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STATE AUDITOR'S OFFICE

**CITY OF IUKA, MISSISSIPPI  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
YEAR ENDED SEPTEMBER 30, 2006**

**CITY OF IUKA, MISSISSIPPI**  
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**September 30, 2006**

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**INDEPENDENT AUDITORS' REPORT  
ON THE BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

Honorable Mayor and Members  
of the Board of Aldermen  
City of Iuka, 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 Iuka, 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 the City of Iuka, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Iuka, Mississippi, as of September 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2007, on our consideration of the City of Iuka, Mississippi's internal control over financial reporting and on 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 3 through 7 and Budgetary Comparison Schedule and corresponding notes on pages 33 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Brauner, Vanstoy & Co., P.A.*

January 4, 2007  
Booneville, Mississippi

**City of Iuka  
Management's Discussion and Analysis  
For the Year Ended September 30, 2006**

This Discussion and Analysis of the City of Iuka's 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 decreased \$133,062 or 1.7% from 2005.

Overall, the book value of capital assets decreased by \$340,963 from 2005.

**Using this Annual Financial Reports**

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 Iuka 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 Statements 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 the total in one column.

**Reporting the City of Iuka 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, all of the City's activities are reported as Governmental Activities, and Business Type Activities which include all of the City's services including police, fire, administration, gas, water and sewer, and all other departments. The City of Iuka has no Component units.

**Reporting of the City of Iuka's Most Significant Funds**

**Fund Financial Statements**

The analysis of the City's major funds begins on page 10. Fund financial reports provide detailed information about the City's major funds. Based on the restrictions on the use of monies, the city has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Iuka, the City's major funds are the General, Gas System, and Water and Sewer System.

**City of Iuka  
Management's Discussion and Analysis  
For the Year Ended September 30, 2006**

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial systems. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a city's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital project funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand long-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Charges in Fund Balances" provide a reconciliation to facilitate this comparison between governmental activities. These reconciliations are on pages 11 and 13, respectively.

The city maintains individual governmental funds in accordance with Mississippi Municipal Audit and Accounting Guide issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The Basic governmental funds financial statements can be found on pages 10 and 12 of this report.

**Proprietary Funds**

Proprietary Funds are maintained two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The City uses enterprise funds to account for the City of Iuka Natural Gas System, City of Iuka Combined Water & Sewer System, and City of Iuka Sanitation Fund.

Fund financial statements for the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of Iuka Natural Gas System and the City of Iuka Combined Water & Sewer System are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. The proprietary funds financial statements can be found on pages 14 - 16 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of data provided in government-wide and fund financial statements. The notes can be found on pages 18 - 31 of this report.

**The City of Iuka 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.

**City of Iuka  
Management's Discussion and Analysis  
For the Year Ended September 30, 2006**

**THE CITY AS A WHOLE**

(Table 1)  
**Net Assets  
Government Wide**

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)
	2006	2005	2006	2005	2006	2005	
Current and Other Assets	\$ 1,075,425	\$ 1,115,611	\$ 2,159,779	\$ 2,227,473	\$ 3,235,204	\$ 3,343,084	\$ (107,880)
Capital Assets, Net	951,143	985,002	8,054,699	8,361,802	9,005,842	9,346,804	(340,962)
Total Assets	2,026,568	2,100,613	10,214,478	10,589,275	12,241,046	12,689,888	(448,842)
Long-Term Debt	811,607	911,092	2,924,692	3,123,624	3,736,299	4,034,716	\$ (298,417)
Other Liabilities	280,725	287,845	510,147	520,390	790,872	808,235	(17,363)
Total Liabilities	1,092,332	1,198,937	3,434,839	3,644,014	4,527,171	4,842,951	(315,780)
Investments in Capital Assets,							
Net of Debt	909,155	944,399	5,130,007	5,238,178	6,039,162	6,182,577	\$ (143,415)
Restricted	168,917	214,864	-	-	168,917	214,864	(45,947)
Unrestricted	(143,836)	(257,587)	1,649,632	1,707,083	1,505,796	1,449,496	56,300
Total Net Assets	\$ 934,236	\$ 901,676	\$ 6,779,639	\$ 6,945,261	\$ 7,713,875	\$ 7,846,937	\$ (133,062)

The City's total assets decreased \$448,842 during 2006 with business-type activities showing a decrease of \$374,797 and governmental activities showing a decrease of \$74,045. The major changes were a \$149,060 decrease in cash; \$340,962 decrease in capital assets; a \$8,535 increase in inventory of material and supplies; and \$31,983 increase in property tax and other receivables.

The City's total liabilities decreased \$315,780, mainly due to governmental activities and business-type activities payments of long-term debt

The City's net assets decreased \$133,062 due to net excess expenses for both activity types.

**City of Iuka  
Management's Discussion and Analysis  
For the Year Ended September 30, 2006**

Table 2 shows the Change in Net Assets for the year ended September 30, 2006. A comparative analysis of government-wide data is as follows:

(Table 2)  
Changes in Net Assets  
Government Wide

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)
	2006	2005	2006	2005	2006	2005	
<b>Program Revenues:</b>							
Charges for Services	\$ 66,371	\$ 42,340	\$ 3,048,015	\$ 2,543,178	\$ 3,114,386	\$ 2,585,518	\$ 528,868
Grants and Donations	76,530	42,323	2,770	20,230	79,300	62,553	16,747
<b>General Revenues:</b>							
Property Taxes	289,223	285,835	-	-	289,223	285,835	3,388
Intergovernmental Revenues	825,625	802,987	-	-	825,625	802,987	22,638
Investment Income	28,665	27,660	59,363	55,256	88,028	82,916	5,112
Other Taxes and Other	183,752	149,855	-	301	183,752	150,156	33,596
<b>Total Revenues</b>	<b>1,470,166</b>	<b>1,351,000</b>	<b>3,110,148</b>	<b>2,618,965</b>	<b>4,580,314</b>	<b>3,969,965</b>	<b>610,349</b>
<b>Program Expenses:</b>							
General Government	216,789	209,201	-	-	216,789	209,201	7,588
Public Safety	789,173	784,045	-	-	789,173	784,045	5,128
Public Works	292,508	379,457	-	-	292,508	379,457	(86,949)
Culture and Recreation	102,831	86,918	-	-	102,831	86,918	15,913
Gas System	-	-	2,097,411	1,606,000	2,097,411	1,606,000	491,411
Water and Sewer	-	-	1,008,624	985,513	1,008,624	985,513	23,111
Other Business-Type	-	-	169,735	159,874	169,735	159,874	9,861
Interest on Long-Term Debt	36,305	41,646	-	-	36,305	41,646	(5,341)
<b>Total Program Expenses</b>	<b>1,437,606</b>	<b>1,501,267</b>	<b>3,275,770</b>	<b>2,751,387</b>	<b>4,713,376</b>	<b>4,252,654</b>	<b>460,722</b>
<b>Increase (Decrease) in Net Assets before Transfers</b>	<b>32,560</b>	<b>(150,267)</b>	<b>(165,622)</b>	<b>(132,422)</b>	<b>(133,062)</b>	<b>(282,689)</b>	<b>149,627</b>
Transfers	-	17,000	-	(17,000)	-	-	-
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 32,560</b>	<b>\$ (133,267)</b>	<b>\$ (165,622)</b>	<b>\$ (149,422)</b>	<b>\$ (133,062)</b>	<b>\$ (282,689)</b>	<b>\$ 149,627</b>

The decrease in net assets identified in Table 2 was due to expenses exceeding revenue during 2006. This decrease was mainly due to depreciation expense.

**City of Iuka  
Management's Discussion and Analysis  
For the Year Ended September 30, 2006**

Major expense activities under the accrual basis of accounting, included: Public Safety expenses accounting for 16.74% of the total program expenses; Public Works accounting for 6.21%; and Public Utilities accounting for 69.5%. The City is committed to providing the basic services that our residents expect.

**The City Funds**

Information about the City's major governmental funds begins on page 10. These funds are accounted for using the modified accrual basis of accounting. All Governmental funds had total revenues of \$1.46 million and expenditures of \$1.53 million.

The fund balance of the general fund remained relatively constant, increasing by \$31,366.

**General Fund Budgeting Highlights**

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

During the course of 2006, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Board of Aldermen. The City does not allow budget changes that modify line items within departments without board approval. With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely, looking for possible revenue shortfalls or over spending by individual departments. For the General Fund, original budgeted revenues were \$1,152,000; final budget amounts were \$1,155,000; and actual revenue collections were \$1,214,432. The major factor contributing to the increase of actual revenues over budgeted amounts were increased revenues for the categories of taxes and intergovernmental revenues.

**Capital Assets and Debt Administration**

**Capital Assets.** As of September 30, 2006, the City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities was \$951,143 and \$8,054,699, respectively. The governmental activities increased \$31,683 and business-type activities increased \$31,109. These increases were due primarily because of the addition of new equipment.

Additional information of the City's capital assets can be found in Note 5 on pages 26 & 27 of this report.

**Debt Administration.** At September 30, 2006, the City had \$3,736,299 in general obligation bonds and other long-term debt outstanding, of which \$328,066 is due within one year. Additional information of the City's long-term debt can be found in Note 6 on pages 27, 28, and 29 of this report.

**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 show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Benny Gray, City Clerk, at Iuka City Hall located at 118 South Pearl Street, Iuka, MS 38852

CITY OF IUKA, MISSISSIPPI  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

	Governmental Activities	Business Type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 719,991	\$ 1,487,774	\$ 2,207,765
Property tax receivable	197,317	-	197,317
Fines receivable, net	24,545	-	24,545
Franchise Fee receivable	17,348	-	17,348
Accounts receivable	-	303,441	303,441
Interest receivable	137	37	174
Due from other funds	7,092	4,624	11,716
Intergovernmental receivables	63,636	-	63,636
Inventories	-	160,872	160,872
Prepaid expenses	21,738	18,150	39,888
Restricted cash	-	142,358	142,358
Total Current Assets	<u>1,051,804</u>	<u>2,117,256</u>	<u>3,169,060</u>
Non-Current Assets:			
Bond issue cost, net	23,621	31,123	54,744
Franchise rights	-	11,400	11,400
Capital assets, net			
Land and construction in progress	179,880	62,900	242,780
Other capital assets, net	771,263	7,991,799	8,763,062
Total Non-Current Assets	<u>974,764</u>	<u>8,097,222</u>	<u>9,071,986</u>
Total Assets	<u>2,026,568</u>	<u>10,214,478</u>	<u>12,241,046</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	63,823	182,680	246,503
Accrued liabilities	13,930	48,108	62,038
Accrued interest payable	9,972	20,301	30,273
Customer deposits	-	259,058	259,058
Deferred revenue	193,000	-	193,000
Capital related debt-current	18,017	195,049	213,066
Non-capital related debt-current	115,000	-	115,000
Total Current Liabilities	<u>413,742</u>	<u>705,196</u>	<u>1,118,938</u>
Non-Current Liabilities:			
Capital related debt-non current	23,971	2,729,643	2,753,614
Non-capital related debt-non-current	630,000	-	630,000
Compensated absences	24,619	-	24,619
Total Non-Current Liabilities	<u>678,590</u>	<u>2,729,643</u>	<u>3,408,233</u>
Total Liabilities	<u>1,092,332</u>	<u>3,434,839</u>	<u>4,527,171</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	909,155	5,130,007	6,039,162
Restricted Net Assets			
Debt service	141,103	-	141,103
Capital projects	27,814	-	27,814
Unrestricted	<u>(143,836)</u>	<u>1,649,632</u>	<u>1,505,796</u>
Total Net Assets	<u>\$ 934,236</u>	<u>\$ 6,779,639</u>	<u>\$ 7,713,875</u>

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

City of Iuka, Mississippi  
Statement of Activities  
For The Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues			Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business Type Activities	
<b>Primary government:</b>							
<b>Governmental activities:</b>							
General government	\$ 216,789	3,250	-	-	(213,539)	-	(213,539)
Public safety	789,173	63,121	2,709	73,821	(649,522)	-	(649,522)
Public works	292,508	-	-	-	(292,508)	-	(292,508)
Culture & Recreation	102,831	-	-	-	(102,831)	-	(102,831)
Interest on long-term liabilities	36,305	-	-	-	(36,305)	-	(36,305)
<b>Total Governmental Activities</b>	<b>1,437,606</b>	<b>66,371</b>	<b>2,709</b>	<b>73,821</b>	<b>(1,294,705)</b>	<b>-</b>	<b>(1,294,705)</b>
<b>Business-type activity</b>							
Gas System	2,097,411	2,037,217	1,385	-	-	(58,809)	(58,809)
Water System	773,816	658,312	1,385	-	-	(114,119)	(114,119)
Sewer System	234,808	199,754	-	-	-	(35,054)	(35,054)
Other Business Types	169,735	152,732	-	-	-	(17,003)	(17,003)
<b>Total Business-Type Activities</b>	<b>3,275,770</b>	<b>3,048,015</b>	<b>2,770</b>	<b>-</b>	<b>-</b>	<b>(224,985)</b>	<b>(224,985)</b>
<b>Total Primary Government</b>	<b>\$ 4,713,376</b>	<b>3,114,386</b>	<b>5,479</b>	<b>73,821</b>	<b>(1,294,705)</b>	<b>(224,985)</b>	<b>(1,519,690)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Taxes, General					174,294	-	174,294
Property Taxes, Debt Service					114,929	-	114,929
Franchise Taxes					73,689	-	73,689
Licenses and Permits					10,718	-	10,718
Intergovernmental Revenue					825,625	-	825,625
Unrestricted investment income					28,665	59,363	88,028
Miscellaneous					99,345	-	99,345
<b>Total General Revenues and Transfers</b>					<b>1,327,265</b>	<b>59,363</b>	<b>1,386,628</b>
<b>Change in Net Assets</b>					<b>32,560</b>	<b>(165,622)</b>	<b>(133,062)</b>
<b>Total Net Assets-Beginning</b>					<b>901,676</b>	<b>6,945,261</b>	<b>7,846,937</b>
<b>Net Assets-Ending</b>					<b>\$ 934,236</b>	<b>\$ 6,779,639</b>	<b>\$ 7,713,875</b>

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash	\$ 268,638	\$ 451,353	\$ 719,991
Property taxes receivable	140,270	57,047	197,317
Fines receivable, net	24,545	-	24,545
Utility tax receivable	17,348	-	17,348
Interest receivable	-	137	137
Due from other funds	12,029	866	12,895
Intergovernmental receivables	63,636	-	63,636
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 526,466	\$ 509,403	\$ 1,035,869
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<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable	\$ 62,131	\$ 1,692	\$ 63,823
Accrued liabilities	13,649	281	13,930
Deferred revenue	162,545	55,000	217,545
Due to other funds	5,000	803	5,803
	<hr/>	<hr/>	<hr/>
Total Liabilities	243,325	57,776	301,101
	<hr/>	<hr/>	<hr/>
<u>Fund Balances</u>			
<u>Reserved:</u>			
Debt service	-	141,103	141,103
<u>Unreserved:</u>			
General	283,141	-	283,141
Special Revenue	-	282,710	282,710
Capital Projects	-	27,814	27,814
	<hr/>	<hr/>	<hr/>
Total Fund Balances	283,141	451,627	706,954
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 526,466	\$ 509,403	\$ 1,008,055
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The notes to the financial statements are an integral part of this statement.

City of Iuka, Mississippi  
 Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of  
 Net Assets  
September 30, 2006

Total fund balance, governmental funds	\$ 734,768
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets of \$1,648,984 net of accumulated depreciation of (\$877,721) are not financial and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	951,143
Certain other long-term assets are not available to pay current period expenditures and therefore, are deferred in the funds. These include deferred fines receivable net of uncollectibles.	24,545
Governmental funds report debt issuance cost as expenditures because such outlays use current financial resources, but are reported in the governmental activities of the Statement of Net Assets, net of amortization	23,621
Long-term liabilities of (\$786,988) are not due and payable in the current period and are not reported in the funds. Other related amounts include bond interest payable of (\$9,972) and long-term compensated absences of \$24,619.	(821,579)
Prepaid expenses are not financial resources, and, therefore, are not reported in the funds.	<u>21,738</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u><u>\$ 934,236</u></u>

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

CITY OF IUKA, MISSISSIPPI  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>			
Taxes	\$ 226,889	\$ 136,023	\$ 362,912
License and Permits	10,718	-	10,718
Intergovernmental Revenues	815,054	87,101	902,155
Charges for Service	3,250	-	3,250
Fines and Forfeits	56,911	-	56,911
Miscellaneous	108,246	19,764	128,010
<b>Total Revenues</b>	<u>1,221,068</u>	<u>242,888</u>	<u>1,463,956</u>
<u>Expenditures</u>			
General Government	211,231	-	211,231
Public Safety	774,867	-	774,867
Public Works	140,757	146,466	287,223
Culture and Recreation	62,322	24,716	87,038
Debt Service:			
Principal	24,950	105,000	129,950
Interest and Fiscal Changes	1,910	36,075	37,985
<b>Total Expenditures</b>	<u>1,216,037</u>	<u>312,257</u>	<u>1,528,294</u>
Excess of Revenues Over (Under) Expenditures	<u>5,031</u>	<u>(69,369)</u>	<u>(64,338)</u>
<u>Other Financing Sources (Uses)</u>			
Proceeds from Capital Lease	26,335	-	26,335
Total Other Financing Sources (Uses)	<u>26,335</u>	<u>-</u>	<u>26,335</u>
Net Change in Fund Balance	<u>31,366</u>	<u>(69,369)</u>	<u>(38,003)</u>
Fund Balance - Beginning of Year	<u>251,775</u>	<u>520,996</u>	<u>772,771</u>
Fund Balance - End of Year	<u>\$ 283,141</u>	<u>\$ 451,627</u>	<u>\$ 734,768</u>

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

City of Iuka, Mississippi  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
 Governmental Funds to the Government-Wide Statement of Activities  
 For the Year Ended September 30, 2006

Net change in fund balances - total governmental funds:	\$ (38,003)
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 these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$65,542) exceeded capital outlays (\$31,683) in the current period.	(33,859)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This includes an increase of \$6,210 in the City's fines revenue.	6,210
The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net 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. This is the amount by which debt repayments of \$129,950 exceeded debt proceeds of \$26,335.	103,615
Some expenses reported in the statement of activities do require the use of current financial resources and are not reported as expenditures in governmental funds. These include the net increase in compensated absences of \$4,131, the amortization of bond cost on \$2,952, and reduction in accrued interest of \$1,680.	<u>(5,403)</u>
Change in net assets of governmental activities	<u><u>\$ 32,560</u></u>

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

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

	Business Type Activities			Total
	Gas System	Water and Sewer	Other Business Types	
<b>ASSETS</b>				
<u>Current Assets</u>				
Cash	\$ 991,631	\$ 387,300	\$ 108,843	\$ 1,487,774
Accounts Receivable	157,452	126,953	19,036	303,441
Interest Receivable	-	37	-	37
Due from Other Funds	155,158	4,544	109	159,811
Inventory	132,831	-	-	132,831
Inventory-Gas	28,041	-	-	28,041
Prepaid Expenses	7,149	7,069	3,932	18,150
Total Current Assets	<u>1,472,262</u>	<u>525,903</u>	<u>131,920</u>	<u>2,130,085</u>
<u>Restricted Assets</u>				
Cash	-	142,358	-	142,358
Total Restricted Assets	<u>-</u>	<u>142,358</u>	<u>-</u>	<u>142,358</u>
<u>Non-Current Assets</u>				
<u>Capital Assets</u>				
Land and construction in progress	550	62,350	-	62,900
Other capital assets, net	566,770	7,411,447	13,582	7,991,799
Bond Issue Cost, net	-	31,123	-	31,123
Franchise Rights	11,400	-	-	11,400
Total Non-Current Assets	<u>578,720</u>	<u>7,504,920</u>	<u>13,582</u>	<u>8,097,222</u>
Total Assets	<u>2,050,982</u>	<u>8,173,181</u>	<u>145,502</u>	<u>10,369,665</u>
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accounts Payable	140,020	28,734	13,926	182,680
Accrued Liabilities	14,112	48,439	5,858	68,409
Customer Deposits	152,573	106,485	-	259,058
Due to Other Funds	2,500	152,171	516	155,187
Current Portion of Long-Term Debt	4,340	190,709	-	195,049
Total Current Liabilities	<u>313,545</u>	<u>526,538</u>	<u>20,300</u>	<u>860,383</u>
<u>Non-Current Liabilities</u>				
Bonds Payable	-	2,729,643	-	2,729,643
Total Non-Current Liabilities	<u>-</u>	<u>2,729,643</u>	<u>-</u>	<u>2,729,643</u>
Total Liabilities	<u>313,545</u>	<u>3,256,181</u>	<u>20,300</u>	<u>3,590,026</u>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	562,980	4,553,445	13,582	5,130,007
Unrestricted	1,174,457	363,555	111,620	1,649,632
Total Net Assets	<u>\$ 1,737,437</u>	<u>\$ 4,917,000</u>	<u>\$ 125,202</u>	<u>\$ 6,779,639</u>

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

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

	Business Type Activities			Total
	Gas System	Water and Sewer	Other Business Types	
<b><u>OPERATING REVENUES</u></b>				
Charges for Service	\$ 2,021,105	\$ 857,478	\$ 152,732	\$ 3,031,315
Other	16,112	588	-	16,700
Total Operating Revenues	<u>2,037,217</u>	<u>858,066</u>	<u>152,732</u>	<u>3,048,015</u>
<b><u>OPERATING EXPENSES</u></b>				
Personal Services	333,302	287,759	88,289	709,350
Contractual Services	21,652	25,223	-	46,875
Materials and Supplies	12,287	31,042	1,113	44,442
Repairs and Maintenance	18,446	22,302	-	40,748
Purchase of Gas	1,593,550	-	-	1,593,550
Rent	30,950	30,000	-	60,950
Vehicle Expense	15,074	14,585	11,174	40,833
Utilities	458	93,595	-	94,053
Insurance	12,789	16,906	-	29,695
Depreciation	44,281	293,932	-	338,213
Other	14,247	36,186	69,159	119,592
Total Operating Expenses	<u>2,097,036</u>	<u>851,530</u>	<u>169,735</u>	<u>3,118,301</u>
Operating Income (Loss)	<u>(59,819)</u>	<u>6,536</u>	<u>(17,003)</u>	<u>(70,286)</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>				
Interest and Fiscal Charges	(375)	(151,048)	-	(151,423)
Interest Income	35,793	19,707	3,863	59,363
Paying Agent Fees	-	(1,811)	-	(1,811)
Bond Insurance Cost	-	(4,235)	-	(4,235)
State and Local Grants	1,385	1,385	-	2,770
Total Non-operating Revenues (Expenses)	<u>36,803</u>	<u>(136,002)</u>	<u>3,863</u>	<u>(95,336)</u>
Change in Net Assets	<u>(23,016)</u>	<u>(129,466)</u>	<u>(13,140)</u>	<u>(165,622)</u>
Net Assets - Beginning of Year	<u>1,760,453</u>	<u>5,046,466</u>	<u>138,342</u>	<u>6,945,261</u>
Net Assets - End of Year	<u>\$ 1,737,437</u>	<u>\$ 4,917,000</u>	<u>\$ 125,202</u>	<u>\$ 6,779,639</u>

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

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

	Business Type Activities			Total
	Gas System	Water and Sewer	Other Business Types	
<u>Cash Flows From Operating Activities</u>				
Cash Received from Customer	\$ 2,031,191	\$ 857,094	\$ 152,397	\$ 3,040,682
Cash Payments for Goods and Service	(1,732,592)	(265,226)	(81,836)	(2,079,654)
Cash Payments to Employees	(332,500)	(287,277)	(88,199)	(707,976)
Net Cash Provided By Operating Activities	<u>(33,901)</u>	<u>304,591</u>	<u>(17,638)</u>	<u>253,052</u>
<u>Cash Flows From Noncapital Financing Activities</u>				
Increase (Decrease) in Due to Other Funds	(5,873)	3,930	(90)	(2,033)
Net Cash Provided By Noncapital Financing Activities	<u>(5,873)</u>	<u>3,930</u>	<u>(90)</u>	<u>(2,033)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>				
Payments for Capital Acquisitions	(20,866)	(10,243)	-	(31,109)
Principal Payments on Debt	(11,618)	(197,314)	-	(208,932)
Interest Payments on Debt	(375)	(154,880)	-	(155,255)
Other Receipts	1,465	4,220	-	5,685
State and Local Grants	1,385	1,385	-	2,770
Paying Agent Fees	-	(1,811)	-	(1,811)
Net Cash Used By Capital and Related Financing Activities	<u>(30,009)</u>	<u>(358,643)</u>	<u>-</u>	<u>(388,652)</u>
<u>Cash Flows From Investing Activities</u>				
Interest Received	35,793	19,707	3,863	59,363
Net Cash Provided By Investing Activities	<u>35,793</u>	<u>19,707</u>	<u>3,863</u>	<u>59,363</u>
Net Increase (Decrease) in Cash	(33,990)	(30,415)	(13,865)	(78,270)
Cash and Cash Equivalent - Beginning	1,025,621	560,073	122,708	1,708,402
Cash and Cash Equivalent - Ending	<u>\$ 991,631</u>	<u>\$ 529,658</u>	<u>\$ 108,843</u>	<u>\$ 1,630,132</u>
Reconciliation of Operating-Income (Loss) to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ (59,819)	\$ 6,536	\$ (17,003)	\$ (70,286)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	44,281	293,932	-	338,213
Receivables	(6,026)	(972)	(335)	(7,333)
Payables	(1,629)	978	750	99
Inventory	(8,535)	-	-	(8,535)
Prepaid Expenses	(2,173)	4,117	(1,050)	894
Net Cash Provided (Used) by Operating Activities:	<u>\$ (33,901)</u>	<u>\$ 304,591</u>	<u>\$ (17,638)</u>	<u>\$ 253,052</u>

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

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

	<u>AGENCY FUNDS</u>
<u>Assets</u>	
Cash	<u>\$ 42,204</u>
 Total Assets	 <u><u>\$ 42,204</u></u>
 <u>Liabilities</u>	
Accrued Liabilities	\$ 30,488
Due to Other Funds	<u>11,716</u>
 Total Liabilities	 <u><u>\$ 42,204</u></u>

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

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

1. Summary of Significant Accounting Policies

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

The accounting policies of the City of Iuka conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the Mayor and Board of Aldermen.

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 Fund Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities and business type activities of the 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 and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the 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 governmental, proprietary and fiduciary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

1. Summary of Significant Accounting Policies – Continued

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenue is recognized when the provider government recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) Pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

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 expense are classified as non-operating in the financial statements.

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

Governmental Funds:

The City reports the following major governmental funds:

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

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

1. Summary of Significant Accounting Policies – Continued

PROPRIETARY FUNDS:

The City reports the following major enterprise funds:

Gas System – Accounts for the operating activities of the City’s natural gas services.

Water and Sewer System – Accounts for the operating activities of the City’s water and sewer utility services.

FIDUCIARY FUND TYPES

Agency Funds – These funds account for various taxes, deposits and other monies collected or held by the City acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Cash and Investments

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state.

Cash, for the purpose of the Statement of Net Assets and Statement of Cash Flows, consists of demand and savings accounts, and certificates of deposit with a maturity of three months or less.

E. Receivables

In the government-wide statements, receivables consist of all revenue earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon estimates by management. Major receivable balances for the governmental activities include sales tax, property taxes, grants and police fines. Business-type activities report utilities earnings as their major receivables.

The 2006 taxes of \$193,000 are included in deferred revenue and not current revenue in the governmental activities because they are levied to fund the 2006-2007 budget year.

Business-type activities record bad debts on the direct write-off method. If an allowance had been established it would not be material to the financial statements.

F. Interfund Transactions and Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

Payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

**CITY OF IUKA, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2006**

1. Summary of Significant Accounting Policies - Continued

G. Inventories and Prepaid Items

Inventory of the enterprise funds consists of supplies and natural gas. Inventory is recorded at the lower of cost (weighted average method) or market. The cost of inventory is recorded as expense when consumed rather than when purchased.

Prepays are payments to vendors that benefit future reporting periods also reported on the consumption basis. Both inventories and prepays are similarly reported in government-wide and fund financial statements.

H. Capital Assets

Capital outlays are recorded as expenditures of the Governmental Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Depreciation is recorded on capital assets on a government-wide basis. Capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. As permitted by GASB Statement No. 34, the City has elected to not report public domain (infrastructure) capital assets acquired prior to October 1, 2003.

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. 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.

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	-	N/A
Infrastructure	-	20/50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5/10 years
Furniture and equipment	5,000	3/7 years
Utility Systems	-	30/50 years

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

1. Summary of Significant Accounting Policies - Continued

I. Long-term liabilities

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligations indebtedness. 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 and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type 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.

J. Fund Equity

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 borrowing attributable to the acquisition, constructions or improvements of those assets.

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

Unrestricted net assets – All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental 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. Proprietary fund equity is classified the same as in the government-wide statements.

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

CITY OF IUKA, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2006

1. Summary of Significant Accounting Policies - Continued

K. 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 City. 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 the 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.

L. 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.

M. Compensated Absences

The City allows employees to accumulate unlimited unused sick leave. Earned vacation time is generally required to be used within one year of accrual. Sick leave will be paid only upon illness while in the employment of the City. Any accumulated vacation that was not allowed to be taken due to work-related assignments is paid upon termination.

The City's full liability in the amount of \$24,619 for accumulated unpaid vacation payable from the Governmental Funds is reported as a liability in the Statement of Net Assets. In the Proprietary Funds, the compensated absences are reported as a liability of those funds in the amount of \$20,633.

N. Budgets

Budgets are adopted on a basis consistent with state statutes. Revenues are budgeted on a cash basis. Expenditures are budgeted on a cash basis but include those made within 30 days after the fiscal year end.

Budget amendments are approved by the Board of Aldermen when made. Final budget amendments are to be made and approved no later than September 30 of the fiscal year.

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

2. Deposits and Investments

The collateral for public entities deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and its governed by Section 27-105-5, Miss. Code Ann. (1972). Under the 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 the institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

At year end, the carrying amount of the City's deposits was \$2,392,327 and the bank balance was \$2,446,531.

**Custodial Credit Risk – Deposits.** Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of September 30, 2006, none of the City's bank balance of \$2,446,531 was exposed to custodial credit risk.

**Interest Rate Risk-**The City has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

3. Balances and Transfers

A. The following is a summary of amounts due from/to other funds:

	Due From	Due To	Reason For Loan
<b>Governmental Activities</b>			
Major Fund:			
General Fund	\$ 12,029	\$ 5,000	Temporary loan to fiduciary funds.
Other Governmental	866	803	Temporary cash shortage in debt service
Total Governmental Funds	<u>12,895</u>	<u>5,803</u>	
<b>Business-Type Activities</b>			
Major Enterprise Funds:			
Gas System	155,158	2,500	Temporary loan for supplies in water & sewer
Water & Sewer System	4,544	152,171	Temporary loan for supplies in water & sewer
Other Enterprise Funds:			
Sanitation	109	516	Temporary cash shortage
Total Business-Type Funds	<u>159,811</u>	<u>155,187</u>	
<b>Fiduciary Funds:</b>			
Accounts Payable	-	9,349	Temporary loan from General, Gas & Water
Payroll Clearing	-	2,367	Temporary loan from General, Gas & Water
Total Fiduciary Funds	<u>-</u>	<u>11,716</u>	
Total All Funds	<u>\$ 172,706</u>	<u>\$ 172,706</u>	

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

3. B. Transfers and Payments

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources. Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and assets acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. The governmental and business type funds financial statements generally reflect such transactions as transfers.

4. Intergovernmental Receivables

Intergovernmental receivables at September 30, 2006 consisted of the following:

<u>Description</u>	<u>Amount</u>
State Tax Commission Sales Tax	\$ 63,636
Total Governmental Activities	<u>\$ 63,636</u>

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

5. Capital Assets

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

	Balance 9/30/2005	Additions	Deletions	Adjustments	Balance 9/30/2006
<b>Governmental Activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 179,880	\$ -	\$ -	\$ -	\$ 179,880
Total capital assets, not being depreciated:	179,880	-	-	-	179,880
Capital assets, being depreciated:					
Buildings and improvements	895,556	-	-	-	895,556
Furniture and equipment	180,881	5,348	-	-	186,229
Mobile equipment	540,864	26,335	-	-	567,199
Total capital assets, being depreciated	1,617,301	31,683	-	-	1,648,984
Less accumulated depreciation for:					
Buildings	219,026	16,649	-	-	235,675
Improvements other than buildings	20,657	3,991	-	-	24,648
Furniture and Equipment	126,456	17,890	-	-	144,346
Mobile equipment	446,040	27,012	-	-	473,052
Total accumulated depreciation	812,179	65,542	-	-	877,721
Total capital assets, being depreciated, net	805,122	(33,859)	-	-	771,263
Governmental activities capital assets, net	<u>\$ 985,002</u>	<u>\$ (33,859)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 951,143</u>
<b>Business Type Activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 62,900	\$ -	\$ -	\$ -	\$ 62,900
Total capital assets, not being depreciated:	62,900	-	-	-	62,900
Capital assets, being depreciated:					
Furniture & Equipment	330,871	-	-	-	330,871
Mobile Equipment	231,852	10,399	-	-	242,251
Plant & Distribution Assets	12,729,626	20,710	-	-	12,750,336
Total capital assets, being depreciated:	13,292,349	31,109	-	-	13,323,458
Less accumulated depreciation for:					
Furniture & Equipment	235,654	17,214	-	-	252,868
Mobile Equipment	194,265	9,148	-	-	203,413
Plant & Distribution Assets	4,563,527	311,851	-	-	4,875,378
Total accumulated depreciation	4,993,446	338,213	-	-	5,331,659
Total depreciable capital assets, net	8,298,903	(307,104)	-	-	7,991,799
Business Type Activities: Capital assets, net	<u>\$ 8,361,803</u>	<u>\$ (307,104)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,054,699</u>

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

5. Capital Assets - Continued

Depreciation expense was charged to the following functions:

	Amount
<b>Governmental Activities:</b>	
General government	\$ 5,558
Public safety	36,511
Public works	7,680
Culture & Recreation	15,793
Total governmental activities depreciation expense	\$ 65,542
<b>Business Type Activities:</b>	
Gas System	44,281
Water & Sewer System	293,932
Total business type activities	\$ 338,213

6. Long-Term Liabilities

Debt outstanding as of September 30, 2006, consists of the following:

Description and Purpose	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
<b>Governmental Activities</b>					
<b>A. General Obligation Bonds</b>					
1996 Street Bonds	4.8%	12/1/1996	12/1/2006	\$ 250,000	\$ 35,000
2004 Street Bonds	3.6%	6/24/2004	6/1/2014	860,000	710,000
Total General Obligation Bonds				\$ 1,110,000	\$ 745,000
<b>B. Capital Leases</b>					
Crown Vic Police Car	3.9%	3/16/2005	3/16/2008	\$ 25,021	\$ 12,180
2003 Crown Vic	3.39%	6/6/2003	6/6/2008	21,419	7,546
2006 Crown Vic	4.18%	12/19/2005	12/19/2010	26,335	22,262
Total Capital Leases				\$ 72,775	\$ 41,988
<b>Business-type Activities:</b>					
<b>A. General Obligation Bond</b>					
1998 Water Refunding	4.15%	7/1/1998	3/1/2011	\$ 1,235,000	\$ 665,000
<b>B. Revenue Bonds:</b>					
1972 Water/Sewer	6.0%	9/1/1972	9/1/2007	\$ 175,000	\$ 2,000
1994 Water/Sewer	5.3%	8/10/1994	8/10/2029	280,000	231,993
1996 Water/Sewer	4.5%	6/10/1996	6/10/2031	252,000	219,012
1999 Water	5.0%	7/1/1999	8/19/2029	853,079	669,682
2000 Sewer	4.5%	8/3/2000	8/3/2035	1,010,000	950,313
2003 Water	5.0%	9/30/2003	9/30/2036	193,060	178,012
Total Revenue Bonds				\$ 2,763,139	\$ 2,251,012

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

7. Long-Term Liabilities – Continued

<u>Description and Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
Business-type Activities:					
Continued:					
C. Capital Leases					
2003 1-Ton Truck	3.6%	12/10/2002	12/10/2006	18,455	823
2004 Ford Ranger	3.24%	3/25/2004	3/25/2007	10,570	1,530
Backhoe	3.58%	3/19/2004	3/19/2007	43,523	6,327
Total Capital Lease				<u>\$ 72,548</u>	<u>\$ 8,680</u>

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

<u>Governmental Activities:</u> <u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 115,000	\$ 28,981
2008	80,000	24,522
2009	85,000	20,923
2010	85,000	17,310
2011	90,000	14,250
2012-2014	290,000	21,937
Total	<u>745,000</u>	<u>127,923</u>

<u>Year Ending September 30,</u>	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 18,017	\$ 1,337
2008	11,945	692
2009	5,445	395
2010	\$ 5,675	\$ 165
2011	906	67
Total	<u>41,988</u>	<u>2,656</u>

<u>Business Type Activities:</u> <u>Year Ending September 30,</u>	<u>G.O. Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 120,000	\$ 28,223
2008	130,000	22,503
2009	130,000	16,490
2010	140,000	10,178
2011	145,000	3,444
Total	<u>\$ 665,000</u>	<u>\$ 80,838</u>

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

6. Long-Term Liabilities – Continued

<u>Year Ending September 30,</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	66,369	115,157
2008	67,673	111,723
2009	71,155	108,241
2010	74,824	104,572
2011	78,691	100,705
2012-2016	459,271	437,708
2017-2021	463,831	307,323
2022-2026	367,390	195,501
2027-2031	357,898	104,616
2032-2036	243,910	29,357
Total	<u>\$ 2,251,012</u>	<u>\$ 1,614,903</u>

<u>Year Ending September 30,</u>	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2007	<u>\$ 8,680</u>	<u>\$ 741</u>
Total	<u>\$ 8,680</u>	<u>\$ 741</u>

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2006:

	<u>Balance</u> <u>Oct. 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance</u> <u>Sept. 30, 2006</u>	<u>Amount due</u> <u>within</u> <u>one year</u>
Governmental Activities:						
General Obligation						
Bonds	\$ 850,000	-	105,000	-	745,000	115,000
Capital Leases	40,603	26,335	24,950	-	41,988	18,017
Compensated Absences	20,488	11,719	7,588	-	24,619	-
Total	<u>\$ 911,091</u>	<u>38,054</u>	<u>137,538</u>	<u>-</u>	<u>811,607</u>	<u>133,017</u>
Business Type Activities:						
General Obligation						
Bonds	780,000	-	115,000	-	665,000	120,000
Revenue Bonds	2,311,708	-	60,696	-	2,251,012	66,369
Capital Leases	31,916	-	23,236	-	8,680	8,680
Total	<u>\$ 3,123,624</u>	<u>-</u>	<u>198,932</u>	<u>-</u>	<u>2,924,692</u>	<u>195,049</u>

The City has established a current liability of \$15,000 for bonds that matured on 3/1/2002, but were not presented to the paying agent for redemption.

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2006**

7. Defined Benefit Pension Plan

Plan Description

The City of Iuka 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 Iuka 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 of Iuka's contributions to PERS for the years ending September 30, 2006, 2005, and 2004, were \$109,881, \$106,584 and \$97,013 respectively, which equals the required contributions for each year.

8. Commitments and Contingencies

Contingencies

The City receives Federal and State Grants for specific purpose that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be significant to 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. 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. Except as described below, the City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool

The City is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG) and the Mississippi Municipal Liability Plan (MMLP), both of which are administered by Municipal Services, Inc. Both Groups are risk-sharing pools; such a pool is frequently referred to as a self-insurance pool.

MMWCG covers risks of loss arising from injuries to the City's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group

**CITY OF IUKA, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2006**

9. Risk Management - Continued

to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any employee claim. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The City has not had an additional assessment for excess losses incurred by the pool.

MMLP covers the risk of loss related to torts and other liability claims. The general policy limit is \$500,000 per occurrence, but the policy also tracks the Mississippi tort claims law for municipalities which limits the City's liability to \$250,000 per occurrence. The policy also covers up to \$1,000,000 in federal claims. As with the MMWCG, pool members would be required to pay for the deficiency should total claims for the year exceed member contributions. The City has received no assessments for excess losses incurred by the pool.

10. Home Investment Partnership Grant

The City received a Home Investment Partnership Grant in the amount of \$415,000.

These grant monies are federal monies passed through the state to local governments to aid project owners and developers with the cost of providing affordable housing for low income families.

On January 27, 2000, the City made a loan of \$415,000 to Iuka Elderly Apartments, LLC, the project owner, to aid in the construction of low income, elderly apartments. The loan is to be repaid over 480 months commencing ten years from the date of the loan. Payments are to be the lesser of the schedule payment amortization plus 1% interest per annum or 50% of the project net cash flow after payment of expenses and the first mortgage loan payment.

The note receivable of \$415,000 has not been recorded on the City's books due to the uncertainty of adequate project cash flows to make the required payments.

11. Segment Information

The City issues revenue bonds to support a variety of public services. The fund financial statements report major funds with revenue-supported debt for the Water and Sewer System Fund. Services provided by this fund are described in Note 1 C.

12. Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of vehicles for the police department and trucks and equipment for its Gas and Water Departments. These lease agreements qualify as capital leases for accounting purposes.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Gas and Water Departments</u>
Asset:		
Mobile Equipment	\$72,775	\$72,548
Less: Accumulated Depreciation	<u>(28,270)</u>	<u>(27,718)</u>
Total	<u>\$44,505</u>	<u>\$44,830</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Iuka, Mississippi  
Schedule of Revenue, Expenditures, and Changes in Fund Balance-  
Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<u>Revenues</u>				
Taxes	\$ 208,300	\$ 208,300	\$ 221,341	\$ 13,041
Intergovernmental revenues	774,800	774,800	816,468	41,668
Charges for services	5,300	5,300	3,250	(2,050)
Licenses	9,000	9,000	10,718	1,718
Fines	61,000	61,000	56,911	(4,089)
Miscellaneous	93,600	96,600	105,744	9,144
<b>Total Revenues</b>	<b>1,152,000</b>	<b>1,155,000</b>	<b>1,214,432</b>	<b>59,432</b>
<u>Expenditures</u>				
General government	195,000	196,190	186,450	9,740
Public safety	775,000	772,834	774,770	(1,936)
Public works	147,000	147,000	140,616	6,384
Culture and recreation	61,000	64,600	63,359	1,241
Capital outlay	28,000	37,893	-	37,893
Debt service	30,000	30,000	26,860	3,140
<b>Total Expenditures</b>	<b>1,236,000</b>	<b>1,248,517</b>	<b>1,192,055</b>	<b>56,462</b>
Excess (deficiency) of revenues over (under) expenditures	<u>(84,000)</u>	<u>(93,517)</u>	<u>22,377</u>	<u>115,894</u>
Other financing sources (uses)				
Proceeds from capital lease	<u>28,000</u>	<u>28,000</u>	<u>26,335</u>	<u>(1,665)</u>
<b>Total other financing sources (uses)</b>	<b>28,000</b>	<b>28,000</b>	<b>26,335</b>	<b>(1,665)</b>
<b>Net changes in fund balances</b>	<b>\$ (56,000)</b>	<b>\$ (65,517)</b>	<b>48,712</b>	<b>\$ 114,229</b>
Fund Balances - Beginning of Year			251,775	
Adjustments to conform with GAAP:				
Revenues			6,636	
Expenditures			(23,982)	
<b>Fund Balances - End of Year (GAAP) basis</b>			<b>\$ 283,141</b>	

See accompanying notes to financial statements.

**CITY OF IUKA, MISSISSIPPI**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Notes to the Required Supplementary Information

A. Budgetary Information

Statutory requirements dictate how and when the City's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the City, using historical and anticipated fiscal data and proposed budgets submitted by the City Clerk, Police Chief, Fire Chief and Utility Manager for his or her respective department, prepares an original budget for each of the Governmental Funds and Enterprise Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investments balances. When during the fiscal year it appears to the Board of Aldermen that budgetary estimates will not be met, it may make revisions to the budget.

The City's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation

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

Budget/GAAP Reconciliation

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

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

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

CITY OF IUKA, MISSISSIPPI  
 SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS  
SEPTEMBER 30, 2006

Name	Position	Company	Bond
Benny Gray	City Clerk & Tax Collector	Great River	50,000
Jason B. Rickman	Policeman	Western Surety	25,000
Randy Stringer	Chief of Police	Western Surety	50,000
Charlotte Counce	Deputy City Clerk	RLI Insurance Co.	50,000
Anita Mitchell	Policeman	Western Surety	25,000
John D. Daugherty	Policeman	Western Surety	25,000
Luther Marlar	Policeman	Western Surety	25,000
Charlie M. Dean, III	Policeman	Western Surety	25,000
Sue M. Scott	Asst. City Clerk	Western Surety	50,000
Jackie Bryant	Mayor	Union Insurance	50,000
Martha Biggs	Alderman	Travelers Casualty	15,000
Jimmy James	Alderman	Travelers Casualty	15,000
Jimmy McVay	Policeman	Western Surety	25,000
Jeremy Lovelace	Policeman	Western Surety	25,000
Jamie L. Stewart	Policeman	Western Surety	25,000
Cory M. Wilson	Policeman	Western Surety	25,000
Rodney Pannell	Policeman	Western Surety	25,000
Mark Bonds	Policeman	Western Surety	25,000
Cynthia Enlow	Deputy City Clerk	Western Surety	50,000
Jerry Long	Alderman	Travelers Casualty	15,000
James Grisham	Alderman	Travelers Casualty	15,000
Johnny Southward	Alderman	Travelers Casualty	15,000
Justin Alsup	Policeman	Western Surety	25,000
Charles Palmer	Policeman	Western Surety	25,000
Adam Rencher	Policeman	Western Surety	25,000

CITY OF IUKA, MISSISSIPPI  
SCHEDULE OF LONG-TERM DEBT  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Issue Date	Balance 10/1/2005	Additions (Retirements)	Balance 9/30/2006
<b><u>Governmental Funds</u></b>				
<b><u>General Obligations Bonds</u></b>				
\$ 250,000 Street Improvements	12-01-96	\$ 65,000	\$ (30,000)	\$ 35,000
\$ 860,000 Street Improvements	6-24-04	785,000	(75,000)	710,000
Total General Obligation Bonds		<u>850,000</u>	<u>(105,000)</u>	<u>745,000</u>
<b><u>Other Long-Term Debt</u></b>				
\$ 25,021 Capital Lease Payable	03-16-05	20,382	(8,202)	12,180
			26,335	-
\$ 26,335 Capital Lease Payable	2-19-05	-	(4,073)	22,262
\$ 41,882 Capital Lease Payable	7-18-02	8,347	(8,347)	-
\$ 21,419 Capital Lease Payable	6-6-03	11,874	(4,328)	7,546
Total Other Long-Term Debt		<u>40,603</u>	<u>1,385</u>	<u>41,988</u>
Total Governmental Funds		<u>890,603</u>	<u>(103,615)</u>	<u>786,988</u>
<b><u>Proprietary Funds</u></b>				
<b><u>General Obligation Bonds</u></b>				
\$1,235,000 Water Refunding	7-01-98	780,000	(115,000)	665,000
<b><u>Revenue Bonds</u></b>				
\$ 252,000 Water/Sewer	6-10-96	222,854	(3,842)	219,012
\$ 175,000 Combined Water/Sewer	9-01-72	4,000	(2,000)	2,000
\$ 280,000 Water/Sewer	8-10-94	237,219	(5,226)	231,993
\$ 853,079 Water/Sewer	7-01-99	701,488	(31,806)	669,682
\$1,010,010 Water/Sewer	8-03-00	964,011	(13,698)	950,313
\$193,060 Water/Sewer	9-30-03	182,136	(4,124)	178,012
Total Revenue Bonds		<u>2,311,708</u>	<u>(60,696)</u>	<u>2,251,012</u>
<b><u>Other Long-Term Debt</u></b>				
\$ 10,570 Capital Lease Payable	03-25-04	5,119	(3,589)	1,530
\$ 43,523 Capital Lease Payable	3-19-04	21,137	(14,810)	6,327
\$ 18,455 Capital Lease Payable	12-10-02	5,660	(4,837)	823
Total Other Long-Term Debt		<u>31,916</u>	<u>(23,236)</u>	<u>8,680</u>
Total Proprietary Funds		<u>3,123,624</u>	<u>(198,932)</u>	<u>2,924,692</u>
<b>Total Long-Term Debt</b>		<u>\$ 4,014,227</u>	<u>\$ (302,547)</u>	<u>\$ 3,711,680</u>

The above schedule does not include 9/30/06 compensated absences of \$24,619.



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

Honorable Mayor and Members  
of the Board of Aldermen  
City of Iuka, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Iuka, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise City of Iuka, Mississippi's basic financial statements and have issued our report thereon dated January 4, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Iuka, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Iuka, Mississippi's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2006-1 to be a material weakness.

Compliance and Other Matters

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

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

*Brawn, Vanstoy & Co., P.A.*

January 4, 2007  
Booneville, Mississippi



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS

Honorable Mayor and  
Board of Aldermen  
City of Iuka, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Iuka, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated January 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 basic financial statements did not disclose any instances of noncompliance with state laws and regulations.

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

*Brawner, Vanstory & Co., P.A.*

January 4, 2007  
Booneville, Mississippi

CITY OF IUKA, MISSISSIPPI  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Findings Related to the Financial Statements

2006-1. Finding

Due to limited personnel and the size of the city, there is a lack of segregation of duties. This was a finding in the prior year.

Recommendation

We recommend the City develop and maintain an adequate plan of specific duties, and segregate duties as much as possible with limited personnel.

Response

The City has segregated duties as much as possible with limited personnel. The City will continue to maximize the segregation of duties as much as possible.