispatcher	Fidelity & Deposit	25,000
Barry Springer	Alderman	Travelers	80,000
Willie Mae McKinney	Alderman	Travelers	80,000
Frank Thomas	Alderman	Travelers	80,000
Shenia Jones	Alderwoman	Travelers	80,000
Thomas Griffin	Alderman	Travelers	80,000

*Commercial Insurance - Public employee dishonesty coverage for eight (8) policemen and Five (5) dispatchers

CITY OF HOUSTON, MISSISSIPPI
RECONCILIATION OF ORIGINAL AD VALOREM TAX ROLLS TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Assessed Valuation and Millage:	Assessed Values	Mills	Amount	
Realty	$ 14,041,402	84.50	1,186,498	
Personal	7,822,375	84.50	660,991	
Utility	738,477	84.50	62,401	
				$ 1,909,890
Total Assessment				
Adjustments:				
Less: Homestead Exemption			$ (212,825)	
Industrial Realty Exemption			(17,730)	
Industrial Personal Realty Exemption			(49,893)	
Delinquent Personal Property Tax			(6,369)	
Delinquent Real Property Tax			(2,060)	
Refund			(925)	
Add: Sewer & Street Assessment			9,016	
Priviledge Licenses			14,157	
Interest Charges			7,704	
Net Adjustment				(258,925)
Total To Account For				$ 1,650,965
Collection Credit to Funds:				
General Fund			$ 531,247	
Library Fund			54,140	
Park Fund			73,757	
School Maintenance			938,585	
Sewer and Paving Receipts			7,704	
Interest and Penalty			22,412	
Priviledge License			14,157	
Special St. G.O.			9,016	
Unaccounted For			(53)	
Total Accounted For				$ 1,650,965

CITY OF HOUSTON, MISSISSIPPI

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
Harry W. Stevens, CPA
Boyd M. Edwards, CPA
Paul A. Ray, CPA
S. Keith Winfield, CPA
William B. Staggers, 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

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

Mayor and Board of Aldermen
City of Houston, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi as of and for the year ended September 30, 2006, and have issued our report thereon dated January 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the city'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 a material weakness. 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 caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any 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 the board of aldermen and management 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 in not limited.

January 24, 2007

Watkins, Ward and Stafford, PLLC

CITY OF HOUSTON, MISSISSIPPI

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

Watkins, Ward and Stafford
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James L. Stafford, CPA
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen
City of Houston, Mississippi

We have audited the general purpose financial statements of the City of Houston, Mississippi as of and for the year ended September 30, 2006, and have issued our report thereon dated January 24, 2007. We have 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 those procedures and our audit of the general purpose financial statements disclosed no material instances of noncompliance with state laws and regulations. The prior year findings have been corrected.

This report is intended solely for the information of the City's management and the Office of the State Auditor 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.

January 24, 2007

Watkins, Ward and Stafford, PLLC