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**CITY OF LAUREL, MISSISSIPPI**

**AUDIT REPORT**

**SEPTEMBER 30, 2006**

FILED  
AUG 17  
STATE AUDITOR'S OFFICE

**CITY OF LAUREL, MISSISSIPPI  
AUDIT REPORT  
SEPTEMBER 30, 2006**

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**CITY OF LAUREL, MISSISSIPPI  
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# HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA  
M.C. Princy Harrison, CPA, CGFM  
Julie M. Uher, CPA

Members:  
American Institute of  
Certified Public Accountants

Mississippi Society of  
Certified Public Accountants

Division of CPA Firms  
Private Companies Practice Section

H. I. Holt, CPA  
Founder (1915 - 1997)

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

February 13, 2007

Mayor and Members of City Council  
City of Laurel, Mississippi

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2007, on our consideration of the City of Laurel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedules and corresponding notes on pages 52 through 54 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.

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

*Holt + Associates*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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

**FINANCIAL HIGHLIGHTS**

- Total net assets increased \$2,932,534 which represents a 9% increase from fiscal year 2005.
- General revenues account for \$17,969,090 in revenue, or 53% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$15,885,892 or 47% of total revenues.
- The City had \$30,926,750 in expenses; only \$15,885,892 of these expenses was offset by program specific charges for services, grants and contributions. However, general revenues of \$17,969,090 were adequate to provide for these programs.
- Among major funds, the General Fund had \$15,098,732 in revenues and \$13,269,696 in expenditures. The General Fund's fund balance increased \$1,352,057 (net of prior period adjustment) over the prior year.
- Capital assets, net of accumulated depreciation and adjustments, of \$57,964,493 increased by \$1,441,221.
- Long-term debt decreased by \$1,637,897.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities. The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) and water, sewer, and garbage collection charges (proprietary activities). The governmental activities of the City include general government,

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

public safety, public works, and interest expense on bonds and leases.

The government-wide financial statements can be found on pages 14 - 15 of this report.

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the City's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20, respectively.

The basic governmental fund financial statements can be found on pages 17 - 20 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the City's own programs. The accrual basis of accounting is used for fiduciary funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on pages 21 and 22.

**Propriety funds.** The City of Laurel maintains one type of proprietary fund, the enterprise fund. The Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer operations, Solid Waste disposal, and capital projects related to them.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 23-25 of this report

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-50 of this report.

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process.

The City adopts an annual operating budget for all governmental funds and proprietary funds. Budgetary comparison statements have been provided for the General Fund, Drainage Bond Issue Fund and the Enterprise Fund. This required supplementary information can be found on pages 52-54 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB circular A-133 and can be found on page 56 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the City, assets exceeded liabilities by \$37,066,869 as of September 30, 2006 and \$33,895,369 as of September 30, 2005.

By far the largest portion of the City's net assets (66% for 2006 and 62% for 2005) reflects its investment in capital assets (e.g., land, infrastructure, buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding). The City uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending.

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

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2006.

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Current Assets	\$ 9,270,221	\$ 6,572,081	\$15,842,302
Capital Assets, Net	<u>30,146,935</u>	<u>27,817,558</u>	<u>57,964,493</u>
Total Assets	<u>\$39,417,156</u>	<u>\$ 34,389,639</u>	<u>\$73,806,795</u>
Current Liabilities	\$ 1,834,228	\$ 908,259	\$ 2,742,487
Long-Term Debt Outstanding	<u>18,695,483</u>	<u>15,301,956</u>	<u>33,997,439</u>
Total Liabilities	<u>\$20,529,711</u>	<u>\$ 16,210,215</u>	<u>\$36,739,926</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$11,673,606	\$ 12,534,306	\$24,207,912
Unrestricted	<u>7,213,839</u>	<u>5,645,118</u>	<u>12,858,957</u>
Total Net Assets	<u>\$18,887,445</u>	<u>\$ 18,179,424</u>	<u>\$37,066,869</u>

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2005

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Current Assets	\$ 8,197,099	\$ 7,765,177	\$ 15,962,276
Capital Assets, Net	<u>29,339,349</u>	<u>27,183,920</u>	<u>56,523,269</u>
<b>Total Assets</b>	<b><u>\$37,536,448</u></b>	<b><u>\$ 34,949,097</u></b>	<b><u>\$72,485,545</u></b>
Current Liabilities	\$ 2,082,046	\$ 872,794	\$ 2,954,840
Long-Term Debt Outstanding	<u>19,230,217</u>	<u>16,405,119</u>	<u>35,635,336</u>
<b>Total Liabilities</b>	<b><u>\$21,312,263</u></b>	<b><u>\$ 17,277,913</u></b>	<b><u>\$38,590,176</u></b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	\$ 10,344,746	\$ 10,795,664	\$ 21,140,410
Unrestricted	<u>5,879,439</u>	<u>6,875,520</u>	<u>12,754,959</u>
<b>Total Net Assets</b>	<b><u>\$16,224,185</u></b>	<b><u>\$ 17,671,184</u></b>	<b><u>\$33,895,369</u></b>

**Changes in net assets.** The City total revenues for the fiscal year ended September 30, 2006 and 2005 were \$33,859,284 and \$23,850,932, respectively. The total cost of all programs and services was \$30,926,750 and \$23,341,197 for 2006 and 2005, respectively.

The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for Services	\$ 1,808,508	\$ 7,933,816	\$ 9,742,324
Operating Grants	4,624,590	-	4,624,590
Capital Grants	170,753	1,348,224	1,518,977
General Revenues	17,517,059	452,031	17,969,090
Transfers	<u>89,303</u>	<u>(85,000)</u>	<u>4,303</u>
<b>Total Revenues</b>	<b><u>24,210,213</u></b>	<b><u>9,649,071</u></b>	<b><u>33,859,284</u></b>
<b>Expenses:</b>			
General Government	3,735,038	-	3,735,038
Public Safety	7,832,571	-	7,832,571
Public Works	2,701,630	-	2,701,630
Culture & Recreation	6,451,707	-	6,451,707
Economic Development & Assistance	8,163	-	8,163
Health & Welfare	216,801	-	216,801
Interest	814,120	-	814,120
Water & Sewer	<u>-</u>	<u>9,166,720</u>	<u>9,166,720</u>
<b>Total Expenses</b>	<b><u>21,760,030</u></b>	<b><u>9,166,720</u></b>	<b><u>30,926,750</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b><u>\$ 2,450,183</u></b>	<b><u>\$ 482,351</u></b>	<b><u>\$ 2,932,534</u></b>

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 1,407,422	\$ 7,594,328	\$ 9,001,750
Operating grants	38,122	-	38,122
Capital grants	61,405	100,961	162,366
General revenues	<u>13,310,397</u>	<u>1,338,297</u>	<u>14,648,694</u>
Total revenues	<u>14,817,346</u>	<u>9,033,586</u>	<u>23,850,932</u>
<b>Expenses:</b>			
General government	3,353,524	-	3,353,524
Public safety	7,249,237	-	7,249,237
Public works	1,743,271	-	1,743,271
Culture & recreation	1,888,935	-	1,888,935
Health & welfare	369,280	-	369,280
Water & sewer	-	7,677,118	7,677,118
Interest	<u>1,059,832</u>	<u>-</u>	<u>1,059,832</u>
Total expenses	<u>15,664,079</u>	<u>7,677,118</u>	<u>23,341,197</u>
Inc. (Dec.) in net assets	<u>\$ (846,733)</u>	<u>\$ 1,356,468</u>	<u>\$ 509,735</u>

**Governmental activities.** The following table presents the cost of major City functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

<b>September 30, 2006</b>	<b>Total <u>Expenses</u></b>	<b>Net (Expense) <u>Revenue</u></b>
General Government	\$ 3,735,038	\$ 1,143,038
Public Safety	7,832,571	(6,472,497)
Public Works	2,701,630	(2,701,630)
Culture & Recreation	6,451,707	(6,086,006)
Economic Development & Assistance	8,163	(8,163)
Health & Welfare	216,801	(216,801)
Interest	<u>814,120</u>	<u>(814,120)</u>
	<u>\$ 21,760,030</u>	<u>\$ (15,156,179)</u>

- Net cost of governmental activities (\$15,156,179), was financed by general revenue, which is made up of primarily property taxes \$3,520,876 and state sales and franchise tax revenue \$12,725,030.
- Investment earnings accounted for \$423,932 of funding.

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

September 30, 2005	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
General Government	\$ 3,353,524	\$ (2,984,701)
Public Safety	7,249,237	(6,262,551)
Public Works	1,743,271	(1,743,271)
Culture & Recreation	1,888,935	(1,737,495)
Health & Welfare	369,280	(369,280)
Interest	1,059,832	(1,059,832)
	<u>\$ 15,664,079</u>	<u>\$ (14,157,130)</u>

- Net cost of governmental activities (\$14,157,130), was financed by general revenue, which is made up of primarily property taxes \$3,432,732 and state sales and franchise tax revenue \$10,411,020.
- Investment earnings accounted for \$401,164 of funding.

**Business-type activities.** Business type activities increased the City of Laurel's net assets by \$482,351 in 2006 and \$1,356,468 in 2005.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$7,515,389, an increase of \$1,333,181 (net of prior period adjustments) from 2005. \$5,932,880 or 79% of the fund balance constitutes unreserved and undesignated fund balance which is available for spending at the City's discretion. The remaining fund balance of \$1,582,509 or 21% is reserved or designated to indicate that it is not available for spending because it has already been committed. In 2005, the governmental funds reported a combined fund balance of \$6,182,208, a decrease of \$3,591,436 from 2004. \$4,423,549 or 71.6% of the fund balance constitutes unreserved and undesignated fund balance which is available for spending at the City's discretion. The remaining fund balance of \$2,076,021 or 21% is reserved or designated to indicate that it is not available for spending because it has already been committed.

**BUDGETARY HIGHLIGHTS**

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

- Schedules showing the original and final budget amounts compared to the City's actual financial activity for the General Fund and the Bond & Interest Fund are provided in this report as required supplementary information.

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of September 30, 2006, the City's total capital assets were \$103,892,171, including city buildings, infrastructure, vehicles and furniture and equipment. This amount represents an increase of \$4,303,669 from the previous year. Total accumulated depreciation as of September 30, 2006 was \$45,927,679 and total depreciation expense for the year was \$3,094,384, resulting in total net assets of \$57,964,492. As of September 30, 2005, the City's total capital assets were \$99,588,502, including city buildings, infrastructure, vehicles and furniture and equipment. This amount represents an increase of \$9,987,569 from the previous year. Total accumulated depreciation as of September 30, 2005 was \$43,065,233 and total depreciation expense for the year was \$3,017,085, resulting in total net assets of \$56,523,269.

Additional information of the City's capital assets can be found in Note 8 on pages 39-40 of this report.

**Debt Administration.** At September 30, 2006, the City had \$33,997,439 in general obligation bonds and other long-term debt outstanding, of which \$2,986,093 is due within one year. At September 30, 2005, the City had \$35,635,336 in general obligation bonds and other long-term debt outstanding, of which \$2,910,072 is due within one year.

Additional information of the City's long-term debt can be found in Note 9 on pages 41-44 of this report.

**CURRENT ISSUES**

On August 29, 2005, Hurricane Katrina hit south Mississippi, including the City of Laurel. Unfortunately, projects that had been planned and budgeted for Fiscal Year 2006 had to put on hold for the more pressing projects of clearing debris and repairing structures.

Hurricane Katrina

Our major project this year was the debris removal from public and private right-of-ways. Approximately \$3.5 million was spent on clearing the debris from our city. Other projects included repairing structures, re-roofing city buildings, and replacing recreational equipment. A total of \$6 million was needed to complete these projects, which were submitted as project work papers for reimbursement from FEMA and our insurance carrier. At the end of September 2006, over \$5 million had been received by the City of Laurel as our reimbursement.

Due to the financial impact of the storm on the City, the City had to issue a tax anticipation note (TAN) in November of 2005 in the amount of 2 million dollars. This note was repaid on March 15, 2006.

Sales Growth Increase

Due to the increased population from people moving from the Mississippi Gulf Coast and also due to our businesses being open and located the nearest to the affected areas, our sales tax had a 19.9% increase over last year's collections. This amount was used to increase police presence and protection, such as police vehicles and overtime. It was also used to increase our budgets for house demolitions and vacant lot cleanings, some of which were caused or worsened from Katrina.

The City also had a 21.7% increase in its tourism tax, the additional 2% sales tax charged on restaurants and hotels within the city limits. Some of this increase was used to replace recreational equipment and facilities. Additional amounts were also appropriated to the Emergency Management Services and Magnolia Center due to budget revenue shortfalls and additional facility repairs due to Katrina.

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Street Improvements

The City of Laurel receives approximately \$125,000 each year from the County taxes for road and bridge improvements. The City uses these funds for various street improvements within each ward, such as overlay and general maintenance. The City also used bond proceeds issued in a previous year to complete several major overlay street projects.

Another project that has been on the drawing board for several years now has been the "straightening-out" of the S-Curve on Interstate 59 that runs through the city. In October 2005, the City borrowed \$32 million on behalf of the Mississippi Department of Transportation (MDOT) for this project. The annual payments will be repaid from the Federal highway allocation that the State receives from the Federal government.

The engineering and construction of the interstate were bid out in FY 2006 with a local engineer and contractor receiving the bids. The groundbreaking ceremony for this monumental project was held on October 20, 2006. This project's completion date is set for FY 2008. This project is anticipated to make a huge change to the entrances into our downtown, along with many economic growth opportunities along the "frontage road" beside the new interstate.

During FY 2006, the City completed a major project of relocating the water and sewer lines located in the interstate's right-of-ways at a cost of approximately \$850,000.

Community Development Block Grants

The City of Laurel has received Community Development Block Grants (CDBG) from the State of Mississippi for several years regarding projects for low-to-moderate income improvements and also for new economic development tied to job creation.

The City received one grant that met economic development tied to job creation for the improvements to Howard Industries. This grant is for a new water line which will relocate the current water line and provide additional service for their expanding plant facilities. Howard Industries has promised 30 new jobs due to the new water line.

In Fiscal Year 2005, the City received a CDBG grant for a new water line for our local hospital. This water line project was completed in late 2005.

Public Utility (Water/Sewer) Projects

In July, 2006, the City of Laurel completed its installation of the Automatic Meter Reading (AMR) System of the public utility system. This remote radio-read system allows the City to read all its meters from our vehicles.

In Fiscal Year 2006, proposals were solicited and then evaluated for a new management company to operate the entire public utility system. Previously the water production and water collections departments were operated by the City of Laurel with a third-party contractor operating the water and sewer line repairs and sewer lagoon operations. The new contractor, United Water, took over on October 1, 2006 and they now manage the entire public utility system for the City.

The City has also contracted with United Water to conduct a study/survey of our industrial and commercial rates as compared to other cities. We believe that this survey will help us keep our water/sewer rates competitive with surrounding cities and cities with a comparable population.

Other Projects

The Mississippi Legislature has passed a state statute that all counties and municipalities will use one state-wide voter data base. The City has contracted with the County for the maintenance of our voter

**CITY OF LAUREL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

rolls; however, this project has not been started yet. We also will contract to use the County's new voting machines, which are necessary to meet the requirements under the Help Americans Vote Act (HAVA). In Fiscal Year 2006, the city had a special election and run-off election for a vacant council position and also a school bond election. The City had to use our old AS400 voter roll system and hand counted ballots for these elections.

The City has also entered another computer agreement to have our old police, municipal court, personnel, and city clerk's office records scanned into a document imaging retrieval system (estimated cost is \$60,000). This project was necessary due to several of our old records in our storage facility being damaged and/or nearly destroyed by Hurricane Katrina. Along with the desperate need to have the old police station demolished and converted into a much needed parking lot, this project was a top priority for FY 2006. This past year, approximately 500,000 old police and municipal court records have been permanently scanned into the new system.

The City has also made progress as a retirement community, artist relocation program, and has recently made application to the Mississippi Main Street Association. Part of this progress includes our engineers conducting a study of our downtown structures to facilitate the anticipated growth in our downtown area for these programs.

The City is also reviewing and revising our Civil Service Employees handbook to incorporate any changes to our policies and procedures regarding our employees; it is nearly 85% complete. We have also been assessing our Code of Ordinances and making any necessary changes to it as well.

**CLOSING MANAGEMENT COMMENTS**

Even though the City had to reprioritize its projects for Fiscal Year 2006, the City was still able to meet our financial obligations, make bond payments, assess properties, and complete many of our scheduled projects. Katrina-related projects were foremost, but we were still able to complete many street, drainage, water and sewer projects, and recreation projects.

We have used this year to rebuild our structures and infrastructure, while improving the "quality of life" for all our citizens.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Mayor's Office of the City of Laurel, P.O. Box 647, Laurel, MS 39441.

**GOVERNMENT - WIDE FINANCIAL STATEMENTS**

**CITY OF LAUREL  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006**

**EXHIBIT A**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and other deposits	\$ 2,772,405	\$ 997,763	\$ 3,770,168
Investments	1,843,409	4,938,204	6,781,613
Accounts receivable	10,974,808	774,860	11,749,668
Allowance for uncollectibles	(9,076,759)	(214,575)	(9,291,334)
Interest Receivable	11,103	49,833	60,936
Notes receivable	48,386	-	48,386
Due from other governments	2,356,511	-	2,356,511
Due from other funds	-	25,889	25,889
Inventory	25,550	-	25,550
Prepaid items	184,784	107	184,891
Deferred charges	130,024	-	130,024
Capital assets, net	30,146,935	27,817,558	57,964,493
<b>TOTAL ASSETS</b>	<b>\$ 39,417,156</b>	<b>\$ 34,389,639</b>	<b>\$ 73,806,795</b>
<b>LIABILITIES &amp; FUND BALANCES:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 1,064,323	\$ 389,210	\$ 1,453,533
Contract retention	40,582	24,947	65,529
Customer deposits	499	494,102	494,601
Deferred revenue	48,386	-	48,386
Due to other governments	654,549	-	654,549
Due to other funds	25,889	-	25,889
Long-term liabilities (Due within one year)			
Capital related liabilities	1,272,766	1,713,327	2,986,093
Long-term liabilities (Due beyond one year)			
Capital related liabilities	17,200,563	13,569,925	30,770,488
Non-capital related liabilities	222,154	18,704	240,858
<b>Total Liabilities</b>	<b>\$ 20,529,711</b>	<b>\$ 16,210,215</b>	<b>\$ 36,739,926</b>
<b>Net Assets:</b>			
Investment in capital assets (net of related debt)	11,673,606	12,534,306	24,207,912
Unrestricted	7,213,839	5,645,118	12,858,957
<b>TOTAL NET ASSETS</b>	<b>\$ 18,887,445</b>	<b>\$ 18,179,424</b>	<b>\$ 37,066,869</b>

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

**CITY OF LAUREL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**EXHIBIT B**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 3,735,038	\$ 336,454	\$ 4,541,622	\$ -	\$ 1,143,038	\$ -	\$ 1,143,038
Public safety	7,832,571	1,313,743	46,331	-	(6,472,497)	-	(6,472,497)
Public works	2,701,630	-	-	-	(2,701,630)	-	(2,701,630)
Culture & recreation	6,451,707	158,311	36,637	170,753	(6,086,006)	-	(6,086,006)
Economic development & assistance	8,163	-	-	-	(8,163)	-	(8,163)
Health & welfare	216,801	-	-	-	(216,801)	-	(216,801)
Interest	814,120	-	-	-	(814,120)	-	(814,120)
Total governmental activities	21,760,030	1,808,508	4,624,590	170,753	(15,156,179)	-	(15,156,179)
Business -type activities:							
Water & sewer	9,166,720	7,933,816	-	1,348,224	-	115,320	115,320
Total primary government	\$ 30,926,750	\$ 9,742,324	\$ 4,624,590	\$ 1,518,977	(15,156,179)	115,320	(15,040,859)
Taxes:							
Sales taxes					11,211,718	-	11,211,718
General purpose levies					2,579,659	-	2,579,659
Debt purpose levies					941,217	-	941,217
Franchise taxes					1,513,312	-	1,513,312
Homestead exemption					208,504	-	208,504
Gas & oil severance tax					120,838	-	120,838
Unrestricted grants & contributions:							
Intergovernmental					30,171	-	30,171
Unrestricted investment earnings					179,004	244,928	423,932
Unrealized gain (loss) on assets					(6,081)	(745)	(6,826)
Unrealized gain (loss) on investments					17,757	42,800	60,557
Insurance settlements					490,574	165,048	655,622
Rents and Royalties					215,386	-	215,386
Sale of property					15,000	-	15,000
Total General Revenues					17,517,059	452,031	17,969,090
Transfers					89,303	(85,000)	4,303
Total General Revenues, Special Items Extraordinary Items and Transfers					17,606,362	367,031	17,973,393
Change in Net Assets					2,450,183	482,351	2,932,534
Net Assets -Beginning,					16,224,185	17,671,884	33,895,369
Prior Period Adjustment					213,077	25,389	238,966
Net Assets - Beginning, Restated					16,437,262	17,697,073	34,134,335
Net Assets - Ending					\$ 18,887,445	\$ 18,179,424	\$ 37,066,869

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

**FUND FINANCIAL STATEMENTS**

**CITY OF LAUREL  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2006**

**EXHIBIT C**

<b>ASSETS:</b>	<b>MAJOR FUNDS</b>			<b>Other</b>	<b>Total</b>
	<b>General Fund</b>	<b>Bond &amp; Interest Fund</b>	<b>Katrina Project Fund</b>	<b>Governmental Funds</b>	
Cash and cash equivalents	\$ 1,096,987	\$ 581,319	\$ (781,296)	\$ 1,875,395	\$ 2,772,405
Investments	1,467,569	375,840	-	-	1,843,409
Accounts receivable	10,973,516	-	-	1,292	10,974,808
Allowance for uncollectibles	(9,076,759)	-	-	-	(9,076,759)
Accrued interest receivable	9,269	1,834	-	-	11,103
Notes receivable	-	-	-	48,386	48,386
Due from other funds	24,648	-	-	27,240	51,888
Due from other governments	1,436,483	11,504	781,296	127,228	2,356,511
Inventory	25,550	-	-	-	25,550
Prepaid items	184,731	-	-	53	184,784
<b>TOTAL ASSETS</b>	<b><u>\$ 6,141,994</u></b>	<b><u>\$ 970,497</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,079,594</u></b>	<b><u>\$ 9,192,085</u></b>
<b>LIABILITIES &amp; FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	712,981	1,400	15,534	124,988	854,903
Due to other funds	53,129	-	-	24,648	77,777
Due to other governments	613,740	-	-	40,809	654,549
Customer Deposits	499	-	-	-	499
Contract retention	-	-	-	40,582	40,582
Amounts held in escrow	-	-	-	-	-
Deferred revenue	-	-	-	48,386	48,386
<b>Total Liabilities</b>	<b><u>1,380,349</u></b>	<b><u>1,400</u></b>	<b><u>15,534</u></b>	<b><u>279,413</u></b>	<b><u>1,676,696</u></b>
<b>Fund Balances:</b>					
<b>Reserved For:</b>					
Notes receivable	-	-	-	48,385	48,385
Inventory	25,550	-	-	-	25,550
Debt service funds	-	969,097	-	539,477	1,508,574
<b>Unreserved:</b>					
<b>Undesignated, reported in:</b>					
General fund	4,736,095	-	-	-	4,736,095
Special revenue funds	-	-	-	402,935	402,935
Capital project funds	-	-	(15,534)	809,384	793,850
<b>Total Fund Balance</b>	<b><u>4,761,645</u></b>	<b><u>969,097</u></b>	<b><u>(15,534)</u></b>	<b><u>1,800,181</u></b>	<b><u>7,515,389</u></b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b><u>\$ 6,141,994</u></b>	<b><u>\$ 970,497</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,079,594</u></b>	<b><u>\$ 9,192,085</u></b>

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

**CITY OF LAUREL  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006**

**EXHIBIT C-1**

Total Fund Balance - Governmental Funds	\$	7,515,389
Amounts reported for net assets in the statement of net assets are different because:		
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$12,212,969. (Note 8)		30,146,935
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 9)		(18,695,485)
3. Interest payable on long-term liabilities is not due and payable therefore are not reported in the funds.		(209,420)
4. Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		<u>130,024</u>
Total Net Assets - Governmental Activities	\$	<u>18,887,445</u>

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

**CITY OF LAUREL**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES -- GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**EXHIBIT D**

<b>REVENUES</b>	<b>MAJOR FUNDS</b>			<b>Other</b>	<b>Total</b>
	<b>General Fund</b>	<b>Bond &amp; Interest Fund</b>	<b>Katrina Project Fund</b>	<b>Governmental Funds</b>	<b>Governmental Funds</b>
General property taxes:					
Current	\$ 1,807,887	\$ 937,879	\$ -	\$ 737,517	\$ 3,483,283
Delinquent	13,260	(2,741)	-	5,227	15,746
Penalties and interest on delinquent taxes	11,191	6,079	-	4,577	21,847
Licenses and permits	147,297	-	-	-	147,297
Franchise taxes on utilities	1,513,312	-	-	-	1,513,312
Intergovernmental revenue	30,171	-	-	-	30,171
State grants	-	-	-	170,753	170,753
State shared revenues	9,830,262	-	-	1,381,456	11,211,718
Gas & oil severance tax	120,839	-	-	-	120,839
Homestead exemption	108,510	55,738	-	44,256	208,504
Local revenues	(13,966)	(199)	-	203,321	189,156
Federal grants	251,821	-	4,170,702	202,068	4,624,591
Charges for services	38,196	-	-	120,115	158,311
Fines and forfeitures	947,548	-	-	366,195	1,313,743
Interest	104,473	31,626	-	42,905	179,004
Rent	187,931	500,000	-	27,455	715,386
<b>TOTAL REVENUES</b>	<b>15,098,732</b>	<b>1,528,382</b>	<b>4,170,702</b>	<b>3,305,845</b>	<b>24,103,661</b>
<b>EXPENDITURES</b>					
General government	3,751,196	-	-	31	3,751,227
Public safety	7,346,618	-	-	518,712	7,865,330
Public works	1,752,257	-	645,761	28,582	2,426,600
Culture & recreation	-	-	3,833,574	2,336,088	6,169,662
Economic development & assistance	-	-	-	8,163	8,163
Health & welfare	224,213	-	-	-	224,213
Capital outlay	154,660	-	-	1,062,698	1,217,358
Debt service:					
Principal	37,117	3,156,431	-	512,662	3,706,210
Interest	3,635	502,224	-	282,178	788,037
Other	-	10,672	-	3,170	13,842
<b>TOTAL EXPENDITURES</b>	<b>13,269,696</b>	<b>3,669,327</b>	<b>4,479,335</b>	<b>4,752,284</b>	<b>26,170,642</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,829,036</b>	<b>(2,140,945)</b>	<b>(308,633)</b>	<b>(1,446,439)</b>	<b>(2,066,981)</b>
<b>OTHER FINANCIAL SOURCES (USES)</b>					
Unrealized gain (loss) on investments	8,757	9,000	-	-	17,757
Insurance settlements	135,441	-	293,099	62,034	490,574
Loan proceeds	179,986	2,000,000	-	504,949	2,684,935
Sale of property	15,000	-	-	-	15,000
Operating transfers in	155,067	51,194	-	1,714,328	1,920,589
Operating transfers out	(1,157,067)	-	-	(674,219)	(1,831,286)
Other financing uses	-	-	-	(110,484)	(110,484)
<b>TOTAL OTHER FINANCING SOURCES (USE)</b>	<b>(662,816)</b>	<b>2,060,194</b>	<b>293,099</b>	<b>1,496,608</b>	<b>3,187,085</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,166,220</b>	<b>(80,751)</b>	<b>(15,534)</b>	<b>50,169</b>	<b>1,120,104</b>
<b>FUND BALANCE, OCTOBER 1, 2005</b>	<b>3,409,588</b>	<b>1,049,848</b>	<b>-</b>	<b>1,722,772</b>	<b>6,182,208</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>185,837</b>	<b>-</b>	<b>-</b>	<b>27,240</b>	<b>213,077</b>
<b>FUND BALANCE, SEPTEMBER 30, 2006</b>	<b>\$ 4,761,645</b>	<b>\$ 969,097</b>	<b>\$ (15,534)</b>	<b>\$ 1,800,181</b>	<b>\$ 7,515,389</b>

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

**CITY OF LAUREL  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**EXHIBIT D-1**

Net Change in fund balances - governmental funds	\$	1,120,104
Amounts reported for governmental activities in the statement of activities are different because:		
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchases amounted to \$1,798,912, net disposals of \$6,081, and depreciation amounted to \$985,245 (Note 8)		807,586
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets. (Note 9)		3,206,210
3. Change in compensated absences.		13,460
4. Change in cash restricted with escrow agent for future payments of long term debt		(12,072)
5. Change in interest accrued on long-term liabilities not recorded in the governmental funds, but recorded and expensed in the statement of activities.		13,399
6. Change in issuance cost of long-term liabilities is reported as expenditures in the governmental funds, but is deferred and amortized in the statement of activities.		(13,569)
7. Proceeds from long-term liabilities are reported as other financing sources in the governmental funds, but are reported as increases to long-term liabilities in the statement of net assets.		<u>(2,684,935)</u>
Change in net assets of governmental activities	\$	<u>2,450,183</u>

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

**CITY OF LAUREL, MISSISSIPPI  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR YEAR ENDED SEPTEMBER 30, 2006**

**EXHIBIT E**

	<b>Police &amp; Fire Trust &amp; Agency <u>Fund</u></b>
<b>ASSETS</b>	
Cash in bank	\$ 26,921
Due from other governments	<u>12,914</u>
Total assets	<u>\$ 39,835</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 31,225
Due to other governments	<u>8,610</u>
Total Liabilities	<u>\$ 39,835</u>

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

**CITY OF LAUREL, MISSISSIPPI  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR YEAR ENDED SEPTEMBER 30, 2006**

**EXHIBIT F**

	<b>Police &amp; Fire Trust &amp; Agency <u>Fund</u></b>
<b>ADDITIONS</b>	
General property taxes: current	\$ 1,042,369
General property taxes: delinquent	6,939
Penalties & interest	6,497
Homestead exemption reimbursement	<u>62,581</u>
 Total additions	 <u>\$ 1,118,386</u>
<b>DEDUCTIONS</b>	
Transfers to PERS	\$ 1,114,083
Operating transfers out	<u>4,303</u>
 Total deductions	 <u>1,118,386</u>

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

**CITY OF LAUREL**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2006**

	SRF Fund	Public Utility Bond fund	Public Utility	Solid Waste	Other Proprietary Funds	EXHIBIT G Total
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash equivalents	\$ 69,909	\$ (543,108)	\$ 729,174	\$ 593,325	\$ 148,463	\$ 997,763
Temporary investments	-	4,300,062	638,142	-	-	4,938,204
Accrued interest receivable	-	46,719	3,114	-	-	49,833
A/R - water, sewer, garbage	-	-	673,130	101,730	-	774,860
Due from other funds	-	-	11,364	14,525	-	25,889
Due from other governments	-	-	-	-	-	-
Allowance for doubtful accounts	-	-	(184,029)	(30,546)	-	(214,575)
Prepaid items	-	-	107	-	-	107
Total current assets	<u>69,909</u>	<u>3,803,673</u>	<u>1,871,002</u>	<u>679,034</u>	<u>148,463</u>	<u>6,572,081</u>
<b>Property, Plant &amp; Equipment:</b>						
Construction in process	5,268,291	885,015	-	-	4,075,044	10,228,350
Buildings & infrastructure	-	-	48,716,770	-	-	48,716,770
Equipment	-	-	1,395,451	1,191,697	-	2,587,148
Less accumulated depreciation	-	-	(32,811,881)	(902,829)	-	(33,714,710)
Net property, plant & equipment	<u>5,268,291</u>	<u>885,015</u>	<u>17,300,340</u>	<u>288,868</u>	<u>4,075,044</u>	<u>27,817,558</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,338,200</u>	<u>\$ 4,688,688</u>	<u>\$ 19,171,342</u>	<u>\$ 967,902</u>	<u>\$ 4,223,507</u>	<u>\$ 34,389,639</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 238,988	\$ 134,898	\$ 15,324	\$ 389,210
Customer deposits	-	-	494,102	-	-	494,102
Contract retention	-	-	-	-	24,947	24,947
G. O. bonds payable	-	285,000	550,000	-	-	835,000
Notes payable	186,822	-	615,130	75,657	-	877,609
Obligations under capital lease	-	-	268	450	-	718
Total current liabilities	<u>186,822</u>	<u>285,000</u>	<u>1,898,488</u>	<u>211,005</u>	<u>40,271</u>	<u>2,621,586</u>
<b>Long-term liabilities:</b>						
Compensated absences payable	-	-	12,666	6,038	-	18,704
G. O. bonds payable	-	4,215,000	830,000	-	-	5,045,000
Notes payable (net of current portion)	4,030,002	-	2,970,123	166,793	1,358,007	8,524,925
Obligations under capital leases	-	-	-	-	-	-
Total long-term liabilities	<u>4,030,002</u>	<u>4,215,000</u>	<u>3,812,789</u>	<u>172,831</u>	<u>1,358,007</u>	<u>13,588,629</u>
Total liabilities	4,216,824	4,500,000	5,711,277	383,836	1,398,278	16,210,215
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	1,051,467	885,015	13,715,087	46,418	2,717,037	18,415,024
Unrestricted	<u>69,909</u>	<u>(696,327)</u>	<u>(255,022)</u>	<u>537,648</u>	<u>108,192</u>	<u>(235,600)</u>
Total net assets	1,121,376	188,688	13,460,065	584,066	2,825,229	18,179,424
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,338,200</u>	<u>\$ 4,688,688</u>	<u>\$ 19,171,342</u>	<u>\$ 967,902</u>	<u>\$ 4,223,507</u>	<u>\$ 34,389,639</u>

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

**CITY OF LAUREL**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2006**

**EXHIBIT H**

	SRF Fund	Public Utility Bond fund	Public Utility	Solid Waste	Other Proprietary Funds	Total
<b>REVENUES:</b>						
Water sales	\$ -	\$ -	\$ 2,708,850	\$ -	\$ -	\$ 2,708,850
Sewer fees & surcharges	-	-	3,818,619	-	-	3,818,619
Water and sewer taps	-	-	21,333	-	-	21,333
Sanitation charges	-	-	-	1,381,854	-	1,381,854
Other charges	-	-	3,160	-	-	3,160
Federal grants	-	-	62,810	196,947	768,438	1,028,195
State grants	-	-	320,029	-	-	320,029
Total operating revenues	-	-	6,934,801	1,578,801	768,438	9,282,040
<b>EXPENSES:</b>						
<b>Contract Services:</b>						
Personnel services	-	-	313,173	-	-	313,173
Supplies	-	-	423,765	-	-	423,765
Services & charges	-	-	4,237,175	-	(115)	4,237,060
Depreciation	-	-	2,040,182	-	-	2,040,182
Total contracting services	-	-	7,014,295	-	(115)	7,014,180
<b>Finance:</b>						
Personnel services	-	-	224,933	-	-	224,933
Supplies	-	-	8,429	-	-	8,429
Services & charges	-	-	91,071	-	-	91,071
Depreciation	-	-	6,618	-	-	6,618
Total finance	-	-	331,051	-	-	331,051
<b>Public Works:</b>						
Personnel services	-	-	-	485,576	-	485,576
Supplies	-	-	-	160,908	-	160,908
Other services & charges	-	-	-	505,634	-	505,634
Depreciation	-	-	-	62,339	-	62,339
Total public works	-	-	-	1,214,457	-	1,214,457
Total operating expenses	-	-	7,345,346	1,214,457	(115)	8,559,688
<b>OPERATING INCOME (LOSS)</b>	-	-	(410,545)	364,344	768,553	722,352
<b>NON-OPERATING REVENUES</b>						
<b>(EXPENSES)</b>						
Transfers in	-	-	97,517	-	1,573,946	1,671,463
Transfers out	-	-	(1,673,946)	-	(82,517)	(1,756,463)
Unrealized gain (loss) on investments	-	30,689	12,111	-	-	42,800
Gain (loss) on sale of fixed assets	-	-	(745)	-	-	(745)
Legal settlements	-	-	164,450	598	-	165,048
Interest earned	1,406	147,532	87,996	3,951	4,043	244,928
Interest & fiscal charges	-	(2,107)	(598,184)	(6,741)	-	(607,032)
Total non-operating revenues (expenses)	1,406	176,114	(1,910,801)	(2,192)	1,495,472	(240,001)
<b>NET INCOME</b>	1,406	176,114	(2,321,346)	362,152	2,264,025	482,351
<b>NET ASSETS - OCTOBER 1, 2005</b>	1,119,970	12,574	15,770,047	207,389	561,204	17,671,184
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	11,364	14,525	-	25,889
<b>NET ASSETS - SEPTEMBER 30, 2006</b>	\$ 1,121,376	\$ 188,688	\$ 13,460,065	\$ 584,066	\$ 2,825,229	\$ 18,179,424

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

**CITY OF LAUREL, MISSISSIPPI  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR YEAR ENDED SEPTEMBER 30, 2006**

**EXHIBIT I**

	<u>Enterprise Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 8,260,590
Federal & state grants	1,713,663
Payments to suppliers	(5,420,970)
Payments to employees	(1,021,841)
Net cash flows from operating activities	3,531,442
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	1,671,463
Transfers to other funds	(1,756,463)
Legal Settlements	165,048
Net cash provided by noncapital financing activities	80,048
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>	
Acquisition of fixed assets	(2,743,520)
Proceeds from loans	412,851
Principal paid on debt	(1,517,855)
Interest paid on debt	(604,031)
Net cash used by capital and related financing activities	(4,452,555)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest earned	232,099
Sale of temporary investments	17,759,615
Purchase of Investments	(16,268,929)
Bank Fees	(3,001)
Net cash used by investing activities	1,719,784
Net increase (decrease) in cash	878,719
<b>Cash, October 1</b>	119,044
<b>Cash, September 30</b>	\$ 997,763
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating Income	\$ 722,352
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,109,139
Change in assets and liabilities:	
(Increase) decrease in accounts receivables, net of allowances	297,205
(Increase) decrease in due from other governments	365,439
Increase (decrease) in accounts payable	242,406
Increase (decrease) in contract retentions	(236,509)
Increase (decrease) in customer deposits	29,569
Increase (decrease) in compensated absences	1,841
Net cash flows from operating activities	\$ 3,531,442
Non-cash transactions:	
Unrealized gain (loss) on investments	\$ 42,799

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

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements of the City of Laurel have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The most significant of the City's accounting policies are described below.

**A. Financial Reporting Entity**

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City had no potential component units.

**B. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

***Government-wide Financial Statements:***

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**B. Basis of Presentation (continued)**

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

***Fund Financial Statements:***

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental category.

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

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. 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. Program revenues on the Statement of Activities consist primarily of ad valorem taxes, state revenues, federal awards, and charges for services.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The City reports the following major governmental funds:

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Drainage Bond Issue Fund - This is the fund that accounts for funds used to public works drainage bond issue.

Katrina Project - This is the fund that accounts for the Hurricane Katrina disaster relief revenue and expenses.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**C. Measurement Focus and Basis of Accounting (continued)**

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of Exhibit C.

Additionally the City reports the following fund types:

**Governmental Funds:**

Special Revenue Funds – 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 for specific expenditure purposes.

Capital Project Funds – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

**Proprietary Funds:**

Enterprise Funds – 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, general are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

**Fiduciary Funds:**

Agency Funds – Agency funds are used to report resources held by the City in a purely custodial capacity (assets equal liabilities) and do not involve measurements of results of operations.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**C. Measurement Focus and Basis of Accounting (continued)**

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government.

Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise fund are charges to customers for services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system.

Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Account Classifications**

The account classifications used in the financial statements conform to the broad classifications recommended in the *Financial Accounting Manual for Mississippi Municipalities* issued by the Office of the State Auditor.

**E. Encumbrances**

An encumbrance system is maintained to account for commitments resulting from approved purchase orders, work orders and contracts. Encumbrances outstanding at year-end are reported as designation of fund balances since they do not constitute expenditures or liabilities.

**F. Cash and Cash Equivalents**

The City deposits excess funds in the financial institutions selected by the city council. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of three months or less from the end of the fiscal year. Cash and cash equivalents are valued at cost.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**G. Investments**

The City is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the state of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved; or in interest-bearing time certificates of deposit or interest-bearing accounts with any financial institution approved for the deposit of state funds; or in any type of investment permitted by sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972).

Investments are reported at fair value, which is determined using selected bases. Certificates of Deposits, with maturities exceeding three months are not considered cash or cash equivalents. These investments are reported at cost, which is the fair value.

**H. Receivables**

The allowance method for valuing accounts receivables is used by the City. At the end of each fiscal year, an amount necessary to bring the balance to the estimated amount of allowance for doubtful accounts is credited to a valuation account. As a specific account is deemed to be uncollectible, the amount of the account is taken from both the receivable and the allowance accounts. At the end of the subsequent fiscal year, Bad Debt Expense is charged with the amount necessary to bring the allowance account to the estimated total. The valuation allowance for the Enterprise Fund receivables and General Fund police fines is based on the City's estimation of amounts that will prove uncollectible.

**I. Inventory and Prepaid Items**

Inventory is valued at actual cost. The inventory in the General Fund consists of expendable supplies held for consumption. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**J. Capital Assets**

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds.

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**J. Capital Assets (continued)**

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Infrastructure -- Roads	50,000	20 years
Infrastructure -- Concrete bridges	50,000	50 years
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Heavy equipment	5,000	10 years
Mobile equipment	5,000	5 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(\*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 8 for details.

**K. Long-term liabilities**

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 9 for details.

**L. Interfund Transactions and Balances**

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) inter-fund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect 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 other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 7 for details for interfund transactions, including receivables and payables at year-end.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**M. Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. Unpaid amounts of vested or accumulated vacation leave at September 30, 2006, that normally would be liquidated with expendable available financial resources were not considered material.

**N. Equity Classifications**

**Government-wide Financial Statements:**

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

1. 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, constructions or improvement of those assets.
2. 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 of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Fund Financial Statements:**

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

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserve used by the City:

Reserved for Notes Receivable - An account used to segregate a portion of fund balance that is not considered available spendable resources because of long-term loans made to outside entities. Fund balance has been reserved in an amount equal to the balance of notes receivable.

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Reserved for unemployment benefits - An account that represents the unemployment revolving fund balance, which is legally restricted for the payment of unemployment benefits.

Reserved for debt service - An account that represents the fund balance for the debt service fund resources which are legally restricted for the payment of General Long-term Debt principal and interest amounts maturing in future years.

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**O. Property Taxes**

The City levies a tax on real and personal property based on the assessed value of property as compiled by the County tax assessor from information extracted from the assessment tax rolls. Assessed values are computed as a percentage of true value. Single family owner-occupied residences are assessed at 10%; commercial real estate and personal property at 15%, and public service property at 30%. The taxes on real property attach as an enforceable lien on the property as of January 1 and on personal property as of March 1. Taxes on real and personal property are levied by the City Council at the first regular meeting in September. The City adopts the part of the county assessment roll containing the property located within the Municipality as provided in Sections 21-33-9 and 27-35-167. Taxes are billed and collected by the County and forwarded to the City.

In accordance with the Mississippi Code of 1972, as amended, the City Council may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for any one year may not exceed ten percent (10%) of the taxes collected for the prior assessment year. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation.

The tax rate of the City of Laurel is expressed in terms of mills (ten mills equal one cent). For the year ended September 30, 2006, the City's combined tax rate for general governmental services and other municipal purposes was 93.42 mills or \$93.42 per \$1,000 of assessed valuation expressed as follows:

General Fund	14.27
Special Revenue Fund (Recreation)	4.82
Library Fund	1.00
Debt service Fund	7.33
Firemen's and Policemen's Disability and Relief Fund	8.23
Laurel Municipal Separate School District	<u>57.77</u>
Total Mills	<u>93.42</u>

Included in tax revenues are taxes collected for automobile tags and public utility taxes. Taxes collected by the County, less a collection fee, are remitted to the City on a monthly basis. Taxes on public utility properties are assessed by a separate governmental entity and collected by the City.

**P. Estimates**

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

**Q. Changes in Accounting Standards**

As required, the City of Laurel has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 2 - CASH AND INVESTMENTS**

**A. Cash and Cash Equivalents**

The collateral for public entities' deposits in financial institutions are 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.

***Custodial Credit Risk - Deposits.*** Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover the deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of September 30, 2006, the bank balance of \$4,012,206 was not exposed to custodial credit risk.

The carrying amount of the city's deposits with financial institutions was \$3,797,089 and the bank balance was \$4,012,206.

**B. Investments**

As of September 30, 2006, the City had the following investments and maturities:

<b>Investment Type</b>	<b>Investment Maturity in Years</b>					<b>Rating</b>
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>	
Commercial Paper	\$ 123,185	\$ 123,185	\$ -	\$ -	\$ -	AA-
U.S. Treasury Bill	1,600,443	1,600,443	-	-	-	n/a
U.S. Government Obligations	1,581,293	-	1,581,293	-	-	AAA
Collateralized Mortgage Obligation:	2,776,396	-	-	-	2,776,396	AAA
Mortgage Backed Securities	322,929	-	-	-	322,929	n/a
Municipal Obligation	377,367	219,309	158,059	-	-	AAA
<b>Total Investments</b>	<b>\$ 6,781,613</b>	<b>\$ 1,942,937</b>	<b>\$ 1,739,352</b>	<b>\$ -</b>	<b>\$ 3,099,325</b>	

***Interest Rate Risk.*** The City's investment policy for interest rate risk follows that of the State which states that the rate of interest shall not be less than a simple interest rate numerically equal to the average bank discount rate on

United States Treasury bills of comparable maturity. The rate of interest established shall be the minimum rate of interest and there shall be no maximum rate of interest.

***Credit Risk.*** State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2006, the City's investments in commercial paper were rated AA by Standard & Poor's. The City's investments in U.S. Government Obligations, Collateralized Mortgage Obligations, and Municipal Obligations were rated AAA by Standard & Poor's.

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 2 - CASH AND INVESTMENTS - (continued)**

***Custodial Credit Risk.*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. However, since the City's investments are fully guaranteed by the government of the United States and the State of Mississippi, custodial credit risk is zero.

***Concentration of Credit Risk.*** Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of September 30, 2006 the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total Investment</u>
Commercial Paper	\$ 123,185	1.82%
U.S. Treasury Bill	1,600,443	23.60%
U.S. Government Obligations	1,581,293	23.32%
Collateralized Mortgage Obligations	2,776,396	40.94%
Mortgage Backed Securities	322,929	4.76%
Municipal Obligation	<u>377,367</u>	<u>5.56%</u>
 Total Investments	 <u>\$ 6,781,613</u>	 100.00%

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 3 - ACCOUNTS RECEIVABLE**

The balance in the accounts receivable is computed as follows:

<u>GOVERNMENTAL FUNDS</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
<u>General fund:</u>			
Police fines – installment agreements	\$10,955,080	\$9,076,759	\$1,896,757
Cemetery	23,830	-	-
Other	<u>5,394</u>	<u>-</u>	<u>-</u>
Total Accounts Receivable –General Fund	10,973,516	9,076,759	1,896,757
<u>Bond &amp; Interest Issue fund:</u>			
Other Governmental Funds:	<u>1,292</u>	<u>-</u>	<u>-</u>
Total Accounts Receivable – Governmental Funds	<u>\$10,974,808</u>	<u>\$9,076,759</u>	<u>\$1,896,757</u>

**NOTE 4 - DUE FROM (TO) OTHER GOVERNMENTS**

Amounts due from other governments:

Governmental Funds:

State of Mississippi - Sales Tax Collections	\$ 1,414,084
County Tax Collector	43,041
State Grants	85,185
Federal Grants	<u>814,201</u>
Total Governmental Funds	<u>\$ 2,356,511</u>

Amounts due to other governments:

Governmental Funds:

Laurel School District - Railcar Tax	\$ 11,725
Estimated State Fees Based on Police Receivables	595,755
ABF - Collected in Advance	1,325
Crimestoppers	528
State of Mississippi - tax assessments	<u>45,216</u>
Total Governmental Funds	<u>\$ 654,549</u>

**NOTE 5 - NOTES AND OTHER RECEIVABLES**

Notes receivable in the Special Revenue Fund consists of the following:

Urban Development Action Grant Loan to Thermo-Kool, Inc.	\$ 46,639
HUD Housing Improvement loans	<u>1,747</u>
Total	<u>\$ 48,386</u>

All income from repayments is required to be used to offset cost of future Urban Development Programs.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 6 - INVENTORY AND PREPAID ITEMS**

Inventory consist of the following:

Fuel	\$ 1,622
Parts and vehicle decals	<u>23,928</u>
	<u>\$ 25,550</u>

Prepaid items consist of the following:

Governmental funds:

Deferred liability - liability insurance	\$ 44,585
Deferred liability - workers compensation	139,150
Deferred liability - life insurance	995
Prepaid insurance	<u>54</u>
	184,784

Proprietary funds:

Prepaid Insurance	<u>107</u>
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Total Prepaid Items	<u>\$ 184,891</u>
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**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 7 - INTERFUND TRANSACTION AND BALANCES**

The advances to/from other funds is due to the use of funds to complete construction projects in the special revenue funds and the prior period adjustment (Note 19)

A. Due To/From Other Funds:	<u>Due To:</u>	<u>Due From:</u>
Governmental Funds:		
General fund	\$ 53,129	\$ 24,648
Other Governmental Funds:		
Special Revenue Funds	24,648	27,240
Proprietary Funds	-	25,889
Total	<u>\$ 77,777</u>	<u>\$ 77,777</u>

Individual fund transfers in and out for the year ended September 30, 2006 are as follows:

B. Transfer In/Out	<u>Transfers In:</u>	<u>Transfers Out:</u>
Governmental Funds:		
General fund	\$ 155,067	\$ 1,157,067
Bond & Interest Fund	51,194	-
Other Governmental Funds	1,714,328	674,219
Proprietary Fund	1,671,463	1,756,463
Fiduciary Fund	-	4,303
Total	<u>\$ 3,592,052</u>	<u>\$ 3,592,052</u>

These transfers are due to the funding of construction projects, fixed asset acquisitions, and debt service requirements.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 8 - CAPITAL ASSETS**

The following is a summary of changes in the capital assets for governmental activities:

	<u>Balance</u> 10/1/2005	<u>Additions</u>	<u>Retirements</u>	<u>Completed</u> <u>Construction</u>	<u>Balance</u> 9/30/2006
<b><u>Non-depreciable capital assets:</u></b>					
Land	\$ 290,300	\$ -	\$ -	\$ -	\$ 290,300
Construction in progress	4,164,767	1,038,201	-	(4,851,032)	351,936
Total non-depreciable capital assets	<u>4,455,067</u>	<u>1,038,201</u>	<u>-</u>	<u>(4,851,032)</u>	<u>642,236</u>
<b><u>Depreciable capital assets:</u></b>					
Buildings and Infrastructure	30,748,261	179,157	-	4,851,032	35,778,450
Furniture and mobile equipment	5,423,990	581,554	66,326	-	5,939,218
Total depreciable capital assets	<u>36,172,251</u>	<u>760,711</u>	<u>66,326</u>	<u>4,851,032</u>	<u>41,717,668</u>
<b><u>Less accumulated depreciation for:</u></b>					
Buildings and Infrastructure	7,133,409	686,980	-	-	7,820,389
Furniture and mobile equipment	4,154,560	298,265	60,244	-	4,392,581
Total accumulated depreciation	<u>11,287,969</u>	<u>985,245</u>	<u>60,244</u>	<u>-</u>	<u>12,212,969</u>
Total depreciable capital assets, net	<u>24,884,282</u>	<u>(224,534)</u>	<u>6,081</u>	<u>4,851,032</u>	<u>29,504,699</u>
Governmental activities capital assets, net	<u>\$ 29,339,349</u>	<u>\$ 813,667</u>	<u>\$ 6,081</u>	<u>\$ -</u>	<u>\$ 30,146,935</u>

Depreciation expense was charged to the following governmental functions:

Depreciation expense:	
General Govt	\$ 4,468
Public Safety	227,299
Public Works	470,447
Health and Welfare	11,684
Culture and Recreation	271,347
	<u>\$ 985,245</u>

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 8 - CAPITAL ASSETS - (continued)**

The following is a summary of changes in capital assets for proprietary activities:

	<u>Balance</u> <u>10/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed</u> <u>Construction</u>	<u>Balance</u> <u>9/30/2006</u>
<b><u>Non-depreciable capital assets:</u></b>					
Construction in progress	\$ 7,740,796	\$ 2,487,554	-	\$ -	\$ 10,228,350
<b><u>Depreciable capital assets:</u></b>					
Buildings and Infrastructure	48,716,770	-	-	-	48,716,770
Furniture and mobile equipment	2,503,619	255,966	172,437	-	2,587,148
Total depreciable capital assets	<u>51,220,389</u>	<u>255,966</u>	<u>172,437</u>	<u>-</u>	<u>51,303,918</u>
<b><u>Less accumulated depreciation for:</u></b>					
Buildings and Infrastructure	29,723,955	1,963,343	-	-	31,687,298
Furniture and mobile equipment	2,053,307	145,796	171,691	-	2,027,412
Total accumulated depreciation	<u>31,777,262</u>	<u>2,109,139</u>	<u>171,691</u>	<u>-</u>	<u>33,714,710</u>
Total depreciable capital assets, net	<u>19,443,127</u>	<u>(1,853,174)</u>	<u>745</u>	<u>-</u>	<u>17,589,208</u>
Proprietary activities capital assets, net	<u>\$ 27,183,923</u>	<u>\$ 634,380</u>	<u>\$ 745</u>	<u>\$ -</u>	<u>\$ 27,817,558</u>

Depreciation expense charged to the Enterprise Fund totaled \$2,109,139.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 9 - LONG-TERM DEBT**

The following is a summary of the changes in long-term liabilities and other obligations for governmental activities:

	Balance 10/1/2005	Additions	Reductions	Balance 9/30/2006	Amounts due within one year
General Obligation Bonds	\$ 18,045,000	\$ -	\$ 1,040,000	\$ 17,005,000	\$ 1,075,000
Notes Payable	861,591	2,684,935	2,101,623	\$ 1,444,903	174,338
Capital Leases	88,013	-	64,587	\$ 23,426	23,428
Compensated Absences	235,614	-	13,460	\$ 222,154	-
<b>Total</b>	<b><u>\$ 19,230,218</u></b>	<b><u>\$ 2,684,935</u></b>	<b><u>\$ 3,219,670</u></b>	<b><u>\$ 18,695,483</u></b>	<b><u>\$ 1,272,766</u></b>

The following is a summary of changes in long-term liabilities and other obligations for proprietary activities:

	Balance 10/1/2005	Additions	Reductions	Balance 9/30/2006	Amounts due within one year
General Obligation Bonds	\$ 6,660,000	\$ -	\$ 780,000	\$ 5,880,000	\$ 835,000
Notes Payable	9,716,352	412,851	726,669	9,402,534	877,609
Capital Leases	11,904	-	11,186	718	718
Compensated Absences	16,863	1,841	-	18,704	-
<b>Total</b>	<b><u>\$ 16,405,119</u></b>	<b><u>\$ 414,692</u></b>	<b><u>\$ 1,517,855</u></b>	<b><u>\$ 15,301,956</u></b>	<b><u>\$ 1,713,327</u></b>

The annual requirements to amortize bond and note principal outstanding for all funds as of September 30, 2006, are as follows:

Year Ended September 30	Obligation Bonds	Notes Payable	Total
2007	\$ 1,910,000	\$ 1,076,093	\$ 2,986,093
2008	2,020,000	1,060,140	3,080,140
2009	1,565,000	1,044,778	2,609,778
2010	1,385,000	851,992	2,236,992
2011	1,455,000	748,270	2,203,270
2012-2016	8,150,000	2,583,587	10,733,587
2017-2021	4,995,000	1,963,443	6,958,443
2022-2026	1,405,000	1,512,920	2,917,920
2027- 2031	-	271,216	271,216
	<b><u>\$ 22,885,000</u></b>	<b><u>\$ 11,112,439</u></b>	<b><u>\$ 33,997,439</u></b>

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 9 - LONG-TERM DEBT – (CONTINUED)**

Future maturities of operating and capital leases are reflected in Note 10.

**A. GENERAL OBLIGATION BONDS**

General obligations bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are:

<u>Purpose</u>	<u>Interest rates</u>	<u>Amounts Outstanding</u>
General Government	1.0 - 7.0%	\$17,005,000
Proprietary	4.0 - 11.0%	<u>5,880,000</u>
		<u>\$22,885,000</u>

This note does not include non-committal debt paid by Debt Service of \$3,200,000 (see Note 11).

**B. NOTES PAYABLE IN GOVERNMENTAL FUNDS**

The City has notes owed to the Mississippi Development Bank for the purchase of various capital assets and to fund various construction projects.

**Mississippi Development Bank -- Pool Loan**

	<u>1st Draw</u>	<u>2nd Draw</u>	<u>3rd Draw</u>	<u>4th Draw</u>	<u>5th Draw</u>	<u>6th Draw</u>	<u>8th Draw</u>
<b>Date of Note</b>	11/21/2002	11/21/2005	3/3/2004	6/9/2004	8/8/2006	8/8/2006	8/8/2006
<b>Original Amount</b>	\$ 51,825	\$ 227,066	\$ 51,890	\$ 287,262	\$ 356,176	\$ 234,360	\$ 94,399
<b>Unpaid Principal</b>	16,547	157,054	23,289	260,170	353,208	232,407	92,826
<b>Monthly Installment</b>	840	1,892	868	958	2,968	1,953	1,573
<b>Interest Rate</b>	3%	3%	3%	3%	Variable	Variable	Variable

The City also has notes for the purchase of a fire truck and lighting systems.

<b>Date of Note</b>	7/1/1998	4/6/1999
<b>Original Amount</b>	\$ 603,200	\$ 91,918
<b>Unpaid Principal</b>	309,402	6,572
<b>Monthly Installment</b>	4,372	1,333
<b>Interest Rate</b>	3.70%	5.48%

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 9 – LONG TERM DEBT – (CONTINUED)**

The annual requirements of the notes payable on note principal outstanding for governmental fund as of September 30, 2006, are as follows:

<u>Year</u>	<u>Payment Amount</u>
2007	\$ 174,338
2008	172,297
2009	159,490
2010	158,729
2011	158,910
2012-2016	475,875
2017-2021	57,452
2022-2026	57,452
2027-2031	30,360
Total	<u>\$ 1,444,903</u>

**C. NOTES PAYABLE IN PROPRIETARY FUND**

The city has a series of notes owed to the State of Mississippi under the Water Pollution Abatement Loan Programs. The loans with the State are 20-year repayment agreements. The State currently withholds payments from sales tax proceeds to apply to these notes.

	<b>State of Mississippi</b>					
<b>Date of Note</b>	2/15/1989	5/1/1991	6/1/1994	9/2/2002	9/19/2003	5/1/2004
<b>Original Amount</b>	\$ 250,000	\$ 2,601,103	\$ 2,197,679	\$ 500,000	\$ 2,129,452	\$ 4,309,018
<b>Unpaid Principal</b>	29,166	763,950	1,035,496	418,618	2,049,382	4,216,825
<b>Monthly Installment</b>	1,042	14,884	13,465	2,773	11,067	10,797
<b>Interest Rate</b>	0.00%	3.00%	4.00%	3.00%	1.75%	1.75%

The City also has notes owed to the Mississippi Development Bank for the purchase of various capital assets. The proprietary fund portion has a 5-year repayment period taken from draw one and draw three as follows:

	<b>Mississippi Development Bank -- Pool Loan</b>			
	<b>1st Draw</b>	<b>3rd Draw</b>	<b>7th Draw</b>	<b>8th Draw</b>
<b>Date of Note</b>	11/21/2002	3/3/2004	8/8/2006	8/8/2006
<b>Original Amount</b>	\$ 99,372	\$ 84,662	\$ 109,401	\$ 94,399
<b>Unpaid Principal</b>	28,812	15,501	107,121	92,826
<b>Monthly Installment</b>	1,680	1,408	2,278	1,573
<b>Interest Rate</b>	3%	3%	Variable	Variable

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 9 - LONG-TERM DEBT – (CONTINUED)**

The City also has notes for the Automatic Meter Reading System, a sanitation truck and a lighting system.

	<b>Meter Reading System</b>	<b>Sanitation Truck</b>	<b>Lighting System</b>
<b>Date of Note</b>	9/25/2004	7/25/2005	4/6/1999
<b>Original Amount</b>	\$ 895,345	\$ 111,496	\$ 3,750
<b>Unpaid Principal</b>	553,163	87,094	268
<b>Monthly Installment</b>	16,084	2,018	54
<b>Interest Rate</b>	2.99%	3.29%	5.48%

The annual requirements of the notes payable on note principal outstanding for the proprietary funds as of September 30, 2006, are as follows:

<u>Year</u>	<u>Payment Amount</u>
2007	\$ 877,609
2008	887,843
2009	885,288
2010	693,263
2011	589,361
2012-2016	2,107,712
2017-2021	1,905,990
2022-2026	<u>1,455,468</u>
Total	<u>\$ 9,402,534</u>

**NOTE 10 – LEASES**

**Operating Leases.** The City is committed under various non-cancelable operating leases that are subject to annual appropriations, principally out of the General Fund in the governmental activities. These leases include rentals for copiers and a phone system for the police department. Future minimum rental commitments for operating leases as of September 30, 2006 are as follows:

<u>Year</u>	<u>Payment Amount</u>
2007	\$ 16,363
2008	16,363
2009	<u>6,813</u>
Total	<u>\$ 39,539</u>

The lease expenditures were \$16,366 for the year ended September 30, 2006.

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 10 - LEASES - (continued)**

*Capital Leases.* The City has entered into several agreements for the purchase of certain items of machinery and equipment. These leases meet the criteria of capital leases. The equipment is capitalized in the General Fixed Asset Account Group and the Proprietary Fund. Amortization of leased capital assets in the proprietary fund is included with depreciation expense. Future minimum lease payments under capital leases are as follows:

Governmental Funds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 23,426	\$ 2,344	\$ 25,770
Total Governmental	<u>\$ 23,426</u>	<u>\$ 2,344</u>	<u>\$ 25,770</u>

Proprietary Funds:

2007	\$ 718	\$ 33	\$ 751
Total Proprietary	<u>\$ 718</u>	<u>\$ 33</u>	<u>\$ 751</u>

The gross amounts of assets included in the balance sheet recorded under capital leases at September 30, 2006 are as follows:

Governmental Funds	\$ 233,312
Proprietary Funds	53,424
Less: Accumulated Depreciation	<u>(271,900)</u>
Total Assets Under Capital Lease	<u>\$ 14,836</u>

**NOTE 11 - NO-COMMITMENT DEBT**

The state legislature allows the City to provide certain private and public entities with a low-cost source of capital financing deemed to be in the public interest. This debt is secured solely by the credit of the private and public entities and is administered by trustees independent of the City. The City has no obligation for this debt. Accordingly, these bonds are not reported in the accompanying financial statements. No-commitment debt outstanding at September 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
12-01-98 Howard Industries	\$1,950,000	\$ -	\$150,000	\$1,400,000
09-01-95 Howard Industries	<u>1,750,000</u>	<u>\$ -</u>	<u>350,000</u>	<u>1,800,000</u>
	<u>\$3,700,000</u>	<u>\$ -</u>	<u>\$500,000</u>	<u>\$3,200,000</u>

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 12 - LITIGATION AND CONTINGENT LIABILITIES**

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the city attorney the resolution of these matters will not have a material adverse effect on the financial condition of the city.

The City currently participates in a state-wide cooperative that provides liability insurance to cities that otherwise could not obtain liability coverage. Liability insurance includes general, automobile and workmen's compensation. The premiums are based on city population and payroll figures. Should the claims paid exceed the premiums paid in, each participant would share in the deficiency. At present, premiums paid into the system exceed any claims paid.

The City is partially self-insured for hospitalization insurance. The City pays the first \$35,000 in claims per insured. The third party provider bills the City for Claims on a 10-day cycle. The liability reflected in the books for future claims at September 30, 2006 is \$110,318.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Participation in Public Entity Risk Pool:**

The City participates in the Mississippi Municipal Liability Plan (MMLD), an insurance-purchasing pool. The City, along with other municipalities as a group, purchased insurance to insure against losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Settled claims resulting from these insured risks have not exceeded the City's insurance coverage since it joined the pool.

The City is a member of the Mississippi Municipal Workers Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the City's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$250,000. For a claim exceeding \$250,000, MMWCG has insurance which will pay the excess up to the statutory limit. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 13 - LEGAL DEBT LIMIT**

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

	<u>15 Percent</u>	<u>20 Percent</u>
Authorized Debt Limit:		
Assessed valuation for fiscal year ended September 30, 2006 (\$140,184,711)	\$ 21,224,030	\$ 28,298,706
Present debt subject to debt limits	(9,887,500)	(15,767,500)
Margin for further indebtedness	\$ <u>11,336,530</u>	\$ <u>12,531,206</u>

Limitation of Indebtedness

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 general obligation bonded indebtedness, there may be deducted all bonds or other evidences of indebtedness issued for school, water, and 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 payable in whole or in part from proceeds of ad valorem taxes which, when added to all of the outstanding general obligation indebtedness, both bonded and floating, exceeds twenty percent of the assessed value of all taxable property within such municipality.

**NOTE 14 - EMPLOYMENT SECURITY FUND**

The City has elected to maintain an unemployment fund and pay all base unemployment claims out of such fund - Mississippi State Code (1972) Sec. 71-5-359 allows a municipality the option of maintaining such a fund in lieu of paying state unemployment insurance. The fund shall be maintained at 2% of the covered wages paid during the prior calendar year. The present balance was sufficient to meet these funding requirements.

**NOTE 15 - MUNICIPAL COMPLIANCE QUESTIONNAIRE**

The Municipal Compliance Questionnaire was completed and entered in the minutes as prescribed by law. A review of the questionnaire revealed that all items were answered yes or not applicable.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**  
**NOTE 16 - DEFINED BENEFIT PENSION PLAN**

**Plan Description.** The City of Laurel contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information.

That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary and the City of Laurel is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Laurel contributions to PERS for the years ending September 30, 2006, 2005, and 2004 were \$942,571, \$806,356, and \$735,846, respectively, equal to the required contributions for each year.

**NOTE 17 - JOINT VENTURES**

The City participates in the following joint ventures:

The City of Laurel is a participant with Jones County and the Cities of Ellisville and Sandersville in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Laurel - Jones County Library.

The joint venture was created to provide free public library service to all the people of Jones County and is governed by a twelve-member board. Five members are appointed by the city, five members are appointed by the county and one member is appointed by each of the cities of Ellisville and Sandersville. By contractual agreement the City's appropriation to the joint venture amounted to \$120,000. Complete financial statements for the Laurel - Jones County Library can be obtained from the Laurel - Jones County Library, 530 Commerce Street, Laurel, MS 39440.

The City of Laurel is a participant with Jones County and the Cities of Ellisville, Soso, and Sandersville in the joint venture, authorized by Section 19-9-11, Miss. Code Ann. (1972), to operate the Jones County Economic Development Authority. The joint venture was created to foster, encourage and facilitate economic development in the County and is governed by a board of trustees composed by twelve members appointed as follows: Jones County Board of Supervisors, six; City of Laurel, three; City of Ellisville, three. The City's appropriation from the General Fund to the joint venture amounts to \$20,000. Complete financial statements for the Jones County Economic Development Authority can be obtained from the Jones County Economic Development Authority, P.O. Box 527, Laurel, MS 39441-0527.

The City of Laurel is a participant with Jones County, Forrest County, and the City of Hattiesburg in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate Hattiesburg/Laurel Regional Airport Authority. The joint venture was created to operate a regional airport and is governed by a five-member board, one each appointed by the four member governments and one by the Governor for the State of Mississippi. The City does not currently contribute any funds for the support of the Airport. Complete financial statements for the Hattiesburg/Laurel Regional Airport Authority can be obtained from Hattiesburg/Laurel Regional Airport Authority, 1002 Terminal, Moselle, MS 39459.

**CITY OF LAUREL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS**

The South Mississippi Fair operates in Jones County and the City of Laurel. The Commissioners are appointed as follows: five by the Mayor with Council approval, and five by the Jones County Board of Supervisors. The property of Commission reverts to the City upon dissolution of the Commission. The City, along with the Jones County Board of Supervisors authorized the South Mississippi Fair Commission to borrow \$600,000. The City and County will equally appropriate sufficient funds annually to the Commission to retire this debt. For 2006 and 2005, the City appropriated \$110,484 and \$35,879, respectively, to this organization from tourism tax receipts.

**NOTE 19 - PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was necessary to correct beginning balances as follows:

Correction of Hospitalization Insurance:

	<u>9/30/2005</u>	<u>PPA</u>	<u>Adjusted</u> <u>9/30/2005</u>
	<u>Fund Balance</u>	<u>PPA</u>	<u>Fund Balance</u>
<b>Governmental Funds</b>			
General Fund	\$ 3,409,588	\$ 185,837	\$ 3,595,425
Other Governmental Funds	<u>1,722,772</u>	<u>27,240</u>	<u>1,750,012</u>
Total Governmental Funds	<u>\$ 5,132,360</u>	<u>\$ 213,077</u>	<u>\$ 5,345,437</u>
<b>Proprietary Funds</b>			
Public Utility	\$ 15,770,047	\$ 11,364	\$ 15,781,411
Solid Waste	<u>207,389</u>	<u>14,525</u>	<u>221,914</u>
Total Proprietary Funds	<u>\$ 15,977,436</u>	<u>\$ 25,889</u>	<u>\$ 16,003,325</u>

The correction of hospitalization insurance was to reduce the prior year accruals in the liability account to properly reflect the actual liability.

**NOTE 20 - DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS**

A listing of the individual funds that have a deficit fund balance, including amounts of the deficit, is as follows:

<u>Fund # Description</u>	<u>Amount</u>
110 - UDAG Grant	\$11,435
130 - Police DEA Seizure Fund	199
151 - MDA Highway Grant	1,648
301 - Comp Street Improvement	5,872
319 - Katrina Project	15,534
357 - SRF Comprehensive Wastewater Project	1,385,007

The deficit fund balances are not in violation of state law. They could have been eliminated by a transfer from the General Fund.

**CITY OF LAUREL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 21 - COMMITMENTS**

The City entered into an inter-local agreement with the Mississippi Department of Transportation for reconstruction of Interstate 59 in order to eliminate the "S curve." The City has authorized borrowing from the Mississippi Development Bank an amount not to exceed \$32 million for funding of the project. The debt will be repaid from Federal Highway funds passed through the Mississippi Department of Transportation.

The City entered into a contract in the amount of \$924,551 for comprehensive street improvements. Total payments on this contract at September 30, 2006 were \$771,049.

The City approved a contract for Sewer Improvements on Emmy Drive for \$89,300. As of September 30, 2006 no payments have been made on this contract.

**NOTE 22 - RECONCILIATION OF BUDGETARY BASIS TO ACCRUAL**

Mississippi law requires that all municipalities budget on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All budgeted amounts lapse at year end. The required budgetary basis is therefore not considered a generally accepted accounting principle.

The following schedule reconciles the fund balances on the budgetary basis to the GAAP basis for the general fund:

Fund balance (budgetary basis)	\$ 4,792,090
Adjustment to GAAP basis:	
Accrued revenues	<u>30,445</u>
Fund balance (GAAP basis), Sept. 30	<u>\$ 4,761,645</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF LAUREL  
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

SCHEDULE 1a

REVENUES	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	General property taxes:				
Current	\$ 1,786,199	\$ 1,786,199	\$ 1,838,332	\$ -	\$ 52,133
Delinquent	-	-	13,260	-	13,260
Penalties and interest on delinquent taxes	8,200	8,200	11,191	-	2,991
Licenses and permits	96,750	96,750	147,297	-	50,547
Franchise taxes on utilities	1,451,958	1,451,958	1,513,312	-	61,354
Intergovernmental revenue	-	-	30,171	-	30,171
Federal Grants	-	214,756	251,821	214,756	37,065
State shared revenues	8,217,100	8,217,100	10,059,611	-	1,842,511
Local revenues	47,275	47,275	(13,966)	-	(61,241)
Charges for services	6,850	6,850	38,196	-	31,346
Fines and forfeitures	600,000	640,000	947,548	40,000	307,548
Interest	55,150	55,150	104,473	-	49,323
Rents and royalties	203,300	203,300	187,931	-	(15,369)
<b>TOTAL REVENUES</b>	<b>12,472,782</b>	<b>12,727,538</b>	<b>15,129,177</b>	<b>254,756</b>	<b>2,401,639</b>
<b>EXPENDITURES</b>					
General government	3,334,418	3,611,399	3,751,196	276,981	(139,797)
Public safety	7,213,616	7,613,682	7,346,618	400,066	267,064
Public works	1,599,773	1,768,339	1,752,257	168,566	16,082
Health & welfare	205,990	208,293	224,213	2,303	(15,920)
Capital Outlay	447,300	1,085,873	154,660	638,573	931,213
Other	50,000	50,000	-	-	-
Debt Service:					
Principal	59,735	59,735	37,117	-	22,618
Interest	-	-	3,635	-	(3,635)
<b>TOTAL EXPENDITURES</b>	<b>12,910,832</b>	<b>14,397,321</b>	<b>13,269,696</b>	<b>1,486,489</b>	<b>1,127,625</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(438,050)</b>	<b>(1,669,783)</b>	<b>1,859,481</b>	<b>(1,231,733)</b>	<b>1,274,014</b>
<b>OTHER FINANCIAL SOURCES (USES)</b>					
Unrealized gain (loss) on investments	-	-	8,757	-	8,757
Legal settlement	-	109,763	135,441	109,763	25,678
Loan Proceeds	174,000	174,000	179,986	-	5,986
Operating transfers in	100,000	154,000	155,067	54,000	1,067
Operating transfers out	(836,628)	(1,235,396)	(1,157,067)	(398,768)	78,329
Sale of Property	-	-	15,000	-	15,000
Other Revenues	5,000	5,000	-	-	(5,000)
<b>TOTAL OTHER FINANCING SOURCES (USE):</b>	<b>(557,628)</b>	<b>(792,633)</b>	<b>(662,816)</b>	<b>(235,005)</b>	<b>129,817</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(995,678)</b>	<b>(2,462,416)</b>	<b>1,196,665</b>	<b>(1,466,738)</b>	<b>1,403,831</b>
<b>FUND BALANCE -OCTOBER 1, 2005</b>	<b>3,409,588</b>	<b>3,409,588</b>	<b>3,409,588</b>	<b>-</b>	<b>-</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>185,837</b>	<b>109,763</b>	<b>25,678</b>
<b>FUND BALANCE -SEPTEMBER 30, 2006</b>	<b>\$ 2,413,910</b>	<b>\$ 947,172</b>	<b>\$ 4,792,090</b>	<b>\$ (1,466,738)</b>	<b>\$ 1,403,831</b>

The notes to the required supplementary information are an integral part of this statement.

**CITY OF LAUREL  
BUDGETARY COMPARISON SCHEDULE FOR THE BOND & INTEREST FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

SCHEDULE 1b

REVENUES	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	General property taxes:				
Current	\$ 917,500	\$ 917,500	\$ 937,879	\$ -	\$ 20,379
Delinquent	-	-	(2,741)	-	(2,741)
Penalties and interest on delinquent taxes	3,700	3,700	6,079	-	2,379
Local revenues	-	-	(199)	-	(199)
Interest	50,000	50,000	31,626	-	(18,374)
Rents and royalties	500,000	500,000	500,000	-	-
<b>TOTAL REVENUES</b>	<u>1,471,200</u>	<u>1,471,200</u>	<u>1,472,644</u>	<u>-</u>	<u>1,444</u>
<b>EXPENDITURES</b>					
Debt Service:					
Principal	1,629,023	3,691,653	3,156,431	2,062,630	535,222
Interest	-	-	502,224	-	(502,224)
Other	100	100	10,672	-	(10,572)
<b>TOTAL EXPENDITURES</b>	<u>1,629,123</u>	<u>3,691,753</u>	<u>3,669,327</u>	<u>2,062,630</u>	<u>22,426</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(157,923)</u>	<u>(2,220,553)</u>	<u>(2,196,683)</u>	<u>(2,062,630)</u>	<u>(20,982)</u>
<b>OTHER FINANCIAL SOURCES (USES)</b>					
Unrealized gain (loss) on investments	-	-	9,000	-	9,000
Loan Proceeds	-	2,000,000	2,000,000	2,000,000	-
Operating transfers in	51,195	51,195	51,194	-	(1)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>51,195</u>	<u>2,051,195</u>	<u>2,060,194</u>	<u>2,000,000</u>	<u>8,999</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(106,728)</u>	<u>(169,358)</u>	<u>(136,489)</u>	<u>(62,630)</u>	<u>(11,983)</u>
<b>FUND BALANCE -OCTOBER 1, 2005</b>	<u>999,852</u>	<u>949,159</u>	<u>1,049,848</u>	<u>-</u>	<u>100,689</u>
<b>FUND BALANCE -SEPTEMBER 30, 2006</b>	<u>\$ 893,124</u>	<u>\$ 779,801</u>	<u>\$ 913,359</u>	<u>\$ (62,630)</u>	<u>\$ 88,706</u>

The notes to the required supplementary information are an integral part of this statement.

**CITY OF LAUREL  
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

The budget is adopted by the City Council. Amendments can be made on the approval of the Council By statute, final budget revisions must be approved on or before September 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

(3) Individual Fund Disclosures.

Individual funds that were required to be budgeted but were not budgeted are as follows:

Individual Funds

Fund 151 – MDA Hwy Grant Fund  
Fund 307 – Pinehurst Park CIP Fund  
Fund 318 – Central Avenue Tree Grant Fund  
Fund 365 – Household Hazard Waste & Amnesty Day Fund  
Fund 357 – 2002 SRF Comprehensive Loan WW Project  
Fund 656 – Hospital Self-Insurance Fund  
Fund 657 – Employment Comp Fund

The unbudgeted funds are in violation of state law. However, the City has no liability associated with this violation.

**SUPPLEMENTAL INFORMATION**

**CITY OF LAUREL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>Department of Agriculture</u>		
National Resources Conservation Services	10.904	24,092
Rural Development, Housing Programs:		
Rural Self-Help Technical Assistance	10.420	<u>8,162</u>
Total Department of Agriculture		<u>32,254</u>
<u>Department of Housing and Urban Development</u>		
Community Planning and Development		
Community Development Block Grant/State's Program	14.228	<u>768,438</u>
<u>Department of Justice</u>		
Bureau of Justice Assistance		
Local Law Enforcement Block Grant	16.592	<u>30,431</u>
<u>Department of Transportation</u>		
Federal Highway Administration		
Recreational Trails Program	20.219	<u>36,637</u>
<u>Environmental Protection Agency</u>		
Office of Water		
Capitalization Grants for Clean Water State		
State Revolving Funds	66.458	<u>202,249</u>
<u>Department of Homeland Security</u>		
Disaster Grants - Public Assistance	97.036	4,666,380
Law Enforcement Training and Technical Assistance Grant (Presidentially Declared Disasters)	97.081	<u>15,900</u>
Total Department of Homeland Security		<u>4,682,280</u>
Total for all Federal Award Expenditures		<u>\$ 5,752,289</u>

NOTES TO THE SCHEDULE:

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

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

# HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA  
M.C. Princy Harrison, CPA, CGFM  
Julie M. Uher, CPA

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Mississippi Society of  
Certified Public Accountants

Division of CPA Firms  
Private Companies Practice Section

H. I. Holt, CPA  
Founder (1915 - 1997)

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

February 13, 2007

Mayor and Members of City Council  
City of Laurel, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Laurel as of and for the year ended September 30, 2006, which collectively comprise the City of Laurel, Mississippi's basic financial statements and have issued our report thereon dated February 13, 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 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Mayor and Members of the City Council  
City of Laurel, Mississippi  
Page Two

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

A handwritten signature in cursive script that reads "Holt + Associates". The signature is written in black ink and is positioned above the printed name of the firm.

Holt and Associates, PLLC

# HOLT & ASSOCIATES, PLLC

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

February 13, 2007

Mayor and Members of City Council  
City of Laurel, Mississippi

### Compliance

We have audited the compliance of the City of Laurel, Mississippi with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The City's major federal programs are 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 each of its major federal programs 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, City of Laurel, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

### Internal Control over Compliance

The management of the City of Laurel 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.

Mayor and Members of City Council  
City of Laurel, Mississippi  
Page Two

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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 did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in cursive script that reads "Holt & Associates".

Holt & Associates, PLLC

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

# HOLT & ASSOCIATES, PLLC

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Founder (1915 - 1997)

## Independent Auditors' Report on Compliance With State Laws and Regulations

Mayor and Members of City Council  
City of Laurel, Mississippi

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Laurel, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City of Laurel's basic financial statements and have issued our report thereon dated February 2, 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.

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

The results of our procedures to test compliance with the requirements of Section 21-35-7, Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in findings #1 and 2 below.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

**Finding #1:**

A budget by fund was not prepared in accordance with Section 21-35-7 Miss. Code Ann. (1972).

**Recommendation:**

Budgets should be prepared for each fund presenting estimated receipts, disbursements, and balances for the next fiscal year.

**Response:** City will budget capital projects by funds, and will work more closely with engineers to ensure that all projects have City project numbers.

**Finding #2:**

Expenditures were greater than budgeted amounts in the General Fund and in the Recreation Fund.

**Recommendation:**

The City Council should not approve any claim and the City Clerk should not issue any warrant for any expenditure in excess of said detailed budget appropriations as finally adopted.

**Response:** City will make every effort to ensure that expenditures do not exceed budget.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

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

*Holt + Associates*

February 13, 2007

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CITY OF LAUREL, MISSISSIPPI**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2006**

**Section 1: Summary of Auditor's Results**

***Financial Statements:***

- |  |                    |
|--|--------------------|
| 1. Type of auditor's report issued on the financial statements                           | <u>Unqualified</u> |
| 2. Material noncompliance relating to the financial statements?                          | <u>No</u>          |
| 3. Internal control over financial reporting:  |                    |
| a. Material weakness(es) identified?   | <u>No</u>          |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u>          |

***Federal Awards:***

- |  |                    |
|--|--------------------|
| 4. Type of auditor's report issued on compliance for major federal programs:             | <u>Unqualified</u> |
| 5. Internal control over major programs:   |                    |
| a. Material weakness(es) identified?   | <u>No</u>          |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u>          |
| 6. Any audit finding(s) reported as required by section __.510(a) of Circular A-133?     | <u>No</u>          |
| 7. Federal programs identified as major programs:  |                    |
| a. Disaster Grants - Public Assistance<br>CFDA # <u>97.036</u>                           |                    |
| 8. The dollar threshold used to distinguish between type A and type B programs:          | <u>\$300,000</u>   |
| 9. Auditee qualified as a low-risk auditee?  | <u>Yes</u>         |

**CITY OF LAUREL, MISSISSIPPI**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2006**

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_\_\_ .315(b) of OMB Circular A-133?

No

**Section 2: Financial Statement Findings**

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

**Section 3: Federal Award Findings and Questioned Costs**

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

**CITY OF LAUREL  
SCHEDULE OF SURETY BONDS  
SEPTEMBER 30, 2006**

<u>SURETY BONDS</u>	<u>COVERAGE</u>
Mayor (Blanket Bond)	\$100,000
Chief Administrator	100,000
Council Members	50,000
Chief of Police	500,000
City Clerk/Financial Director	50,000
Deputy City Clerk	50,000
Clerks and Bookkeepers including Water Dept.	30,000
- Notary Bonds (Blanket Bond)	25,000