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CITY OF KOSCIUSKO, MISSISSIPPI

Financial Report

September 30, 2006

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STATE AUDITOR'S OFFICE

CITY OF KOSCIUSKO, MISSISSIPPI

Financial Report

Year Ended September 30, 2006

Public Officials

Jimmy W. Cockroft
Mayor

Janet P. Baird
City Clerk

Board of Aldermen

John Sullivan

Tim Kyle

Robert Ellis

Henry Daniel

Martha Kate Lawrence

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Board of Aldermen
City of Kosciusko
Kosciusko, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kosciusko, 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 Kosciusko, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kosciusko, Mississippi as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2007 on our consideration of the City of Kosciusko, 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 and the other required supplementary information on pages 3 through 10 and 42 through 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kosciusko, Mississippi's basic financial statements. The accompanying required supplementary information is presented for purposes of additional analysis as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements. The accompanying other information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Kosciusko, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Home LLP

Grenada, Mississippi
January 9, 2007

**REQUIRED
SUPPLEMENTARY INFORMATION**

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

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

Financial Highlights

Key financial highlights for 2006 were as follows:

The City's assets exceeded its liabilities by \$10,701,645 and \$9,715,122 (net assets) at September 30, 2006 and 2005, respectively.

Total net assets are comprised of the following:

1. Capital assets, net of related debt, of \$7,023,903 and \$6,501,719, include property and equipment, net of accumulated depreciation at September 30, 2006 and 2005, respectively.
2. Net assets of \$301,737 and \$433,139 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations at September 30, 2006 and 2005, respectively.
3. Unrestricted net assets of \$3,376,005 and \$2,780,264 represent the portion available to maintain the City's continuing obligations to citizens and creditors at September 30, 2006 and 2005, respectively. These assets include \$2,484,321 and \$1,891,930 in governmental activities and \$891,684 and \$888,334 in the enterprise funds at September 30, 2006 and 2005, respectively.
4. The Kosciusko Light & Water Plant has unrestricted net assets of \$1,055,880 and \$764,490 and restricted net assets of \$10,742,193 and \$10,645,521 at September 30, 2006 and 2005, respectively.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

Using this Annual Financial Report

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

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

Reporting the City of Kosciusko as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

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

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

Component Unit - The Kosciusko Light and Water Plant is listed as a component unit that charges a fee to customers to help it cover all or most of the cost of the services provided.

Reporting the City of Kosciusko's Most Significant Funds

The fund financial statements begin on page 13 and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by the State law and by bond covenants. However, the City Board established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal

responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

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

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

The City of Kosciusko 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.

(Table 1)
SUMMARY OF NET ASSETS
 September 30, 2006
 (With Comparative Totals as of September 30, 2005)

	Governmental Activities	Enterprise Funds	2006 Total	(Memo- randum Only) 2005	2006 Component Unit - Kosc. Light & Water Plant	(Memo- randum Only) 2005
Assets:						
Current assets	\$ 2,467,140	\$ 911,839	\$ 3,378,979	\$ 2,864,750	\$ 1,898,570	\$ 1,611,045
Restricted assets	-	-	-	-	4,995,150	5,042,788
Capital assets	5,138,291	4,323,755	9,462,046	8,963,779	5,747,043	5,602,733
Note receivable	428,681	-	428,681	456,766	-	-
Total assets	8,034,112	5,235,594	13,269,706	12,285,295	12,640,763	12,256,566
Liabilities:						
Current liabilities	587,336	53,039	640,375	535,342	480,444	488,036
Non current liabilities	1,911,020	16,666	1,927,686	2,034,831	362,246	358,519
Total liabilities	2,498,356	69,705	2,568,061	2,570,173	842,690	846,555

	Governmental Activities	Enterprise Funds	2006 Total	(Memo- randum Only) 2005	2006 Component Unit - Kosc. Light & Water Plant	(Memo- randum Only) 2005
Net assets:						
Investment in capital assets	2,749,698	4,274,205	7,023,903	6,501,719	5,747,043	5,602,733
Restricted	301,737	-	301,737	433,139	4,995,150	5,042,788
Unrestricted	2,484,321	891,684	3,376,005	2,780,264	1,055,880	764,490
Total net assets	\$ 5,535,756	\$ 5,165,889	\$ 10,701,645	\$ 9,715,122	\$ 11,798,073	\$ 11,410,011

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities was 4.20 to 1 and 4.07 to 1, 17.19 to 1 and 16.56 to 1 in the enterprise funds and 3.95 to 1 and 3.28 to 1 in the Light and Water plant at September 30, 2006 and 2005, respectively.

Table 2 shows the Change in Net Assets for the year ended September 30, 2006.

(Table 2)
STATEMENT OF ACTIVITIES
Year Ended September 30, 2006
(With Comparative Totals as of September 30, 2005)

	Governmental Activities	Business- Type Activities	2006 Total	(Memo- randum Only) 2005	2006 Component Unit Kosciusko Light and Water Plant	(Memo- randum Only) 2005
Revenues:						
Program:						
Charges for services/fines	\$ 286,203	\$ 1,011,214	\$ 1,297,417	\$ 1,185,615	\$ 7,506,635	\$ 6,416,952
Operating grants	419,909	17,438	437,347	351,881	72,265	-
Capital grants	782,771	-	782,771	84,700	-	-
General:						
Sales and use taxes	1,941,705	-	1,941,705	1,849,943	-	-
Property taxes	1,085,937	129,053	1,214,990	1,013,042	-	-
Franchise taxes	103,299	-	103,299	88,212	-	-
Unrestricted grants	87,343	-	87,343	86,158	-	-
Interest	77,014	36,046	113,060	53,039	168,502	128,799
Miscellaneous	273,766	(3,227)	270,539	284,595	18,573	20,093
Total revenues	5,057,947	1,190,524	6,248,471	4,997,185	7,765,976	6,565,844
Program expenses:						
General government	522,068	-	522,068	481,079	-	-
Public safety	1,650,810	-	1,650,810	1,586,438	-	-
Public works	557,938	-	557,938	484,415	-	-
Culture, health & welfare	365,857	-	365,857	435,270	-	-
Miscellaneous	1,429,601	-	1,429,601	930,603	-	-
Interest	68,942	-	68,942	95,039	-	-
Waste water	-	560,141	560,141	553,625	-	-
Solid waste	-	500,991	500,991	440,379	-	-
Kosciusko Water and Plant	-	-	-	-	6,983,513	5,910,267
Total expenses	4,595,216	1,061,132	5,656,348	5,006,848	6,983,513	5,910,267
(Deficiency) excess	462,731	129,392	592,123	(9,663)	782,462	655,577

	Governmental Activities	Business- Type Activities	2006 Total	(Memo- randum Only) 2005	2006 Component Unit Kosciusko Light and Water Plant	(Memo- randum Only) 2005
Transfers	527,900	(133,500)	394,400	394,400	(394,400)	(394,400)
Change in net assets	990,631	(4,108)	986,523	384,737	388,062	261,177
Beginning net assets	4,545,125	5,169,997	9,715,122	9,330,385	11,410,011	11,148,834
Ending net assets	\$ 5,535,756	\$ 5,165,889	\$ 10,701,645	\$ 9,715,122	\$ 11,798,073	\$ 11,410,011

Governmental Activities

Several revenue sources fund our governmental activities. Under the accrual basis of accounting, charges for services, grants and contributions accounted for \$126,664 and \$160,170 or 2% and 4% of gross revenues; Intergovernmental accounted for \$3,225,564 and \$2,366,294 or 64% and 60%; and property taxes accounted for \$1,085,937 and \$887,195 or 21% and 22% at September 30, 2006 and 2005, respectively.

Business-type Activities

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

The City's Funds

Information about the City's major governmental funds begins on page 42. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,073,163 and \$3,919,902 and expenditures of \$5,525,632 and \$6,359,238 at September 30, 2006 and 2005, respectively. Fund balances remained relatively constant while expenditures exceeded revenues by \$460,989 and \$19,983 at September 30 2006 and 2005, respectively.

General Fund Budgeting Highlights

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

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 for approval. 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 \$3,266,361 and \$3,287,686; and actual revenue collections including other financing sources were \$3,536,629 and \$3,382,558 at September 30, 2006 and 2005, respectively. The fund's original budgeted expenditures were \$3,513,689 and \$3,667,373 and actual expenditures were \$3,297,709 and \$3,442,279 at September 30, 2006 and 2005, respectively.

CAPITAL ASSETS AND GENERAL LONG-TERM OBLIGATIONS

Capital Assets

The City had \$15 million and \$15 million in a broad range of capital assets at September 30, 2006 and 2005, respectively.

(Table 3)
CAPITAL ASSETS AT YEAR-END
 (Net of Depreciation)
 September 30, 2006
 (With Comparative Totals as of September 30, 2006)

	Governmental Activities	Enterprise Funds	Light and Water Plant	2006 Total	(Memo- randum Only) 2005
Land	\$ 998,356	\$ 618,928	\$ 46,470	\$ 1,663,754	\$ 1,663,754
Buildings	2,785,121	123,790	347,620	3,256,531	3,241,280
Construction in progress	223,522	-	-	223,522	124,243
Machinery and equipment	2,293,283	1,072,341	1,161,813	4,527,437	4,431,989
Equipment acquired under lease	452,308	-	-	452,308	452,308
Improvements other than building	1,260,185	9,947	-	1,270,132	640,471
Distribution system:					
Electric and water	-	-	11,024,195	11,024,195	10,633,090
Sewer	-	4,684,429	-	4,684,429	4,648,414
Total	8,012,775	6,509,435	12,580,098	27,102,308	25,835,549
Less accumulated depreciation	2,874,484	2,185,680	6,833,055	11,893,219	11,269,037
Net capital assets	\$ 5,138,291	\$ 4,323,755	\$ 5,747,043	\$ 15,209,089	\$ 14,566,512

The Construction in Progress includes a soccer field, sewer rehabilitation, and Highway 43 at September 30, 2006. The Construction in Progress includes a soccer field and East South Street at September 30, 2005. The City does not depreciate capital assets during construction. Upon completion, total construction costs will be added to the appropriate Capital Asset line above and depreciation will begin at that time. Capital outlay for the year ending September 30, 2006 and 2005 was \$846,485 and \$1,804,182, respectively.

General Long-Term Obligations

At September 30, 2006, the City's outstanding debt consisted of:

(Table 4)
OUTSTANDING DEBT AT YEAR-END
 September 30, 2006
 (With Comparative Totals as of September 30, 2005)

	Govern- mental Activities	Business- type Activities	2006 Total	(Memo- randum Only) 2005
General obligation bonds	\$ 1,775,000	\$ -	\$ 1,775,000	\$ 2,038,000
Capital lease payable	119,666	20,384	140,050	205,036
Note payable	453,800	29,166	482,966	180,602
Total debt	\$ 2,348,466	\$ 49,550	\$ 2,398,016	\$ 2,423,638

No municipality shall hereafter issue bonds for the purposes authorized by law in an amount which, when added to the then outstanding bonded indebtedness of such municipality, shall exceed 15 percent of the assessed value of the taxable property within such municipality, according to the then last completed assessment for taxation. In computing such indebtedness, there may be deducted all bonds or other evidences of indebtedness, heretofore or hereafter issued, for school, water, sewer systems, gas, and light and power purposes and for the construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying the municipality's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case shall any municipality contract any indebtedness which, when added to all of the outstanding indebtedness, both bonded and floating, shall exceed 20 percent of the assessed value of all taxable property within such municipality. Nothing herein contained shall be construed to apply to bonds heretofore issued by any municipality for school purposes, or to bonds heretofore or hereafter issued by any municipality which are payable exclusively from the revenues of any municipality-owned utility, or to bonds issued by any municipality under the provisions of Sections 57-1-1 to 57-1-51, or to any special assessment improvement bonds issued by any municipality under the provisions of Sections 21-41-1 through 21-41-53.

The City did not exceed the limits for the years ended September 30, 2006 and 2005.

Current Financial Related Activities

The City of Kosciusko has and will continue to seek funding to update infrastructure as the funds allow. Over the past several years the City has been able to accomplish several long term goals.

The City was awarded a \$250,000 HOME Program Grant in 2005 to help assist 10 first time homeowners in building new homes. These 10 homes will be completed in the Cheri-Lynn-Rose Subdivision during 2006 and an additional \$250,000 grant was awarded for 10 new homes.

The City has continued to make improvements to the Sanitary Sewer System. The City has been awarded a \$1,050,000 Department of Environmental Quality loan and a \$450,000 Community Development Block Grant to repair this subsystem. This work began in 2006 and will be completed in 2007

The City has also continued to make improvements to the parks. During 2006 the City During 2006 the City began work on a new soccer complex. This work will be completed by 2008. The City also renovated Redbud Springs Park including the placement of a bronze statue of Thaddeus Kosciusko.

The City in conjunction with the MS Department of Transportation has begun work on the widening of Highway 43 North inside the city limits.

The City of Kosciusko will continue to aggressively seek funding to maintain the needed level of services and infrastructure at the most economical cost.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Clerk at 115 North Wells Street, Kosciusko, Mississippi 39090.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF KOSCIUSKO, MISSISSIPPI

Statement of Net Assets

September 30, 2006

ASSETS	Governmental Activities	Business-type Activities Enterprise Funds	Total	Component Unit Kosciusko Light and Water Plant
Current assets				
Cash and cash equivalents	\$ 1,314,705	\$ 543,511	\$ 1,858,216	\$ 315,355
Investments	936,000	321,000	1,257,000	-
Receivables				
Accounts	-	-	-	839,110
Interest	12,962	6,016	18,978	25,701
Other	3,033	-	3,033	-
Due from other governments	198,115	2,203	200,318	74,865
Due from component unit	2,325	39,109	41,434	-
Unbilled revenues	-	-	-	352,394
Inventory, at cost	-	-	-	276,872
Other assets	-	-	-	14,273
Total current assets	<u>2,467,140</u>	<u>911,839</u>	<u>3,378,979</u>	<u>1,898,570</u>
Noncurrent assets:				
Restricted cash				
Customer deposits	-	-	-	87,466
Property, plant and equipment replacement	-	-	-	409,915
Restricted investments				
Customer deposits	-	-	-	233,346
Property, plant and equipment replacement	-	-	-	4,264,423
Note receivable	428,681	-	428,681	-
Capital assets (Note 5):				
Land, improvements and construction in progress	1,221,878	618,928	1,840,806	46,470
Other capital assets, net of accumulated depreciation	3,916,413	3,704,827	7,621,240	5,700,573
Total capital assets	<u>5,138,291</u>	<u>4,323,755</u>	<u>9,462,046</u>	<u>5,747,043</u>
Total noncurrent assets	<u>5,566,972</u>	<u>4,323,755</u>	<u>9,890,727</u>	<u>10,742,193</u>
Total assets	<u>8,034,112</u>	<u>5,235,594</u>	<u>13,269,706</u>	<u>12,640,763</u>

See accompanying notes.

LIABILITIES	Governmental Activities	Business-type Activities Enterprise Funds	Total	Component Unit Kosciusko Light and Water Plant
Current liabilities				
Accounts payable	\$ 44,535	\$ 6,939	\$ 51,474	\$ 415,976
Accrued compensated absences	44,204	7,079	51,283	29,325
Accrued payroll	42,833	6,137	48,970	10,385
General obligation bond, current	275,000	-	275,000	-
Capital lease payable, current	42,531	20,384	62,915	-
Note payable, current	133,707	12,500	146,207	-
Other liabilities	4,526	-	4,526	24,758
Total current liabilities	587,336	53,039	640,375	480,444
Noncurrent liabilities:				
Customer deposits	-	-	-	320,812
Due to other government agencies	13,792	-	13,792	-
Due to primary government	-	-	-	41,434
General obligation bond, less current portion	1,500,000	-	1,500,000	-
Capital leases payable, less current portion	77,135	-	77,135	-
Note payable, less current portion	320,093	16,666	336,759	-
Total noncurrent liabilities	1,911,020	16,666	1,927,686	362,246
Total liabilities	2,498,356	69,705	2,568,061	842,690
NET ASSETS				
Investment in capital assets, net of related debt	2,749,698	4,274,205	7,023,903	5,747,043
Restricted for:				
Customer deposits	-	-	-	320,812
Property, plant and equipment replacement	-	-	-	4,674,338
Grant project	(858)	-	(858)	-
Loans receivable	302,595	-	302,595	-
Unrestricted	2,484,321	891,684	3,376,005	1,055,880
Total net assets	\$ 5,535,756	\$ 5,165,889	\$ 10,701,645	\$ 11,798,073

CITY OF KOSCIUSKO, MISSISSIPPI

Statement of Activities
Year Ended September 30, 2006

Activities	Expenses	Program Revenues		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 522,068	\$ 16,380	\$ 399,033	\$ 782,771
Public safety	1,650,810	269,823	17,776	-
Public works	557,938	-	-	-
Culture, health, and welfare	365,857	-	3,100	-
Miscellaneous	1,429,601	-	-	-
Interest on long-term debt	68,942	-	-	-
Total governmental activities (see Note 5)	4,595,216	286,203	419,909	782,771
Business-type activities				
Waste water	560,141	612,961	1,286	-
Solid waste	500,991	398,253	16,152	-
Total business-type activities	1,061,132	1,011,214	17,438	-
Total primary government	\$ 5,656,348	\$ 1,297,417	\$ 437,347	\$ 782,771
Component unit				
Kosciusko Light and Water Plant	\$ 6,983,513	\$ 7,506,635	\$ 72,265	\$ -
Total component units	\$ 6,983,513	\$ 7,506,635	\$ 72,265	\$ -
General revenues:				
Taxes-				
Property taxes, levied for general purposes				
Sales and use taxes, levied for general purposes				
Franchise taxes				
Grants and contributions not restricted to specific programs				
Interest and investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - October 1, 2005				
Net assets - September 30, 2006				\$

See accompanying notes.

Net (Expense) Revenues and Changes in Net Assets			Component Unit
Governmental Activities	Business-type Activities	Total	Kosciusko Light and Water Plant
676,116	\$ -	\$ 676,116	\$ -
(1,363,211)	-	(1,363,211)	-
(557,938)	-	(557,938)	-
(362,757)	-	(362,757)	-
(1,429,601)	-	(1,429,601)	-
(68,942)	-	(68,942)	-
(3,106,333)	-	(3,106,333)	-
-	54,106	54,106	-
-	(86,586)	(86,586)	-
-	(32,480)	(32,480)	-
(3,106,333)	(32,480)	(3,138,813)	-
-	\$ -	\$ -	\$ 595,387
-	\$ -	\$ -	\$ 595,387
1,085,937	129,053	1,214,990	-
1,941,705	-	1,941,705	-
103,299	-	103,299	-
87,343	-	87,343	-
77,014	36,046	113,060	168,502
273,766	(3,227)	270,539	18,573
527,900	(133,500)	394,400	(394,400)
4,096,964	28,372	4,125,336	(207,325)
990,631	(4,108)	986,523	388,062
4,545,125	5,169,997	9,715,122	11,410,011
5,535,756	\$ 5,165,889	\$ 10,701,645	11,798,073

FUND FINANCIAL STATEMENTS

CITY OF KOSCIUSKO, MISSISSIPPI
 Balance Sheet
 Governmental Funds
 September 30, 2006
 (With Comparative Totals as of September 30, 2005)

ASSETS	General	Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds	
		MDOT		2006	(Memorandum Only) 2005
Cash and cash equivalents	\$ 791,161	\$ -	\$ 523,544	\$ 1,314,705	\$ 783,959
Investments	578,000	-	358,000	936,000	864,500
Receivables					
Interest	8,652	-	4,310	12,962	6,239
Other	3,033	-	-	3,033	2,553
Due from					
Other governments	165,841	10,690	21,584	198,115	297,770
Other funds	10,105	-	-	10,105	27,868
Advances to other funds	-	-	-	-	21,396
Note receivable	-	-	428,681	428,681	456,766
Total assets	\$ 1,556,792	\$ 10,690	\$ 1,336,119	\$ 2,903,601	\$ 2,461,051

See accompanying notes.

LIABILITIES AND FUND BALANCES	General	Special	Nonmajor	Total	
		Revenue Fund MDOT	Governmental Funds	Governmental Funds	(Memorandum Only) 2005
				2006	2005
Liabilities					
Accounts payable	\$ 18,452	\$ 15,145	\$ 10,938	\$ 44,535	\$ 17,141
Accrued compensated absences	-	-	4,077	4,077	3,995
Accrued payroll	37,518	-	5,315	42,833	41,491
Other liabilities	4,526	-	-	4,526	6,928
Due to					
Other funds	-	-	7,780	7,780	24,904
Other government agencies	13,792	-	-	13,792	20,127
Advances from other funds	-	-	-	-	21,396
Total liabilities	74,288	15,145	28,110	117,543	135,982
Fund balances					
Reserved for grant project	-	-	(858)	(858)	(2,231)
Reserved for loans receivable	-	(4,455)	307,050	302,595	435,370
Reserved for advances to other funds	-	-	-	-	21,396
Unreserved	1,482,504	-	-	1,482,504	1,265,491
Unreserved in nonmajor governmental funds:					
Special revenue funds	-	-	990,031	990,031	600,532
Debt service fund	-	-	11,786	11,786	4,511
Total fund balances	1,482,504	(4,455)	1,308,009	2,786,058	2,325,069
Total liabilities and fund balances	\$ 1,556,792	\$ 10,690	\$ 1,336,119	\$ 2,903,601	\$ 2,461,051

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

Total fund balances for governmental funds at September 30, 2006		\$	2,786,058
Total net assets reported for governmental activities in the statement of net assets is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$8,012,775 and the accumulated depreciation is \$2,874,484			
			5,138,291
Long-term liabilities at September 30, 2006			
General obligation bond	\$	(1,775,000)	
Capital leases payable		(119,666)	
Note payable		(453,800)	
Accrued compensated absences		(40,127)	(2,388,593)
Total net assets of governmental activities at September 30, 2006		\$	<u><u>5,535,756</u></u>

See accompanying notes.

CITY OF KOSCIUSKO, MISSISSIPPI
 Combined Statement of Revenues, Expenditures, and Changes in
 Fund Balances – Governmental Funds
 Year Ended September 30, 2006
 (With Comparative Totals as of September 30, 2005)

	General	Special	Nonmajor Governmental Funds	Totals	
		Revenue Fund MDOT		(Memorandum Only)	
				2006	2005
Revenues					
Taxes	\$ 912,829	\$ -	\$ 173,108	\$ 1,085,937	\$ 887,195
Franchise fees	103,299	-	-	103,299	88,212
Licenses and permits	38,007	-	-	38,007	48,708
Donations	-	-	500	500	1,140
Intergovernment	2,013,274	359,774	852,516	3,225,564	2,366,294
Fines and forfeits	149,823	-	16,380	166,203	141,856
Interest income	46,655	-	30,359	77,014	39,295
Rent	3,850	-	8,900	12,750	23,250
Miscellaneous	227,416	-	10,310	237,726	202,562
Grand Gulf in lieu of taxes	6,164	-	-	6,164	6,390
Fee revenue	-	-	120,000	120,000	115,000
Total revenues	3,501,317	359,774	1,212,073	5,073,163	3,919,902
Current expenditures					
Administrative	496,127	-	-	496,127	452,876
Public safety	1,499,244	-	-	1,499,244	1,429,082
Public works	502,504	-	-	502,504	444,590
Culture, health and welfare	331,702	-	-	331,702	395,991
Miscellaneous	376,937	-	1,031,062	1,407,999	913,396
Debt service	-	-	-	-	-
Principal retirement	-	-	372,629	372,629	1,707,540
Interest and fiscal charges	-	-	68,942	68,942	95,039
Capital outlay	101,315	434,724	310,446	846,485	920,724
Total current expenditures	3,307,829	434,724	1,783,079	5,525,632	6,359,238
Excess (deficiency) of revenues over expenditures	193,488	(74,950)	(571,006)	(452,468)	(2,439,336)
Other financing sources (uses)					
Gain on disposition of property	2,250	-	-	2,250	25,597
Operating transfers in	408,101	1,829	626,680	1,036,610	1,045,688
Operating transfers out	(408,222)	-	(100,488)	(508,710)	(605,788)
Long-term notes issued	-	-	383,307	383,307	1,993,822
Total other financing sources (uses)	2,129	1,829	909,499	913,457	2,459,319
Net change in fund balances	195,617	(73,121)	338,493	460,989	19,983
Fund balance at beginning of year	1,286,887	68,666	969,516	2,325,069	2,305,086
Fund balance at end of year	\$ 1,482,504	\$ (4,455)	\$ 1,308,009	\$ 2,786,058	\$ 2,325,069

See accompanying notes.

CITY OF KOSCIUSKO, MISSISSIPPI
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Year Ended September 30, 2006

Total net changes in fund balances at September 30, 2006 per Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 460,989
The change in net assets reported for governmental activities in the statement of activities is different because:		
<p>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.</p>		
Capital outlay which is considered expenditures on Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 846,485	
Depreciation expense for the year ended September 30, 2006	<u>(286,993)</u>	559,492
<p>In the statement of activities, only the gain on the disposition of property is reported, whereas in the governmental funds, the proceeds from the sales increase financial resources. Thus, the change in net assets differs from the change in fund balance by the basis of assets sold</p>		
		(17,466)
<p>Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, these costs represent expenses of the current year.</p>		
		(1,705)
<p>Governmental funds report loan proceeds as other financial sources. However, the other financial source does not appear in the statement of activities since the other financial source is applied to the payable on the statement of net assets</p>		
		(383,307)
<p>Governmental funds report bonded debt repayments as expenditures. However, this expenditure does not appear in the statement of activities since the payment is applied against the bond payable balance on the statement of net assets</p>		
		<u>372,629</u>
Total changes in net assets at September 30, 2006 per Statement of Activities		<u>\$ 990,632</u>

See accompanying notes.

CITY OF KOSCIUSKO, MISSISSIPPI
Statement of Fund Net Assets
Enterprise Funds and Discretely Presented Component Unit
September 30, 2006

ASSETS	Waste Water	Solid Waste	Total	Component Unit Kosciusko Light and Water Plant
Current assets				
Cash and cash equivalents	\$ 437,883	\$ 105,628	\$ 543,511	\$ 315,355
Accounts receivable, net of allowance for doubtful accounts of \$8,867 for 2005 and 2004	-	-	-	839,110
Investments	301,000	20,000	321,000	-
Interest receivable	5,456	560	6,016	25,701
Inventory	-	-	-	276,872
Unbilled revenues	-	-	-	352,394
Other current assets	-	-	-	14,273
Due from				
Other governments	-	2,203	2,203	74,865
Component unit	20,000	19,109	39,109	-
Total current assets	764,339	147,500	911,839	1,898,570
Restricted assets				
Cash – customer deposits	-	-	-	87,466
Cash – equipment replacement	-	-	-	409,915
Investments – customer deposits	-	-	-	233,346
Investments – equipment replacement	-	-	-	4,264,423
Total restricted assets	-	-	-	4,995,150
Noncurrent assets				
Land, improvements and constuction in progress	610,928	8,000	618,928	46,470
Other capital assets, net of accumulated depreciation	3,641,800	63,027	3,704,827	5,700,573
Total capital assets	4,252,728	71,027	4,323,755	5,747,043
Total assets	5,017,067	218,527	5,235,594	12,640,763

See accompanying notes.

LIABILITIES	Waste Water	Solid Waste	Total	Component Unit Kosciusko Light and Water Plant
Current liabilities				
Accounts payable	\$ 5,089	\$ 1,850	\$ 6,939	\$ 415,976
Due to primary government	-	-	-	41,434
Accrued payroll	3,812	2,325	6,137	10,385
Accrued compensated absences	4,307	2,772	7,079	29,325
Capital lease payable, current	20,384	-	20,384	-
Note payable to State of Mississippi, current	12,500	-	12,500	-
Customer deposits	-	-	-	320,812
Other liabilities	-	-	-	24,758
Total current liabilities	46,092	6,947	53,039	842,690
Noncurrent liabilities				
Capital lease payable, net of current portion	-	-	-	-
Note payable to State of Mississippi, net of current portion	16,666	-	16,666	-
Total noncurrent liabilities	16,666	-	16,666	-
Total liabilities	62,758	6,947	69,705	842,690
NET ASSETS				
Invested in capital assets, net of related debt	4,203,178	71,027	4,274,205	5,747,043
Restricted for:				
Customer deposits	-	-	-	320,812
Property, plant and equipment replacement	-	-	-	4,674,338
Unrestricted	751,131	140,553	891,684	1,055,880
Total net assets	\$ 4,954,309	\$ 211,580	\$ 5,165,889	\$ 11,798,073

CITY OF KOSCIUSKO, MISSISSIPPI
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Enterprise Funds and Discretely Presented Component Unit
Year Ended September 30, 2006
(With Comparative Totals for Year Ended September 30, 2005)

	Waste Water	Solid Waste	Total	Component Unit	Totals (Memorandum Only)	
				Kosciusko Light and Water Plant	Reporting Entity	
					2006	2005
Operating revenues						
Water sales	\$ -	\$ -	\$ -	\$ 909,431	\$ 909,431	\$ 857,057
Electric sales	-	-	-	6,500,765	6,500,765	5,508,381
Sewer charges	605,578	-	605,578	-	605,578	590,052
Garbage fees	-	-	-	-	-	330,285
Other charges for services	7,383	398,253	405,636	96,439	502,075	59,936
Total operating revenues	612,961	398,253	1,011,214	7,506,635	8,517,849	7,345,711
Cost of production						
Water	-	-	-	455,565	455,565	433,906
Electric	-	-	-	5,490,087	5,490,087	4,514,522
Garbage collection fees	-	330,543	330,543	-	330,543	320,718
Total cost of production	-	330,543	330,543	5,945,652	6,276,195	5,269,146
Operating expenses						
Salaries and wages	162,398	99,006	261,404	293,752	555,156	461,712
Employee benefits	41,353	28,891	70,244	227,623	297,867	259,574
Supplies	-	-	-	16,233	16,233	17,570
General and administrative	89,027	26,995	116,022	169,382	285,404	324,781
Depreciation	159,021	9,006	168,027	292,766	460,793	444,047
Maintenance and repairs	107,039	6,550	113,589	38,105	151,694	125,349
Total operating expenses	558,838	170,448	729,286	1,037,861	1,767,147	1,633,033
Operating income (loss)	54,123	(102,738)	(48,615)	523,122	474,507	443,532
Non-operating revenues (expenses):						
Federal aid	1,286	16,152	17,438	-	17,438	-
State aid	-	-	-	72,265	72,265	-
Tap fees	-	-	-	18,609	18,609	22,684
Loss on disposition of property	(3,227)	-	(3,227)	(36)	(3,263)	(2,591)
Interest income	30,692	5,354	36,046	168,502	204,548	142,543
Interest expense	(1,303)	-	(1,303)	-	(1,303)	(2,092)
Taxes	-	129,053	129,053	-	129,053	125,847
Total non-operating revenues	27,448	150,559	178,007	259,340	437,347	286,391
Income before operating transfers	81,571	47,821	129,392	782,462	911,854	729,923
Operating transfers						
Operating transfers out	(132,500)	(1,000)	(133,500)	(394,400)	(527,900)	(439,900)
Increase in net assets	(50,929)	46,821	(4,108)	388,062	383,954	290,023
Net assets - beginning of year	5,005,238	164,759	5,169,997	11,410,011	16,580,008	16,289,985
Net assets - end of year	\$ 4,954,309	\$ 211,580	\$ 5,165,889	\$ 11,798,073	\$ 16,963,962	\$ 16,580,008

See accompanying notes.

CITY OF KOSCIUSKO, MISSISSIPPI
Combined Statement of Cash Flows
Enterprise Funds and Discretely Presented Component Unit
Year Ended September 30, 2006

	Waste Water	Solid Waste	Total	Component Unit Kosciusko Light and Water Plant
Cash flows from operating activities				
Receipts from customers	\$ 613,816	\$ 395,478	\$ 1,009,294	\$ 7,431,369
Payments to suppliers	(239,488)	(65,237)	(304,725)	(6,444,346)
Payments to employees	(157,091)	(97,720)	(254,811)	(285,740)
Other payments	-	(330,540)	(330,540)	-
Net cash provided by (used by) operating activities	<u>217,237</u>	<u>(98,019)</u>	<u>119,218</u>	<u>701,283</u>
Cash flows from non-capital financing activities				
Taxes collected	-	128,957	128,957	-
Operating transfers to other funds	(132,500)	(1,000)	(133,500)	(394,400)
Grant proceeds	1,286	16,152	17,438	72,265
Other receipts	-	-	-	21,058
Net cash (used by) provided by non-capital financing activities	<u>(131,214)</u>	<u>144,109</u>	<u>12,895</u>	<u>(301,077)</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(75,381)	(52,115)	(127,496)	(437,112)
Proceeds from sale of capital assets	-	-	-	-
Principal payments – notes/leases	(36,301)	-	(36,301)	-
Interest payments on capital expenditure debt	(1,303)	-	(1,303)	-
Net cash used by capital and related financing activities	<u>(112,985)</u>	<u>(52,115)</u>	<u>(165,100)</u>	<u>(437,112)</u>
Cash flows from investing activities				
(Purchase) sale of investments	(136,000)	500	(135,500)	365,988
Interest received on investments	27,566	5,109	32,675	177,313
Net cash (used by) provided by investing activities	<u>(108,434)</u>	<u>5,609</u>	<u>(102,825)</u>	<u>543,301</u>
Net (decrease) increase in cash and cash equivalents	(135,396)	(416)	(135,812)	506,395
Restricted - customer deposits				
Restricted - customer deposits	-	-	-	84,756
Restricted - equipment replacement	-	-	-	94,275
Unrestricted	573,279	106,044	679,323	127,310
Cash and cash equivalents, October 1	<u>573,279</u>	<u>106,044</u>	<u>679,323</u>	<u>306,341</u>
Restricted - customer deposits				
Restricted - customer deposits	-	-	-	87,466
Restricted - equipment replacement	-	-	-	409,915
Unrestricted	437,883	105,628	543,511	315,355
Cash and cash equivalents, September 30	<u>\$ 437,883</u>	<u>\$ 105,628</u>	<u>\$ 543,511</u>	<u>\$ 812,736</u>
Reconciliation of operating loss to net cash provided by (used by) operating activities				
Operating income (loss)	\$ 54,123	\$ (102,738)	\$ (48,615)	\$ 523,122
Adjustments to reconcile operating loss to net cash used by operating activities				
Depreciation	159,021	9,006	168,027	292,766
Changes in current assets and liabilities				
Increase in accounts receivable	-	-	-	(56,192)
Decrease (increase) in due from other funds	855	(2,775)	(1,920)	-
Increase in due from other governments	-	-	-	(73,404)
Increase (decrease) in accounts payable	1,546	(567)	979	(19,788)
Increase (decrease) in accrued compensated absences	1,495	(1,039)	456	4,413
Decrease in accrued payroll	3,812	2,325	6,137	3,599
Decrease in inventory	-	-	-	14,396
Increase in unbilled revenues	-	-	-	(19,075)
Decrease in other current assets	-	-	-	25,984
Increase in due to other funds	-	-	-	1,281
Increase in other liabilities	(3,615)	(2,231)	(5,846)	4,181
Net cash provided (used) by operating activities	<u>\$ 217,237</u>	<u>\$ (98,019)</u>	<u>\$ 119,218</u>	<u>\$ 701,283</u>

See accompanying notes.

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The City of Kosciusko, Mississippi, was incorporated in 1834 under the laws of the State of Mississippi and is located within the central region of the State. The City operates under a Board of Aldermen-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets and sanitation, recreation, education, public improvements, planning and zoning, and general administrative services.

The financial statements of City of Kosciusko, Mississippi, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

Reporting Entity

The criteria of oversight responsibility, special financing relationships and scope of public service were used in determining the agencies or entities which comprise the City for financial reporting purposes. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the following entity should be combined with the financial statements of the City:

Blended Component Unit

The Kosciusko/Attala County Airport was established by an inter-local agreement between Attala County, Mississippi and the City of Kosciusko, Mississippi. Although the airport is a legally separate entity, the City of Kosciusko is responsible for the operation of the Airport which is thus included as a blended component unit. The E-911 Fund is also a blended component unit.

Discretely Presented Component Unit

Kosciusko Light and Water Plant - The utility operates under a municipal public utility commission established under Section 21-27-13 of the Mississippi Code. The commission is composed of five members appointed by the City's Board of Aldermen. The authority of the commission is defined in Section 21-27-17 of the Mississippi Code. The utility provides services to the citizens of the City.

Government-Wide Financial Statements (GWFS)

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. The statements distinguish

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

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. Neither fiduciary funds nor component units that are fiduciary in nature are included.

The statement of activities presents a comparison between direct expenses and program revenues for business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the primary government (including one component unit) are grouped, in the financial statements in this report, into five generic fund types and two broad fund categories as follows:

a. Governmental fund types:

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination. The following are the City's Governmental Fund Types:

General Fund--is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds--are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Debt Service Funds--are used to account for the accumulation of resources for, and the payment of, general long-term bonded debt principal, interest, and related costs.

Capital Projects Funds--are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds, and Trust Funds).

b. Proprietary fund types:

Proprietary Funds are used to account for the City's ongoing activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following is the City's Proprietary Fund Type:

Enterprise Funds--are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenue and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or related services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

In accordance with GASB 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting," the City has elected to apply all applicable GASB's, and only FASB Statements and Interpretations, APB Opinions, and ARB's issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. 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 a least 10 percent 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 or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

The major funds of the City are identified below:

- Governmental Funds:

- General Fund

- MDOT

- Enterprise Funds:

- Waste Water

- Solid Waste

Measurement Focus/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-type 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 an "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.

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Basis of Accounting

In the government-wide statement of net assets and statement of activities, both governmental and business-type 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures (including capital outlay) generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The proprietary fund utilizes 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.

Budgets and Budgetary Accounting

Budgets are adopted on the cash basis of accounting. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 15, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. As required by State law, the City conducts public hearings on the budget.
3. The budget as submitted is reviewed by the Board of Aldermen and necessary revisions are made to the budget. Then the budget is approved prior to September 15.
4. The budget may be formally revised at any time during the current fiscal year unless it is the first year in which the governing authorities enter upon the discharge of their duties. In said original year, authorities may revise budget at any one regular meeting held not later than August.
5. Budgetary comparisons are employed by management as a management control device during the year for all governmental funds. The budget and actual comparisons are formally presented in the financial statements to the Mayor and Board of Aldermen. Budgetary

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

control over other funds is achieved through applicable state law, bond ordinances, or other restrictions imposed when the fund is created.

Budgeted amounts are as originally adopted or as amended by the Board of Aldermen as of September 13, 2005.

Budgeted amounts for lease payments in the debt service funds included both interest and principal in the line item "principal retirement." In the financial statements, all interest is reported in the line item "interest and fiscal charges."

Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents include investments in highly liquid investments with a maturity of three months or less, when purchased, including amounts whose use is limited by board designation.

Investments

As allowed by Government Accounting Standards Board Standard No. 31, the City carries all their investments at amortized cost. The City's investments are comprised of nonparticipating contracts (certificates of deposit) which have a remaining maturity at time of purchase of more than three months.

State law authorizes municipalities to invest in interest-bearing time certificates of deposit and in obligations of the U S. Treasury, State of Mississippi, or any county, municipality, or school district of the state. Further, the municipality may invest in certain repurchase agreements.

Interfund Receivables/Payables and Transfers

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified in the same manner. Long-term interfund loans are classified as "advances to other funds" and "advances from other funds" on the balance sheet.

Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets.

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between governmental funds have been eliminated.

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Inventory

Inventory is valued at cost. The inventory in the Light and Water Enterprise Fund of \$276,872 consists of expendable supplies held for consumption. Governmental fund types, which had no material inventory at September 30, 2006, use the purchase method which expenses inventory when purchased.

Capital Assets

Purchased general capital assets and proprietary fund type property and equipment are accounted for at historical cost or estimated historical cost if actual historical cost is not known. Donated fixed assets and property and equipment are accounted for at their estimated fair value on the date received. Infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems were not capitalized prior to October 1, 2003. For purpose of GASB 34, the City is considered a small government. Therefore, the City elected to report infrastructure prospectively only.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is computed using the straight-line method. The estimated useful lives used to depreciate assets, by asset class, are as follows:

Buildings and improvements	40 years
Equipment	3 to 10 years
Waterworks and electric system	25 to 50 years
Wastewater treatment system	10 to 50 years
Vehicles	5 years
Infrastructure	20 to 50 years

In the fund financial statements, capital assets are recorded as expenditures in the governmental type funds upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in government-wide statements.

Compensated Absences

Employees receive vacation days annually on their anniversary dates of hire. These vacation days must be used before their next anniversary date or they are lost. At September 30, 2006, the liability for accrued compensated absences was \$40,127, \$7,079, \$29,325, and \$4,077 for the general fund, primary government enterprise fund, discretely presented component unit, and special revenue funds, respectively.

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

Equity Classification

In the government-wide statements, equity is classified as net assets and displayed in three components:

- a. 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, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations or other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Estimates

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

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations.

Total Columns on Combined Statements - Overview

Total columns on the combined statements - overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2. Property Tax

Property taxes attach as an enforceable lien on property as of the first Monday in April. Taxes are levied by December 15 and are payable by February 1. City property tax revenues are recognized when measurable and available. Attala County collects the City's taxes and remits them to the City.

Note 3. Cash and Investments

A summary of cash and investment balances at September 30, 2006, follows:

	Cash on Hand	Cash and Investments in Bank		Total
		Checking Accounts	Certificates Of Deposit	
General fund	\$ 250	\$ 385,911	\$ 983,000	\$ 1,369,161
Debt service fund	-	9,064	-	9,064
Special revenue funds	150	224,330	648,000	872,480
Enterprise funds and component unit	2,000	1,127,246	5,045,770	6,175,016
Total	\$ 2,400	\$ 1,746,551	\$ 6,676,770	\$ 8,425,721

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 3. Continued

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

At September 30, 2006, all funds held as investments were in certificates of deposit with a financial institution.

A summary of restricted cash and investment balances at September 30, 2006, follows:

Description	Checking Accounts	Certificate of Deposit	Total
Component Unit			
Kosciusko Light and Water Plant			
Operating investments			
customers' deposits	\$ 87,466	\$ 233,346	\$ 320,812
Replacement of property, plant			
And equipment	409,915	4,264,423	4,674,338

Note 4. Capital Assets

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

	Balance September 30, 2005	Additions	Deletions	Balance September 30, 2006
Land	\$ 998,356	\$ -	\$ -	\$ 998,356
Buildings	2,784,776	345	-	2,785,121
Construction in progress	124,243	158,252	58,973	223,522
Machinery and equipment	2,311,229	117,200	135,146	2,293,283
Machinery and equipment acquired under capital				
Lease	452,308	-	-	452,308
Improvements other than buildings	630,524	629,661	-	1,260,185

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 4. Continued

	Balance September 30, 2005	Additions	Deletions	Balance September 30, 2006
Total	\$ 7,301,436	\$ 905,458	\$ 194,119	\$ 8,012,775
Less accumulated depreciation	2,705,171	286,993	117,680	2,874,484
Governmental activities capital assets, net	<u>\$ 4,596,265</u>	<u>\$ 618,465</u>	<u>\$ 76,439</u>	<u>\$ 5,138,291</u>

The following is a summary of proprietary fund type capital assets at September 30, 2006:

	Component Unit Kosciusko Light and Water Plant	Waste Water Fund	Solid Waste Fund
Land	\$ 46,470	\$ 610,928	\$ 8,000
Buildings	347,620	123,790	-
Improvements other than buildings	-	9,947	-
Water and electric system	11,024,195	-	-
Machinery and equipment	1,161,813	757,134	315,207
Wastewater system	-	4,684,429	-
Total fixed assets	12,580,098	6,186,228	333,207
Less accumulated depreciation and amortization	6,833,055	1,933,500	252,180
Net capital assets	<u>\$ 5,747,043</u>	<u>\$ 4,252,728</u>	<u>\$ 71,027</u>

Amortization expense for equipment acquired under capital leases was \$32,017 for the year ended September 30, 2006. Accumulated amortization at September 30, 2006 for assets acquired under capital lease was \$161,603. These amounts are included in depreciation expense and accumulated depreciation.

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 4. Continued

Depreciation expense was charged to governmental activities as follows:

General government	\$	24,236
Police		69,845
Fire		43,676
Streets		34,291
Cemetery		14,018
Park and recreation		20,137
Shop		1,276
Grounds		689
Construction projects		3,448
MDOT		15,730
EMS		367
RSVP		337
Airport		392
E911		2,881
UDAG		6,021
Fire station construction		38,045
Domestic preparedness		9,828
Court		1,776
		286,993
Total depreciation expense	\$	286,993

Depreciation expense was charged to business-type activities as follows:

Kosciusko Water and Light Plant	\$	292,766
Waste water		159,021
Solid waste		9,006
		460,793
Total depreciation expense	\$	460,793

Note 5. Notes Receivable

An urban development action grant was awarded to the City for the year ended September 30, 1987, for \$390,000 to help expand Luvel Dairy operations. The grant stated that the proceeds would be loaned to the Entity and paid back to the City over a specified period of time. At June 30, 2001, the note was renewed for \$274,464 at an interest rate of 5 percent. It is payable in 120 monthly installments of \$2,911 beginning August 1, 2000, and maturing July 1, 2010. At September 30, 2006, the balance of the note was \$121,631.

The City received a HOME grant that was approved as a loan to Kosciusko Apartments, LP, for construction of 12 three-bedroom apartments. A promissory note in the amount of \$307,050 has

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 5. Continued

been signed by the entity. Interest will accrue at the rate of 1 percent per annum on the principal amount outstanding from November 1, 2006, until paid in full on or before November 30, 2046. Promisor shall make equal annual installments on the amount commencing October 31, 2007, equal to the lesser of one-half the net cash flow, after payment of expenses and senior indebtedness or the amount necessary to amortize principal over the remaining term of the promissory note in equal annual installments together with any unpaid installments. The City will use repaid HOME funds for future housing projects.

Note 6. Interfund Transactions

The following schedule as of September 30, 2006, represents interfund receivables and payables and advances:

Fund Type	Interfund Receivables and Advances	Interfund Payables and Advances
General fund	\$ 10,105	\$ -
Special revenue funds		
Waste tire	-	430
Historic preservation	-	7,350
Enterprise funds		
Waste water	20,000	-
Solid waste	19,109	-
Component unit		
Water and electric	-	41,434
Total	\$ 49,214	\$ 49,214
Classified as		
Due from other funds – balance sheet - governmental funds	\$ 10,105	\$ -
Due to other funds – balance sheet – governmental funds	-	7,780
Due from component unit – statement of net assets - enterprise funds	39,109	-
Due to primary government – statement of net assets - Kosciusko Water and Light Plant	-	41,434
Total	\$ 49,214	\$ 49,214

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 6. Continued

Operating transfers consisted of the following at September 30, 2006:

Fund Type	Operating Transfers In	Operating Transfers Out
Governmental funds		
General fund	\$ 408,101	\$ 408,222
Nonmajor governmental funds	626,680	100,488
MDOT	1,829	-
Proprietary funds		
Waste water	-	132,500
Solid waste	-	1,000
Discretely presented component unit		
Kosciusko Water and Light Plant	-	394,400
Total	<u>\$ 1,036,610</u>	<u>\$ 1,036,610</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in accordance with budgetary authorization.

Note 7. General Long-Term Debt

Accrued Compensated Absences

At September 30, 2006, the liability for accrued compensated absences for the General Fund totaled \$40,127.

Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2006:

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 7. Continued

	Beginning Balance		Additions		Reductions		Ending Balance	Amounts Due Within One Year
Governmental activities:								
General obligation bonds	\$ 2,038,000	\$	-	\$	263,000	\$	1,775,000	\$ 275,000
Capital lease payable	160,851		-		41,185		119,666	42,531
Note payable	138,936		383,308		68,444		453,800	133,707
Governmental activities long-term liabilities	\$ 2,337,787	\$	383,308	\$	372,629	\$	2,348,466	\$ 451,238
Business-type activities:								
Capital lease payable	\$ 44,185	\$	-	\$	23,801	\$	20,384	\$ 20,384
Note payable	41,666		-		12,500		29,166	12,500
Business-type activities long-term liabilities	\$ 85,851	\$	-	\$	36,301	\$	49,550	\$ 32,884

General Obligation Bonds

Bonds payable at September 30, 2006, are comprised of the following individual issues:

\$2,000,000 1998 Street Bonds due in annual installments ranging from \$165,000 to \$240,000 through September 1, 2008, plus interest ranging from 4.00 percent to 5.60 percent, payable on March 1 and September 1 of each year, beginning September 1, 2000	\$ 470,000
\$1,348,000 bonds due in annual installments ranging from \$43,000 to \$99,000 through June 2025, plus interest of 4.25 percent, payable in June of each year, beginning June, 2006.	1,305,000
Total	\$ 1,775,000

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 7. Continued

The annual requirements to amortize bonds outstanding as of September 30, 2006, are as follows:

Year Ending September 30,	Principal	Interest	Total
2007	\$ 275,000	\$ 74,503	\$ 349,503
2008	287,000	63,390	350,390
2009	49,000	51,553	100,553
2010	51,000	49,470	100,470
2011	53,000	47,303	100,303
Thereafter	1,060,000	369,962	1,429,962
Total	\$ 1,775,000	\$ 656,181	\$ 2,431,181

Leases

The City had the following capital lease payables at September 30, 2006:

\$143,445 lease payable, due in monthly payments of \$2,596, until January 2010, 3.29 percent interest	\$ 98,223
\$41,920 lease payable, due in monthly payments of \$1,221 until March 2008, 3.12 percent interest	21,443
Total	\$ 119,666

The above leases are collateralized by equipment.

The following is a schedule of maturities of the capital lease as of September 30, 2006:

Year Ending September 30,	Amount
2007	\$ 45,799
2008	38,476
2009	31,152
2010	10,384
Total minimum lease payments	125,811
Less amount representing interest	6,145
Present value of minimum lease payments	\$ 119,666

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 7. Continued

Notes Payable

The City had the following note payables as follows at September 30, 2006:

\$330,125 note payable to financial institution due in annual installments of \$73,454 until 2007, 3.61% interest	\$ 70,492
\$344,000 note payable to financial institution due in annual installments of \$77,337 until 2011, 4.03% interest	344,000
\$1,050,000 note payable to Department of Environmental Quality due in 237 monthly installments of \$5,618 beginning August 2008, 2.50% interest	<u>39,308</u>
Total	453,800
Less current portion	<u>133,707</u>
Total	<u>\$ 320,093</u>

The annual requirements to amortize notes payable outstanding as of September 30, 2006 are as follows:

Year Ending September 30,	Amount
2007	\$ 133,707
2008	65,810
2009	107,820
2010	71,324
2011	<u>75,139</u>
Total	<u>\$ 453,800</u>

The City does not capitalize interest cost. Interest costs are recorded in expenses. For the year ended September 30, 2006, interest costs charged to expenses were \$68,942.

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 8. Enterprise Fund Long-Term Debt

Notes Payable

The City has note payable to the State of Mississippi as follows:

\$250,000 1989 note payable, due in monthly installments of \$1,041.66 until 2009, which is being withheld from monthly sales tax remittances; interest free	\$ 29,166
Less current portion	<u>12,500</u>
Total	<u>\$ 16,666</u>

The annual requirements to amortize notes payable outstanding in the Proprietary Funds as of September 30, 2006, are as follows:

Year Ending September 30,	Notes Payable
2007	\$ 12,500
2008	12,500
2009	<u>4,166</u>
Total	<u>\$ 29,166</u>

Leases

The City's Enterprise Fund had the following capital lease payable at September 30, 2006:

\$113,694 lease payable due in monthly installments of \$2,092 with a final payment of \$3,959 due on June 9, 2007, 3.90 percent interest	<u>\$ 20,384</u>
---	------------------

The above leases are collateralized by equipment.

The following is a schedule of maturities of the capital leases as of September 30, 2006:

Year Ending September 30,	Amount
2007	\$ 20,699
Less amount representing interest	<u>315</u>
Present value of minimum lease payments	<u>\$ 20,384</u>

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 9. Limitation of Indebtedness

The following is a schedule of limitations on the indebtedness of the City, at September 30, 2006:

	15 Percent	20 Percent
Authorized debt limit		
Assessed valuation for fiscal year ended September 30, 2006 (\$41,869,830)	\$ 6,280,475	\$ 8,373,966
Present debt subject to 15 percent Limitation	(2,228,800)	-
Present debt subject to 20 percent limitation including debt subject to 15 percent limitation	-	(2,257,966)
Margin for further debt under respective debt limits	\$ 4,051,675	\$ 6,116,000
Debt subject to limits		
Notes payable to State of Mississippi	\$ -	\$ 29,166
General fund debt	2,228,800	2,228,800
Total	\$ 2,228,800	\$ 2,257,966

No municipality shall hereafter issue bonds for the purposes authorized by law in an amount which, when added to the then outstanding bonded indebtedness of such municipality, shall exceed 15 percent of the assessed value of the taxable property within such municipality, according to the then last completed assessment for taxation. In computing such indebtedness, there may be deducted all bonds or other evidences of indebtedness, heretofore or hereafter issued, for school, water, sewer systems, gas, and light and power purposes and for the construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying the municipality's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case shall any municipality contract any indebtedness which, when added to all of the outstanding indebtedness, both bonded and floating, shall exceed 20 percent of the assessed value of all taxable property within such municipality. Nothing herein contained shall be construed to apply to bonds heretofore issued by any municipality for school purposes, or to bonds heretofore or hereafter issued by any municipality which are payable exclusively from the revenues of any municipality-owned utility, or to bonds issued by any municipality under the provisions of Sections 57-1-1 to 57-1-51, or to any special assessment improvement bonds issued by any municipality under the provisions of Sections 21-41-1 through 21-41-53.

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 10. Deficit Fund Balance

Waste tire had a deficit fund balance of \$505 at September 30, 2006. The deficit will be eliminated in the fiscal year ending September 30, 2007 as grant revenue is received.

MDOT had a deficit fund balance of \$4,455 at September 30, 2006. The deficit will be eliminated in the fiscal year ending September 30, 2007 as grant revenue is received.

The Partnership for a Healthy Attala County had a deficit fund balance of \$858 at September 30, 2006. The deficit will be eliminated in the fiscal year ending September 30, 2007 as grant revenue is received.

Note 11. Pension Plan

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

Funding Policy. PERS members are required to contribute 7.25 percent of their annual covered salary and the City of Kosciusko, Mississippi, is required to contribute at an actuarially determined rate. The current rate is 11.30 percent 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 Kosciusko, Mississippi's contributions to PERS for the years ended September 30, 2006, 2005, and 2004 were \$318,798, \$281,600, and \$271,939, respectively, equal to the required contributions for each year.

Note 12. Commitments and Contingencies

The City of Kosciusko had entered into a joint and several relationships with other public entities in the Mississippi Municipal Worker's Compensation Group. Each member shares responsibility for premium contribution based on payroll and their own loss experiences as well as assessments needed for fund inadequacies. They also share the benefit of fund surplus in the form of dividends when applicable. The City was subject to assessment for the year ended September 30, 2006. No assessment was made or is probable for the year ended September 30, 2006.

The City now utilizes a medical benefit account for health insurance claims. Amounts are periodically paid into the account, and claims are disbursed from the account.

CITY OF KOSCIUSKO, MISSISSIPPI

Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 12. Continued

As of September 30, 2006, the account had a balance of \$36,401 as well as investments totaling \$71,000. Also, there were no amounts due by the City for unpaid insurance claims. There were no amounts due to the City by the re-insurance company.

Grant monies received and disbursed by the City are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the City does not believe that such disallowances, if any, would have a material effect on the financial position of the City.

In the normal course of business, the City is occasionally a defendant in various lawsuits filed against it. These cases are turned over to the City's insurer's attorneys, who handle the defense of these suits. At present, it is impossible to predict if any loss may be incurred from these suits.

During the year ended September 30, 2006 the Municipal Energy Agency of Mississippi (MEAM) entered into a power purchase agreement with Plum Point Energy Associates. The City's discretely presented component unit, Kosciusko Light and Water Plant, is one of six members of MEAM. This agreement will not have a direct impact on the financial operations of the Kosciusko Light and Water Plant until 2010. The current cost of energy is approximately \$70/MWh. Under the Plum Point Energy agreement, the Kosciusko Light and Water Plant anticipates paying approximately \$45/MWh beginning in 2010.

Note 13. Segment Information - Enterprise Funds and Presented Component Unit

The City maintains two enterprise funds which are intended to be self-supporting through user fees charged for waste and garbage removal to the public. The City also reports a component unit which is intended to be self-supporting through user fees charged for water and electric services to the public. Financial segment information as of and for the year ended September 30, 2006, is presented below:

	Waste Water Fund	Solid Waste Fund	Component Unit Kosciusko Light and Water Plant
Total assets	\$ 5,017,067	\$ 218,527	\$ 12,640,763
Current assets	764,339	147,500	1,898,570
Capital assets	4,252,728	71,027	5,747,043
Other assets	-	-	4,995,150
Due from component unit	20,000	19,109	-
Total liabilities	62,758	6,947	842,690
Current liabilities	46,092	6,947	842,690
Long-term liabilities	16,666	-	-
Due to primary government	-	-	41,434
Total net assets	4,954,309	211,580	11,798,073

CITY OF KOSCIUSKO, MISSISSIPPI
Year Ended September 30, 2006

NOTES TO BASIC FINANCIAL STATEMENTS

Note 13. Continued

	Waste Water Fund	Solid Waste Fund	Component Unit Kosciusko Light and Water Plant
Invested in capital assets, net of related debt	\$ 4,203,178	\$ 71,027	\$ 5,747,043
Restricted net assets	-	-	4,995,150
Unrestricted net assets	751,131	140,553	1,055,880
Water revenue	-	-	909,431
Electric revenue	-	-	6,500,765
Sewer revenue	605,578	-	-
Garbage revenue	-	398,253	-
Other revenue	7,383	-	96,439
Cost of production-water	-	-	455,565
Cost of production-electric	-	-	5,490,087
Cost of production-garbage collection fees	-	330,543	-
Operating expense	558,838	170,448	1,037,861
Depreciation expense	159,021	9,006	292,766
Operating income (loss)	54,123	(102,738)	523,122
Non-operating revenues	27,448	150,559	259,340
Tax revenues	-	129,053	-
Operating transfers out	(132,500)	(1,000)	(394,400)
Change in net assets	(50,929)	46,821	388,062
Beginning net assets	5,005,238	164,759	11,410,011
Ending net assets	4,954,309	211,580	11,798,073
Net cash provided (used) by:			
Operating activities	217,237	(98,019)	701,283
Noncapital financing activities	(131,214)	144,109	(301,077)
Capital and related financing activities	(112,985)	(52,115)	(437,112)
Investing activities	(108,434)	5,609	543,301
Beginning cash and cash equivalent balances	573,279	106,044	306,341
Ending cash and cash equivalent balances	437,883	105,628	812,736

Note 14. Budgetary Basis vs. GAAP

The accompanying budgetary comparison schedules presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since the budgetary and GAAP presentations of actual data differ, a reconciliation of the results of operations for the year follows.

Excess of revenues and other sources over (under) expenditures and other uses:

	General Fund	Waste Water	Solid Waste
Budget (cash basis)	\$ 1,527,937	\$ 4,992,097	\$ 164,440
Increase (decrease)			
Net adjustment for revenue accruals	(35,434)	5,975	6,595
Net adjustment for expenditure accruals	(9,999)	12,653	(2,563)
Capital outlay	-	66,304	52,114
Debt service	-	36,301	-
Depreciation expense	-	(159,021)	(9,006)
GAAP Basis	\$ 1,482,504	\$ 4,954,309	\$ 211,580

**OTHER REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF KOSCIUSKO, MISSISSIPPI
 Budgetary Comparison Schedule-General Fund
 Year Ended September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual (Memorandum Only) 2005</u>
	<u>Original</u>	<u>Final</u>			
Revenues					
Fire aid	\$ 33,000	\$ 33,000	\$ 27,364	\$ (5,636)	\$ 34,728
State aid	3,850	3,850	3,843	(7)	14,278
Sales tax	1,800,000	1,800,000	1,920,048	120,048	1,810,582
Franchise tax	85,000	85,000	102,819	17,819	88,143
Ad valorem tax	911,500	911,500	921,156	9,656	838,425
Road tax	88,000	88,000	90,546	2,546	87,482
Land redemptions	850	850	3,602	2,752	709
Privilege licenses	17,000	17,000	18,337	1,337	18,154
Police fines	150,000	150,000	155,285	5,285	135,193
Cemetery lots and grave openings	30,000	30,000	39,070	9,070	40,300
Building permits	27,000	27,000	19,671	(7,329)	30,555
Interest on investments	15,000	15,000	42,403	27,403	20,034
Miscellaneous receipts	52,111	54,111	71,876	17,765	35,833
Rent income	2,850	2,850	3,850	1,000	2,850
Grand Gulf in lieu of taxes	5,200	5,200	6,164	964	6,390
Housing authority in lieu of taxes	-	-	13,201	13,201	11,269
Recreation	45,000	45,000	55,827	10,827	49,823
Grants	-	2,702	41,567	38,865	76,995
Total general fund revenues	\$ 3,266,361	\$ 3,271,063	\$ 3,536,629	\$ 265,566	\$ 3,301,743

CITY OF KOSCIUSKO, MISSISSIPPI
 Budgetary Comparison Schedule-General Fund (continued)
 Year Ended September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u>	<u>(Memorandum</u>
				<u>(Unfavorable)</u>	<u>Only) 2005</u>
Administrative					
Salaries	\$ 479,825	\$ 470,425	\$ 453,648	\$ 16,777	\$ 419,291
Supplies	19,050	26,000	24,316	1,684	18,615
Other services	115,625	120,113	95,806	24,307	100,073
Capital outlay	10,600	22,562	22,539	23	8,041
Total administrative	<u>625,100</u>	<u>639,100</u>	<u>596,309</u>	<u>42,791</u>	<u>546,020</u>
Public safety					
Salaries	1,243,686	1,243,686	1,223,877	19,809	1,174,510
Supplies	112,100	120,865	121,195	(330)	110,690
Other services	67,260	67,012	66,334	678	65,081
Capital outlay	46,550	50,535	39,535	11,000	141,033
Total public safety	<u>1,469,596</u>	<u>1,482,098</u>	<u>1,450,941</u>	<u>31,157</u>	<u>1,491,314</u>
Public works					
Salaries	399,970	396,420	369,493	26,927	337,714
Supplies	83,550	102,715	76,031	26,684	72,981
Other services	48,800	50,135	57,235	(7,100)	35,993
Capital outlay	2,250	2,300	4,501	(2,201)	166,032
Total public works	<u>534,570</u>	<u>551,570</u>	<u>507,260</u>	<u>44,310</u>	<u>512,720</u>
Culture, health and welfare					
Salaries	284,530	275,730	239,415	36,315	312,024
Supplies	44,150	49,500	38,189	11,311	48,834
Other services	52,350	56,350	53,917	2,433	35,229
Capital outlay	98,810	39,310	34,740	4,570	29,294
Total culture, health and welfare	<u>479,840</u>	<u>420,890</u>	<u>366,261</u>	<u>54,629</u>	<u>425,381</u>
Miscellaneous					
Other services	<u>404,583</u>	<u>404,583</u>	<u>376,938</u>	<u>27,645</u>	<u>366,844</u>
Total general fund expenditures	<u>\$ 3,513,689</u>	<u>\$ 3,498,241</u>	<u>\$ 3,297,709</u>	<u>\$ 200,532</u>	<u>\$ 3,442,279</u>
Other financing sources (uses)					
Gain on disposition of property	-	-	2,250	2,250	25,597
Operating transfers out	(472,000)	(538,500)	(408,221)	130,279	(569,805)
Operating transfers in	429,400	429,400	408,101	(21,299)	439,658
Loan proceeds	-	-	-	-	185,365
Total other financing sources	<u>(42,600)</u>	<u>(109,100)</u>	<u>2,130</u>	<u>111,230</u>	<u>80,815</u>
Total general fund uses	<u>\$ (289,928)</u>	<u>\$ (336,278)</u>	<u>\$ 241,050</u>	<u>\$ 577,328</u>	<u>\$ (59,721)</u>
Fund balance at beginning of year		<u>1,286,887</u>	<u>1,286,887</u>	-	<u>1,289,326</u>
Fund balance at end of year		<u>\$ 950,609</u>	<u>1,527,937</u>	<u>\$ 577,328</u>	<u>1,229,605</u>
Adjustments required for generally accepted accounting principles			<u>(45,433)</u>		<u>57,282</u>
Fund balance at end of year (GAAP basis)			<u>\$ 1,482,504</u>		<u>\$ 1,286,887</u>

CITY OF KOSCIUSKO, MISSISSIPPI
 Budgetary Comparison Schedule-MDOT
 Year Ended September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual (Memorandum Only) 2005</u>
	<u>Original</u>	<u>Final</u>			
Revenues					
Interest income	-	-	-	-	662
Miscellaneous income	-	-	-	-	74
Grant	\$ 364,000	\$ 564,000	\$ 419,578	\$ (144,422)	\$ 44
Total revenues	\$ 364,000	\$ 564,000	\$ 419,578	\$ (144,422)	\$ 780
Expenditures					
Other services	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ -
Capital outlay	455,000	455,000	419,578	35,422	58,973
Total expenditures	455,000	655,000	419,578	235,422	58,973
Other financing sources (uses)					
Transfers in	91,000	91,000	1,829	(89,171)	-
Total other financing sources	91,000	91,000	1,829	(89,171)	-
Total fund sources	\$ -	\$ -	\$ 1,829	\$ 1,829	\$ (58,193)
Fund balance at beginning of year		68,666	68,666	-	57,530
Fund balance at end of year		<u>\$ 68,666</u>	70,495	<u>\$ 1,829</u>	(663)
Adjustments required for generally accepted accounting principles			(74,950)		69,329
Fund balance at end of year (GAAP basis)			<u>\$ (4,455)</u>		<u>68,666</u>

CITY OF KOSCIUSKO, MISSISSIPPI
 Budgetary Comparison Schedule-Waste Water
 Year Ended September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual (Memorandum Only) 2004</u>
	<u>Original</u>	<u>Final</u>			
Revenues					
Sewer charges	\$ 570,000	\$ 570,000	\$ 604,532	\$ 34,532	\$ 588,152
Federal aid	-	-	1,286	1,286	-
State aid	-	-	-	-	-
Interest income	8,000	8,000	25,763	17,763	10,219
Other charges for services	7,000	7,000	7,383	383	7,972
Total revenues	\$ 585,000	\$ 585,000	\$ 638,964	\$ 53,964	\$ 606,343
Expenditures					
Salaries and wages	\$ 207,625	\$ 214,625	\$ 207,192	\$ 7,433	\$ 180,039
Supplies and other services	234,000	269,500	205,278	64,222	237,258
Capital outlay	160,000	172,000	66,304	105,696	42,990
Debt Service	25,105	25,105	36,301	(11,196)	35,512
Interest expense	-	-	1,303	(1,303)	2,092
Total expenditures	626,730	681,230	516,378	164,852	497,891
Other financing uses					
Loss on disposition of property	-	-	(3,227)	(3,227)	-
Operating transfers out	(32,500)	(32,500)	(132,500)	(100,000)	(34,500)
Total other financing uses	(32,500)	(32,500)	(135,727)	(103,227)	(34,500)
Total fund (uses) sources	\$ (74,230)	\$ (128,730)	\$ (13,141)	\$ 115,589	\$ 73,952
Fund balance at beginning of year		5,005,238	5,005,238	-	4,983,314
Fund balance at end of year		<u>\$ 4,876,508</u>	4,992,097	<u>\$ 115,589</u>	5,057,266
Adjustments required for generally accepted accounting principles			<u>(37,788)</u>		<u>(52,028)</u>
Fund balance at end of year (GAAP basis)			<u>\$ 4,954,309</u>		<u>5,005,238</u>

CITY OF KOSCIUSKO, MISSISSIPPI
 Budgetary Comparison Schedule-Solid Waste
 Year Ended September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual (Memorandum Only) 2005</u>
	<u>Original</u>	<u>Final</u>			
Revenues					
Garbage fees	\$ 389,000	\$ 389,000	\$ 392,161	\$ 3,161	\$ 327,064
Federal aid	-	-	16,152	16,152	-
Taxes	127,050	127,050	129,053	2,003	125,847
Interest income	800	800	4,851	4,051	1,462
Other charges for services	-	-	-	-	450
Total revenues	516,850	516,850	542,217	25,367	454,823
Expenditures					
Salaries	131,575	136,000	129,354	6,646	78,220
Other services	331,000	331,000	340,544	(9,544)	328,097
Supplies	30,300	34,550	19,524	15,026	16,066
Capital outlay	84,500	84,500	52,114	32,386	-
Debt service	30,000	30,000	-	30,000	-
Total expenditures	607,375	616,050	541,536	74,514	422,383
Other financing sources (uses)					
Proceeds from loan	84,500	84,500	-	(84,500)	-
Operating transfers out	(1,000)	(1,000)	(1,000)	-	(11,000)
Total other financing sources (uses)	83,500	83,500	(1,000)	(84,500)	(11,000)
Total fund sources	\$ (7,025)	\$ (15,700)	\$ (319)	\$ 15,381	\$ 21,440
Fund balance at beginning of year		164,759	164,759	-	157,836
Fund balance at end of year		<u>\$ 149,059</u>	164,440	<u>\$ 15,381</u>	\$ 179,276
Adjustments required for generally accepted accounting principles			<u>47,140</u>		<u>(14,517)</u>
Fund balance at end of year (GAAP basis)			<u>\$ 211,580</u>		<u>164,759</u>

OTHER INFORMATION

CITY OF KOSCIUSKO, MISSISSIPPI
Schedule of Expenditures of Federal Awards (2)
Year Ended September 30, 2006

	Federal CFDA Number	Pass- Through Grantor's Number	Program or Award Amount	Federal Revenues	Expenditures
Department of Housing and Urban Development	14.228	05-224-OF-01	\$ 450,000	\$ 2,852	\$ 2,852
Department of Housing and Urban Development	14.239	M05-SG-28-115	\$ 500,000	\$ 200,000	\$ 200,000
Department of the Interior	15.228	0348-0004	\$ 3,100	\$ 3,000	\$ 3,000
Department of Justice	16.607		\$ 5,950	\$ 5,950	\$ 5,950
Department of Transportation	20.106	3-28-0039-005-2006	\$ 236,922	\$ 147,452	\$ 147,452
Department of Transportation	20.106	3-28-0039-004-2005	\$ 163,619	\$ 145,866	\$ 145,866
Department of Transportation	20.205	ER-0260-00(008)	\$ 17,009	\$ 17,009	\$ 17,009
Department of Transportation	20.205	8931-00(03)	\$ 315,490	\$ 315,490	\$ 315,490 (1)
Department of Transportation	20.205	STP 8925-00(002)	\$ 604,177	\$ 44,284	\$ 44,284
Environmental Protection Agency	66.419		\$ 1,050,000	\$ 39,308	\$ 39,308
Corporation for National and Community Service	94.002		\$ 34,382	\$ 34,382	\$ 34,382
Federal Emergency Management Agency	97.036	007-38320-0	\$ 36,870	\$ 36,870	\$ 36,870
Department of Homeland Security	97.044	05HS224	\$ 23,261	\$ 22,737	\$ 22,737
Total Federal Assistance				<u>\$ 1,015,200</u>	<u>\$ 1,015,200</u>

(1) Major Program.

(2) This schedule is prepared on the same basis of accounting as the financial report. See summary of significant accounting policies at Note 1.

CITY OF KOSCIUSKO, MISSISSIPPI
 General Fund
 Balance Sheet
 September 30, 2006
 (With Comparative Totals for September 30, 2005)

	2006	(Memorandum Only) 2005
ASSETS		
Cash	\$ 791,161	\$ 473,655
Investments	578,000	617,700
Interest receivable	8,652	4,400
Due from other funds	10,105	27,868
Advances to other funds	-	21,396
Other receivables	3,033	2,553
Due from other governments	165,841	200,545
	<u>\$ 1,556,792</u>	<u>\$ 1,348,117</u>
Total assets	<u>\$ 1,556,792</u>	<u>\$ 1,348,117</u>
LIABILITIES		
Accounts payable	\$ 18,452	\$ 10,069
Other liabilities	4,526	6,928
Accrued payroll	37,518	35,903
Due to other governments	13,792	8,330
Total liabilities	<u>74,288</u>	<u>61,230</u>
FUND EQUITY		
Fund balance		
Reserved for advances to other funds	-	21,396
Unreserved fund balance	1,482,504	1,265,491
Total fund equity	<u>1,482,504</u>	<u>1,286,887</u>
Total liabilities and fund equity	<u>\$ 1,556,792</u>	<u>\$ 1,348,117</u>

CITY OF KOSCIUSKO, MISSISSIPPI
 MDOT
 Balance Sheet
 September 30, 2006
 (With Comparative Totals for September 30, 2005)

	2006	(Memorandum Only) 2005
ASSETS		
Due from other government	\$ 10,690	\$ 70,494
LIABILITIES		
Accounts payable	\$ 15,145	\$ -
Due to other funds	-	1,828
Total liabilities	15,145	1,828
FUND EQUITY		
Fund balance		
Reserved for loans receivable	(4,455)	68,666
Total liabilities and fund equity	\$ 10,690	\$ 70,494

CITY OF KOSCIUSKO, MISSISSIPPI
 Enterprise Funds
 Combining Statement of Fund Net Assets
 September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

ASSETS	Waste Water	Solid Waste	Total	(Memorandum Only) 2005
Current assets				
Cash and cash equivalents	\$ 437,883	\$ 105,628	\$ 543,511	679,323
Investments	301,000	20,000	321,000	185,500
Interest receivable	5,456	560	6,016	2,646
Due from				
Other governments	-	2,203	2,203	2,107
Component unit	20,000	19,109	39,109	37,189
Total current assets	764,339	147,500	911,839	906,765
Noncurrent assets				
Land, improvements and constuction in progress	610,928	8,000	618,928	618,928
Other capital assets, net of accumulated depreciation	3,641,800	63,027	3,704,827	3,748,586
Total capital assets	4,252,728	71,027	4,323,755	4,367,514
Total assets	\$ 5,017,067	\$ 218,527	\$ 5,235,594	5,274,279

See accompanying notes.

LIABILITIES	Waste Water	Solid Waste	Total	(Memorandum Only) 2005
Current liabilities				
Accounts payable	\$ 5,089	\$ 1,850	\$ 6,939	5,959
Accrued payroll	3,812	2,325	6,137	
Accrued compensated absences	4,307	2,772	7,079	6,623
Capital lease payable, current	20,384	-	20,384	23,805
Note payable to State of Mississippi, current	12,500	-	12,500	12,500
Other liabilities	-	-	-	5,849
Total current liabilities	46,092	6,947	53,039	54,736
Noncurrent liabilities				
Capital lease payable, net of current portion	-	-	-	20,380
Note payable to State of Mississippi, net of current portion	16,666	-	16,666	29,166
Total noncurrent liabilities	16,666	-	16,666	49,546
Total liabilities	62,758	6,947	69,705	104,282
NET ASSETS				
Invested in capital assets, net of related debt	4,203,178	71,027	4,274,205	4,281,663
Unrestricted	751,131	140,553	891,684	888,334
Total net assets	\$ 4,954,309	\$ 211,580	\$ 5,165,889	5,169,997

CITY OF KOSCIUSKO, MISSISSIPPI
 Nonmajor Governmental Funds
 Combining Balance Sheet
 September 30, 2006
 (With Comparative Totals for September 30, 2005)

	Partnership For a Healthy Attala County	Forfeiture Fund	Cemetery Fund	UDAG	Tourism Fund	RSVP Fund	Special R
ASSETS							
Cash	\$ -	\$ 8,440	\$ 129,989	\$ 5,630	\$ 32,256	\$ 36,494	\$ -
Investments	-	-	30,000	8,000	-	-	-
Due from other governments	-	-	-	-	2,058	-	-
Note receivable	-	-	-	121,631	-	-	-
Interest receivable	-	45	1,179	14	-	-	-
Total assets	\$ -	\$ 8,485	\$ 161,168	\$ 135,275	\$ 34,314	\$ 36,494	\$ -
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 3,668	\$ -	\$ -
Due to other governments	-	-	-	-	-	-	-
Accrued payroll	858	-	-	-	-	-	554
Accrued compensated absences	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
Total liabilities	858	-	-	-	3,668	-	554
Fund balance							
Reserved for grant project	(858)	-	-	-	-	-	-
Reserved for loans receivable	-	-	-	-	-	-	-
Unreserved	-	8,485	161,168	135,275	30,646	35,940	-
Total fund equity	(858)	8,485	161,168	135,275	30,646	35,940	-
Total liabilities and fund equity	\$ -	\$ 8,485	\$ 161,168	\$ 135,275	\$ 34,314	\$ 36,494	\$ -

Revenue Funds

Home Grant	E911 Fund	War On Crime	Economic Development Rent	Waste Tire Grant
-	\$ 150,899	\$ 1,438	\$ 1,096	\$ -
-	80,000	-	50,000	-
-	-	-	-	-
807,050	-	-	-	-
-	1,560	-	577	-
807,050	\$ 232,459	\$ 1,438	\$ 51,673	\$ -
-	\$ 180	\$ -	\$ -	\$ 75
-	-	-	-	-
-	3,426	-	-	-
-	3,132	-	-	-
-	-	-	-	430
-	6,738	-	-	505
807,050	-	-	-	-
-	225,721	1,438	51,673	(505)
807,050	225,721	1,438	51,673	(505)
807,050	232,459	\$ 1,438	\$ 51,673	\$ -

CITY OF KOSCIUSKO, MISSISSIPPI
 Nonmajor Governmental Funds
 Combining Balance Sheet
 September 30, 2006
 (With Comparative Totals for September 30, 2005)

	Special Revenue					
	Airport Fund	EMS Grant	LAW	Home Program Grant	Domestic Preparedness Grant	Outdoor Recreation Grant
ASSETS						
Cash	\$ 24,531	\$ 771	\$ -	\$ 20	\$ -	\$ 33,896
Investments	-	-	-	-	-	50,000
Due from other governments	-	-	-	-	-	-
Note receivable	-	-	-	-	-	-
Interest receivable	118	-	-	-	-	280
Total assets	\$ 24,649	\$ 771	\$ -	\$ 20	\$ -	\$ 84,176
LIABILITIES						
Accounts payable	\$ 7,015	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-	-	-
Accrued payroll	-	-	-	-	-	-
Accrued compensated absences	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total liabilities	7,015	-	-	-	-	-
Fund balance						
Reserved for grant project	-	-	-	-	-	-
Reserved for loans receivable	-	-	-	-	-	-
Unreserved	17,634	771	-	20	-	84,176
Total fund equity	17,634	771	-	20	-	84,176
Total liabilities and fund equity	\$ 24,649	\$ 771	\$ -	\$ 20	\$ -	\$ 84,176

unds (continued)

Fire	Historical Preservation	National Park Service	MDOT Community Service Officer	Total
126	\$ 525	\$ 100	\$ 2,726	\$ 428,937
10,000	-	-	-	228,000
-	-	-	-	2,058
-	-	-	-	428,681
68	-	-	-	3,841
10,194	\$ 525	\$ 100	\$ 2,726	\$ 1,091,517
-	\$ -	\$ -	\$ -	10,938
-	-	-	-	-
-	-	-	477	5,315
-	-	-	945	4,077
-	7,350	-	-	7,780
-	7,350	-	1,422	28,110
-	-	-	-	(858)
-	-	-	-	307,050
10,194	(6,825)	100	1,304	757,215
10,194	(6,825)	100	1,304	1,063,407
10,194	\$ 525	\$ 100	\$ 2,726	\$ 1,091,517

CITY OF KOSCIUSKO, MISSISSIPPI
 Nonmajor Governmental Funds
 Combining Balance Sheet
 September 30, 2006
 (With Comparative Totals for September 30, 2005)

	Capital Projects Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Construction Projects	Sewer Rehabilitation	Total	Debt Service	(Memorandum Only) 2005
ASSETS					
Cash	\$ 32,592	\$ 52,951	\$ 85,543	\$ 9,064	\$ 523,544
Investments	130,000	-	130,000	-	358,000
Due from other governments	16,804	-	16,804	2,722	21,584
Note receivable	-	-	-	-	428,681
Interest receivable	469	-	469	-	4,310
Total assets	\$ 179,865	\$ 52,951	\$ 232,816	\$ 11,786	\$ 1,336,119
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 10,938
Due to other governments	-	-	-	-	-
Accrued payroll	-	-	-	-	5,315
Accrued compensated absences	-	-	-	-	4,077
Due to other funds	-	-	-	-	7,780
Total liabilities	-	-	-	-	28,110
Fund balance					
Reserved for grant project	-	-	-	-	(858)
Reserved for loans receivable	-	-	-	-	307,050
Unreserved	179,865	52,951	232,816	11,786	1,001,817
Total fund equity	179,865	52,951	232,816	11,786	1,308,009
Total liabilities and fund equity	\$ 179,865	\$ 52,951	\$ 232,816	\$ 11,786	\$ 1,336,119

CITY OF KOSCIUSKO, MISSISSIPPI
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures,
 and Changes in Fund Balances
 Year Ended September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

	Speci:					
	Partnership For a Healthy Attala County	Forfeiture Fund	Cemetery Fund	UDAG	Tourism Fund	RSVP Fund
Revenues						
Federal aid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,382
State aid	92,351	-	-	-	-	-
Miscellaneous	-	-	9,150	-	-	760
Interest income	-	455	6,722	6,955	62	85
Donations	-	-	-	-	-	-
Intergovernment	-	-	-	-	29,277	32,343
Forfeiture revenue	-	16,380	-	-	-	-
Rent income	-	-	-	-	-	-
Fee revenue	-	-	-	-	-	-
Total revenues	92,351	16,835	15,872	6,955	29,339	67,570
Expenditures						
Supplies	-	-	-	-	4,421	400
Other services	40,227	12,698	-	-	12,950	20,298
Personnel	50,751	-	-	-	4,500	41,310
Capital outlay	-	1,790	-	-	-	-
Debt service						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	90,978	14,488	-	-	21,871	62,008
Excess (deficiency) of revenues over expenditures	1,373	2,347	15,872	6,955	7,468	5,562
Other financing sources (uses)						
Operating transfers in (out)	-	(288)	(6,200)	-	-	-
Loan proceeds	-	-	-	-	-	-
Total other financing sources (uses)	-	(288)	(6,200)	-	-	-
Fund balance at beginning of year	(2,231)	6,426	151,496	128,320	23,178	30,378
Fund balance at end of year	\$ (858)	\$ 8,485	\$ 161,168	\$ 135,275	\$ 30,646	\$ 35,940

Revenue Funds

Home Grant	E911 Fund	War On Crime	Economic Development Rent	Waste Tire Grant
-	\$ -	\$ -	\$ -	\$ -
-	261	-	-	-
-	-	-	-	-
-	9,417	60	1,983	-
-	500	-	-	-
-	-	-	-	-
-	-	-	8,900	-
-	120,000	-	-	-
-	130,178	60	10,883	-
-	1,504	-	-	-
-	85,729	-	225	505
-	188,654	-	-	-
-	1,187	-	-	-
-	-	-	-	-
-	-	-	-	-
-	277,074	-	225	505
-	(146,896)	60	10,658	(505)
-	127,295	-	-	-
-	-	-	-	-
-	127,295	-	-	-
307,050	245,322	1,378	41,015	-
307,050	\$ 225,721	\$ 1,438	\$ 51,673	\$ (505)

CITY OF KOSCIUSKO, MISSISSIPPI
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures,
 and Changes in Fund Balances
 Year Ended September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

	Airport Fund	EMS Grant	LAW	Home Program Grant	Domestic Preparedness Grant	Outdoor Recreation Grant
Revenues						
Federal aid	\$ 286,525	\$ -	\$ -	\$ 200,000	\$ 22,737	-
State aid	-	3,109	1,877	-	-	13,183
Miscellaneous	400	-	-	-	-	-
Interest income	910	12	-	-	-	290
Donations	-	-	-	-	-	-
Intergovernment	10,000	-	-	-	-	-
Forfeiture revenue	-	-	-	-	-	-
Rent income	-	-	-	-	-	-
Fee revenue	-	-	-	-	-	-
Total revenues	297,835	3,121	1,877	200,000	22,737	13,473
Expenditures						
Supplies	-	-	-	-	-	-
Other services	309,835	2,350	-	200,000	6,634	-
Personnel	-	-	-	-	-	-
Capital outlay	-	-	2,388	-	16,103	24,470
Debt service						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	309,835	2,350	2,388	200,000	22,737	24,470
Excess (deficiency) of revenues over expenditures	(12,000)	771	(511)	-	-	(10,997)
Other financing sources (uses)						
Operating transfers in (out)	2,000	-	497	20	-	95,173
Loan proceeds	-	-	-	-	-	-
Total other financing sources (uses)	2,000	-	497	20	-	95,173
Fund balance at beginning of year	27,634	-	14	-	-	-
Fund balance at end of year	\$ 17,634	\$ 771	\$ -	\$ 20	\$ -	84,176

Historical Preservation	National Park Service	MDOT Community Service Officer	Total
-	3,100	\$ -	\$ 546,744
2,500	-	10,193	133,600
-	-	-	10,310
-	-	168	27,187
-	-	-	500
-	-	-	71,620
-	-	-	16,380
-	-	-	8,900
-	-	-	120,000
2,500	3,100	10,361	935,241
-	-	-	6,325
17,200	375	-	709,026
-	-	29,082	314,297
-	2,625	-	48,563
-	-	-	-
-	-	-	-
17,200	3,000	29,082	1,078,211
(14,700)	100	(18,721)	(142,970)
7,875	-	15,000	241,372
-	-	-	-
7,875	-	15,000	241,372
-	-	5,025	965,005
(6,825)	100	\$ 1,304	\$ 1,063,407

CITY OF KOSCIUSKO, MISSISSIPPI
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures,
 and Changes in Fund Balances
 Year Ended September 30, 2006
 (With Comparative Totals for Year Ended September 30, 2005)

	Capital Projects Funds			Debt Service Fund
	Construction Projects	Sewer Rehabilitation	Total	Debt Service
Revenues				
Federal aid	\$ -	\$ -	\$ -	\$ -
State aid	97,700	2,852	100,552	-
Miscellaneous	-	-	-	-
Interest income	551	268	819	2,353
Donations	-	-	-	-
Intergovernment	-	-	-	173,108
Forfeiture revenue	-	-	-	-
Rent income	-	-	-	-
Fee revenue	-	-	-	-
Total revenues	98,251	3,120	101,371	175,461
Expenditures				
Supplies	-	-	-	-
Other services	-	-	-	1,414
Personnel	-	-	-	-
Capital outlay	172,386	89,497	261,883	-
Debt service				
Principal retirement	-	-	-	372,629
Interest and fiscal charges	-	-	-	68,942
Total expenditures	172,386	89,497	261,883	442,985
Excess (deficiency) of revenues over expenditures	(74,135)	(86,377)	(160,512)	(267,524)
Other financing sources (uses)				
Operating transfers in (out)	(90,000)	100,020	10,020	274,799
Loan proceeds	344,000	39,308	383,308	-
Total other financing sources (uses)	254,000	139,328	393,328	274,799
Fund balance at beginning of year	-	-	-	4,511
Fund balance at end of year	\$ 179,865	\$ 52,951	\$ 232,816	\$ 11,786

**Total
Nonmajor
Governmental
Funds**

(Memoran-
dum Only)

2006	2005
546,744	\$ 150,658
234,152	126,170
10,310	12,444
30,359	11,279
500	1,140
244,728	119,973
16,380	3,973
8,900	20,400
120,000	115,000
<u>1,212,073</u>	<u>561,037</u>
6,325	7,169
710,440	229,204
314,297	310,057
310,446	576,325
372,629	1,707,540
68,942	95,039
<u>1,783,079</u>	<u>2,925,334</u>
(571,006)	(2,364,297)
526,191	570,047
383,308	1,808,457
909,499	2,378,504
969,516	895,655
<u>1,308,009</u>	<u>\$ 909,862</u>

CITY OF KOSCIUSKO, MISSISSIPPI
Kosciusko Light and Water Plant
Statement of Fund Net Assets
September 30, 2006
(With Comparative Totals for September 30, 2005)

ASSETS	2006	(Memorandum Only) 2005
Current assets		
Cash	\$ 315,355	\$ 127,310
Accounts receivable, net of allowance for doubtful accounts of \$9,167 for 2006 and \$8,867 for 2005	839,110	782,918
Due from other governments	74,865	1,461
Interest receivable	25,701	34,512
Inventory	276,872	291,268
Unbilled revenues	352,394	333,319
Other current assets	14,273	40,257
Total current assets	1,898,570	1,611,045
Restricted assets		
Cash – customer deposits	87,466	84,756
Cash – equipment replacement	409,915	94,275
Investments – customer deposits	233,346	233,610
Investments – equipment replacement	4,264,423	4,630,147
Total restricted assets	4,995,150	5,042,788
Capital assets (Note 5):		
Land, improvements and constuction in progress	46,470	46,470
Other capital assets, net of accumulated depreciation	5,700,573	5,556,263
Total capital assets	5,747,043	5,602,733
Total assets	12,640,763	12,256,566

LIABILITIES AND NET ASSETS	2006	(Memorandum Only) 2005
Current liabilities		
Accounts payable	\$ 415,976	\$ 435,764
Due to primary government	41,434	40,153
Accrued payroll	10,385	6,786
Accrued compensated absences	29,325	24,912
Other liabilities	24,758	20,574
Customer deposits	320,812	318,366
Total current liabilities	842,690	846,555
Net assets		
Invested in capital assets, net of related debt	5,747,043	5,602,733
Restricted for:		
Customer deposits	320,812	318,366
Property, plant and equipment replacement	4,674,338	4,724,422
Unrestricted	1,055,880	764,490
Total net assets	\$ 11,798,073	\$ 11,410,011

CITY OF KOSCIUSKO, MISSISSIPPI
Kosciusko Light and Water Plant
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Year Ended September 30, 2006
(With Comparative Totals for Year Ended September 30, 2005)

	2006	(Memorandum Only) 2005
Operating revenues		
Water sales	\$ 909,431	\$ 857,057
Electric sales	6,500,765	5,508,381
Other charges for services	96,439	51,514
Total operating revenues	7,506,635	6,416,952
Cost of production		
Water	455,565	433,906
Electric	5,490,087	4,514,522
Total cost of production	5,945,652	4,948,428
Gross profit	1,560,983	1,468,524
Operating expenses		
Salaries and wages	293,752	250,454
Employee benefits	227,623	209,470
Supplies	16,233	17,570
General and administrative	169,382	154,406
Depreciation	292,766	279,997
Maintenance and repairs	38,105	49,942
Total operating expenses	1,037,861	961,839
Operating income	523,122	506,685
Non-operating revenues (expenses)		
Tap fees	18,609	22,684
Intergovernment	72,265	-
Interest income	168,502	128,799
Gain (loss) on disposition of property	(36)	(2,591)
Total non-operating revenues	259,340	148,892
Income before operating transfers out	782,462	655,577
Operating transfers out	(394,400)	(394,400)
Net income (loss)	388,062	261,177
Net assets, beginning	11,410,011	11,148,834
Net assets, ending	\$ 11,798,073	\$ 11,410,011

CITY OF KOSCIUSKO, MISSISSIPPI
Schedule of Reconciliation of Original Ad Valorem
Tax Rolls to Fund Collections
Year Ended September 30, 2006

	Assessed Value		Tax
<hr/>			
Adjusted assessed valuation			
City			
Realty	\$ 26,686,520		
Personal – other than auto	5,757,536		
Public utilities	2,043,536		
Personal – auto (remitted of County)	7,382,238		
 Total City at 31.00 Mills	\$ 41,869,830	\$ 1,297,965	
Less: Homestead exemption allowed		(126,308)	\$ 1,171,657
Separate school district			
Realty	\$ 42,226,945		
Personal – other than auto	8,119,149		
Public utilities	7,464,214		
Personal – auto (remitted by County)	14,798,095		
 Total separate school district at 56.0 Mills	\$ 72,608,403	4,066,071	
Less: Homestead exemption allowed			
Special homestead		(370,617)	
Regular credit		(147,850)	3,547,604
Add: Actual homestead reimbursement			246,684
Prior year tax collections			15,073
Deduct: County tax collector's commissions:			
Auto			(52,877)
Real			(71,488)
Prior year			-
Refund			-
 Total to be accounted for			\$ 4,856,653

	Taxes	Homestead Reimbursement	Total
Credits			
Collections allocated to			
General fund	\$ 739,923	\$ 65,799	\$ 805,722
Library fund	109,335	9,700	119,035
Solid waste fund	118,448	10,508	128,956
Debt service fund	157,067	14,227	171,294
SSD maintenance and minimum program	3,396,322	146,450	3,542,772
 Total			 \$ 4,767,779
Balance represented by			
unpaid realty and personal			24,620
Oct 04 - Oct 05 difference			(9,742)
Underaccounted for - undersettled			<u>73,996</u>
 Total accounted for			 <u><u>\$ 4,856,653</u></u>

CITY OF KOSCIUSKO, MISSISSIPPI

Schedule of Surety Bonds

September 30, 2006

Personnel Covered	Dates of Coverage		Insurance Company
	From	To	
City Clerk	1/6/06	1/6/07	Tyler, King and Ryder, Inc.
Deputy Clerks	Various from 10/28/04	9/21/07	Tyler, King and Ryder, Inc.
Mayor	7/1/06	7/1/07	Tyler, King and Ryder, Inc.
Five Aldermen	Various from 7/1/05	7/1/09	Tyler, King and Ryder, Inc.
Police Department Deputy Clerk			Tyler, King and Ryder, Inc.
Chief of Police	9/27/06	9/27/07	Tyler, King and Ryder, Inc.
Policemen Bonds	Blanket Bond	Blanket Bond	Tyler, King and Ryder, Inc.
Ten E911 Dispatchers	Various from 1/14/05	9/28/07	Tyler, King and Ryder, Inc.
Five Tourism Council Members	Various from 2/10/06	7/23/07	Tyler, King and Ryder, Inc.
Water and Light Department			
Commissioner Bonds:			
William A. Tolleson	1/1/06	1/1/07	Tyler, King and Ryder, Inc.
Hunter Jordan, III	1/1/05	1/1/09	Tyler, King and Ryder, Inc.
Donnie Gladney	2/4/06	2/4/07	Tyler, King and Ryder, Inc.
Morris Massy, Jr.	1/1/05	1/1/10	Tyler, King and Ryder, Inc.
Public Employee Dishonesty Crime Policy – Blanket	10/21/05	10/21/06	Tyler, King and Ryder, Inc.
Notary Bond Juanita Oliver	10/21/03	10/21/07	Western Surety Company

**Coverage
Amount at
September 30,
2006**

50,000

10,000 each

100,000

100,000 each

10,000 each

50,000

25,000 each

10,000 each

10,000 each

10,000

10,000

10,000

10,000

50,000

10,000

CITY OF KOSCIUSKO, MISSISSIPPI

Schedule of Investments

September 30, 2006

Depository	Date Invested	Maturity Date	Interest Rate	Amount
Merchants & Farmers Bank	5/31/06	11/27/06	5.04 \$	177,000
Merchants & Farmers Bank	8/15/06	2/11/07	5.28	100,000
Citizens National Bank	9/6/06	1/4/07	5.16	150,000
Citizens National Bank	9/6/06	3/5/07	5.26	200,000
Citizens National Bank	9/19/06	3/18/07	5.31	150,000
Citizens National Bank	8/21/06	2/17/07	5.33	150,000
Regions Bank	4/24/06	11/6/06	5.26	190,000
Regions Bank	4/24/06	10/6/06	5.17	140,000
Merchants and Farmers Bank	3/7/06	3/7/08	4.93	231,572
Citizens National Bank	8/25/06	8/25/07	5.26	119,257
Merchants and Farmers Bank	2/6/06	2/6/08	4.78	477,704
Regions Bank	9/1/06	9/1/07	5.24	281,477
Regions Bank	2/28/05	2/28/07	3.55	452,878
Citizens National Bank	8/9/06	8/9/07	5.32	331,729
Merchants and Farmers Bank	2/25/04	2/25/07	3.16	422,132
Merchants and Farmers Bank	6/27/06	6/27/08	5.53	526,978
Citizens National Bank	7/13/05	7/13/07	3.76	719,758
Citizens National Bank	10/3/05	10/3/07	4.26	428,080
Merchants and Farmers Bank	7/12/06	7/12/07	5.46	180,000
Citizens National Bank	7/11/05	7/11/07	3.76	326,204
Total			\$	<u>5,754,769</u>

Summary of investments by fund	Amount
Discretely presented component unit	
Restricted - customer deposits	\$ 233,346
Restricted - equipment replacement	4,264,423
Enterprise fund	321,000
General fund	578,000
Nonmajor governmental funds	358,000
	<u>\$ 5,754,769</u>

SINGLE AUDIT SECTION



**INDEPENDENT AUDITOR'S 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
Board of Aldermen
City of Kosciusko, Mississippi
Kosciusko, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kosciusko, Mississippi, as of and for the year ended September 30, 2006 which collectively comprises the City's basic financial statements and have issued our report thereon dated January 9, 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 material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. We noted no matters involving the 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 disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In connection with our audit, nothing came to our attention that caused us to believe that the City had not complied with the requirements of the Office of the State Auditor, as set forth in the Municipal Compliance Questionnaire, except for the following item. State law 21-35-25 requires municipalities to publish budgetary changes of ten percent or more to a department's budget. It is the practice of the City to comply with this law; however, an instance was noted where the City did not comply with this law.

This report is intended solely for the information and use of the board of aldermen, management, federal awarding agencies and the Office of the Mississippi State Auditor, and is not intended to be and should not be used by anyone other than those specified parties.



Grenada, Mississippi
January 9, 2007



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

Honorable Mayor and
Board of Aldermen
City of Kosciusko, Mississippi
Kosciusko, Mississippi

Compliance

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

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

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

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2006, and have issued our report thereon dated January 9, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Grenada, Mississippi
January 9, 2007

CITY OF KOSCIUSKO
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2006

The prior year audit and single audit disclosed no significant findings, and no significant uncorrected or unresolved findings exist from prior audits.

CITY OF KOSCIUSKO
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified
not considered to be material weakness(es)? _____ yes X none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? _____ yes X no

Identification of major programs:
CFDA Number(s) 20.205
Name of federal program or cluster: Highway Planning and Construction

Dollar threshold used to distinguish
between Type A and Type B programs: \$500,000

Auditee qualified as low-risk auditee? X yes _____ no _____ N/A

CITY OF KOSCIUSKO
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

No matters were reported.

III. Findings and Questioned Costs for Federal Awards

No matters were reported.