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CITY OF MADISON, MISSISSIPPI

AUDIT REPORT

September 30, 2006

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COLLINS & CORBIN, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Honorable Mayor and Board of Aldermen
City of Madison, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Madison, 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 August 22, 2007, on our consideration of the City of Madison, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison, Mississippi's basic financial statements. The accompanying supplemental information listed in the table of contents, including the schedule of expenditures of federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Madison, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Collins & Cobbin, Ltd.

August 22, 2007

CITY OF MADISON, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

As management of the City of Madison, Mississippi (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at September 30, 2006 by \$16,386,226 (net assets). Of this amount, \$2,564,000 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased \$3,999,166, or 32%, during the 2006 fiscal year. This increase is primarily due to capital grants and contributions of infrastructure recorded during the year.
- At September 30, 2006, the City's governmental funds reported total fund balance of \$6,581,247. Of this amount, \$1,746,793 (unreserved fund balance) may be used to meet the general government's spending requirements. The unreserved fund balance represents 13% of total General Fund expenditures.
- The City's total debt decreased a net amount of \$259,144 during the 2006 fiscal year. New debt totaling \$1,766,378 was used to finance infrastructure construction projects and acquire other capital assets. Debt payments of \$2,025,522 were made during the fiscal year.

OVERVIEW OF THE 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 are comprised of 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 to provide greater detail of data presented in the basic financial statements.

CITY OF MADISON, MISSISSIPPI
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended September 30, 2006

The major features of the City's financial statements, including the portion of the City government they cover, and the types of information presented are discussed below.

Major Features of the City of Madison's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as general government, police, fire and parks	Activities the City operates similar to private businesses; the water and sewer systems and airport
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Assets *Statement of Revenues, Expenses and Changes in Fund Net Assets *Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements. The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of 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.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

The statement of activities presents information showing how the government's net assets changed during the year ended September 30, 2006. 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 periods (e.g., uncollected taxes and earned but unused vacation leave).

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development and debt service. The business-type activities of the City include water and sewer operations and the airport.

The government-wide financial statements can be found on pages 20-21 of this report.

Fund Financial Statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 government's near-term 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.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the 2003/2004 G.O. Bonds Fund and the General Obligation Debt Service Fund, which are considered to be major funds. Data from the other fourteen governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the approved budget at pages 53-54.

The basic governmental fund financial statements are presented at pages 22-25.

Proprietary Funds. Enterprise funds, the only type of proprietary funds maintained by the City, are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses three enterprise funds to account for its water and sewer operations and the airport.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund, the East Madison Service Area Fund (sewer) and the Airport Fund. Of these funds, only the Water and Sewer Fund meets the criteria to be considered a major fund, thus the East Madison Service Area Fund and Airport fund have been combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements are presented at pages 26-28.

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 30-51 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding budget performance on pages 53-54.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$16,386,226 at September 30, 2006 as shown below.

**Condensed Statement of Net Assets
As of September 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 7,449,199	\$ 8,566,063	\$ 1,941,708	\$ 2,052,306	\$ 9,390,907	\$10,618,369
Capital assets, net of accumulated depreciation	27,531,241	24,119,275	13,965,476	13,235,945	41,496,717	37,355,220
Other noncurrent assets	<u>410,189</u>	<u>417,452</u>	<u>491,670</u>	<u>465,479</u>	<u>901,859</u>	<u>882,931</u>
Total assets	<u>35,390,629</u>	<u>33,102,790</u>	<u>16,398,854</u>	<u>15,753,730</u>	<u>51,789,483</u>	<u>48,856,520</u>
Current liabilities	2,363,068	2,874,620	890,091	993,958	3,253,159	3,868,578
Noncurrent liabilities	<u>22,116,507</u>	<u>23,042,268</u>	<u>10,033,591</u>	<u>9,558,614</u>	<u>32,150,098</u>	<u>32,600,882</u>
Total liabilities	<u>24,479,575</u>	<u>25,916,888</u>	<u>10,923,682</u>	<u>10,552,572</u>	<u>35,403,257</u>	<u>36,469,460</u>
Net assets:						
Invested in capital assets, net of related debt	8,258,741	4,628,378	4,332,767	4,309,401	12,591,508	8,937,779
Restricted	1,086,136	1,277,745	144,582	139,550	1,230,718	1,417,295
Unrestricted	<u>1,566,177</u>	<u>1,279,779</u>	<u>997,823</u>	<u>752,207</u>	<u>2,564,000</u>	<u>2,031,986</u>
Total net assets	<u>\$10,911,054</u>	<u>\$ 7,185,902</u>	<u>\$ 5,475,172</u>	<u>\$ 5,201,158</u>	<u>\$16,386,226</u>	<u>\$12,387,060</u>

Capital assets (e.g., land, buildings, furniture, equipment, infrastructure and improvements) account for 80% of total assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The City's investment in capital assets, less any related outstanding debt used to acquire those assets, constitutes 77% of total net assets.

Net assets include resources that are subject to external restrictions on how they may be used. These restricted net assets represent 8% of total net assets. The remaining unrestricted net assets of \$2,564,000 (15%) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

The City's total net assets increased \$3,999,166 during fiscal year 2006 as summarized below.

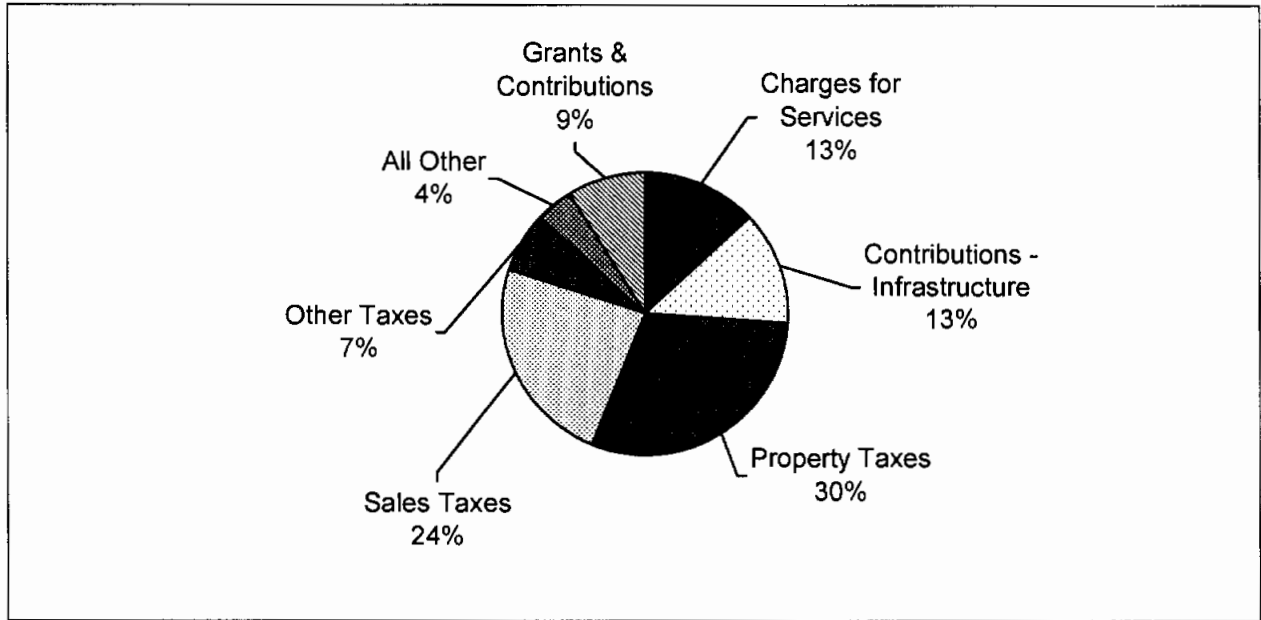
**Condensed Statement of Changes in Net Assets
For the Years Ended September 30, 2006 and 2005**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues and transfers:						
Program revenues:						
Charges for services	\$ 2,153,022	\$ 2,391,693	\$ 3,221,722	\$ 2,925,096	\$ 5,374,744	\$ 5,316,789
Grants and contributions	1,491,921	876,227	524,183	275,990	2,016,104	1,152,217
General revenues:						
Property taxes	4,991,635	4,490,439	-	-	4,991,635	4,490,439
Road and bridge privilege taxes	368,887	310,382	-	-	368,887	310,382
Sales taxes	4,030,619	3,369,342	-	-	4,030,619	3,369,342
Franchise taxes	743,858	576,315	-	-	743,858	576,315
Grants not restricted to specific programs	-	143,000	-	-	-	143,000
Contributions - infrastructure	2,210,400	979,500	-	-	2,210,400	979,500
Other revenues	613,424	593,771	136,408	55,629	749,832	649,400
Transfers in/(out)	<u>200,000</u>	<u>200,000</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>
Total	<u>16,803,766</u>	<u>13,930,669</u>	<u>3,682,313</u>	<u>3,056,715</u>	<u>20,486,079</u>	<u>16,987,384</u>
Expenses:						
General government	2,587,698	2,360,732	-	-	2,587,698	2,360,732
Public safety	5,440,279	5,501,737	-	-	5,440,279	5,501,737
Public works	2,581,349	2,279,113	-	-	2,581,349	2,279,113
Culture and recreation	1,315,394	1,122,066	-	-	1,315,394	1,122,066
Economic development	159,252	140,879	-	-	159,252	140,879
Water and sewer	-	-	3,057,074	2,627,501	3,057,074	2,627,501
East Madison Service Area (sewer)	-	-	157,760	163,046	157,760	163,046
Airport	-	-	193,465	164,193	193,465	164,193
Interest on long-term debt	<u>994,642</u>	<u>1,060,409</u>	<u>-</u>	<u>-</u>	<u>994,642</u>	<u>1,060,409</u>
Total	<u>13,078,614</u>	<u>12,464,936</u>	<u>3,408,299</u>	<u>2,954,740</u>	<u>16,486,913</u>	<u>15,419,676</u>
Increase in net assets	3,725,152	1,465,733	274,014	101,975	3,999,166	1,567,708
Net assets - beginning of year	<u>7,185,902</u>	<u>5,720,169</u>	<u>5,201,158</u>	<u>5,099,183</u>	<u>12,387,060</u>	<u>10,819,352</u>
Net assets - end of year	<u>\$10,911,054</u>	<u>\$ 7,185,902</u>	<u>\$ 5,475,172</u>	<u>\$ 5,201,158</u>	<u>\$16,386,226</u>	<u>\$12,387,060</u>

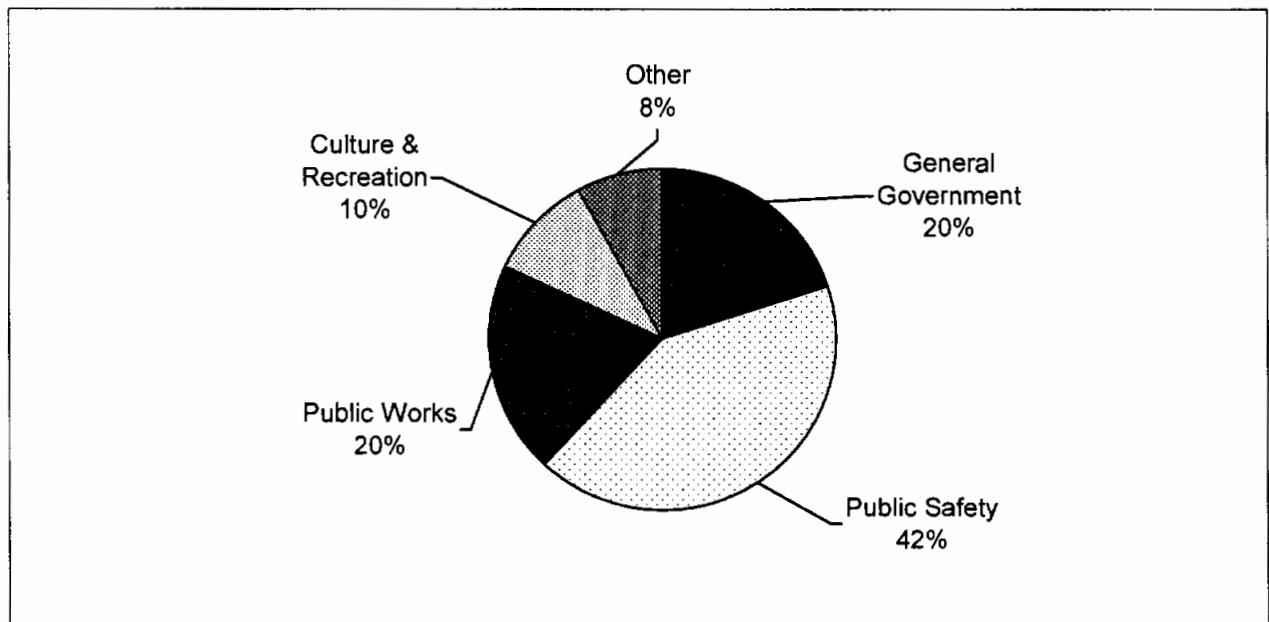
Governmental activities. Governmental activities increased the City's net assets by \$3,725,152, which included contributions of infrastructure recorded during the year of \$2,210,400. Property tax revenues increased to \$4,991,635, which is \$501,196 greater than fiscal year 2005. This increase is attributed to continued residential and commercial growth within the City. The tax rate was 29.8 mills in 2006 and 2005. Sales tax revenues increased to \$4,030,619, a 20% increase over the prior year. This increase is the result of substantial commercial development in the City.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

Revenues and Transfers by Source - Governmental Activities for Fiscal Year 2006



Expenses by Functions/Programs - Governmental Activities for Fiscal Year 2006



CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

Business-type activities. Business-type activities increased the City's net assets by \$274,014. The business-type activities include the Water and Sewer Fund, East Madison Service Area Fund (sewer) and the Airport Fund. Net assets of the Water and Sewer Fund decreased by \$345,181 for the year after expensing depreciation of \$477,194. Total nonmajor funds (East Madison Service Area and Airport) increased by \$619,195, including capital contributions from federal grants of \$501,083.

Component Unit

Madison Square Redevelopment Authority (the Authority) is the sole component unit of the City for accounting purposes. The Authority was established as the urban renewal agency of the City to exercise the urban renewal project powers as defined in Section 43-35-1, Mississippi Code of 1972, as amended. The Authority is governed by a five member board of commissioners appointed by the City. The initial project undertaken by the Authority is the acquisition and redevelopment of the Madison Station School property.

The Authority had assets of \$6,009,129, liabilities of \$4,070,219 and net assets of \$1,938,910 at September 30, 2006. Revenues for 2006 were \$825 and expenses totaled \$231,433 which produced a decrease in net assets of \$230,608.

This component unit operates as a special-purpose entity that engages in only business-type activities and is presented as a discretely-presented component unit in the government-wide statements. Additional information on this entity is provided in the separately issued financial statements of the component unit, which can be obtained through the contact information at the end of this discussion and analysis.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

Financial Analysis of the Government's Funds

The City's governmental funds reported combined ending fund balances of \$6,581,247 as of September 30, 2006 as set forth below.

**Condensed Balance Sheet - Governmental Funds
As of September 30, 2006**

	General Fund	2003/2004 G.O. Bonds	General Obligation Debt Service	Other Governmental Funds	Total Governmental Funds
Assets	\$ 2,094,169	\$ 3,738,959	\$ 319,634	\$ 1,386,007	\$ 7,538,769
Liabilities	<u>347,376</u>	<u>158,944</u>	<u>-</u>	<u>451,202</u>	<u>957,522</u>
Fund Balances	<u>\$ 1,746,793</u>	<u>\$ 3,580,015</u>	<u>\$ 319,634</u>	<u>\$ 934,805</u>	<u>\$ 6,581,247</u>

The combined ending fund balance for the governmental funds of \$6,581,247, represents a decrease of \$538,906 from the prior year. This decrease is due to infrastructure construction projects and the acquisition of other capital assets from prior year fund balances reserved for public improvements. As of September 30, 2006, funds totaling \$4,461,330 remain reserved for public improvements.

The General Fund is the chief operating fund of the City. At September 30, 2006, the total fund balance of the General Fund was \$1,746,793. The General Fund revenues totaled \$12,021,231 for 2006, an increase of \$1,317,662 over the prior year. This increase is due primarily to additional property tax revenue of \$354,452, additional sales tax revenue of \$661,277 and additional franchise tax revenue of \$167,543. The General Fund expenditures increased to \$13,133,644 and other financing sources totaled \$659,396. This produced a net decrease in fund balance of \$453,017 for 2006.

During the year ended September 30, 2005, the City entered into a capital lease agreement to finance the acquisition and installation of police communication equipment. As of September 30, 2005, lease proceeds totaling \$948,000 had not been expended on the project and were included in the general fund balance. The project was completed during the year ended September 30, 2006.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At September 30, 2006 the proprietary funds had unrestricted net assets of \$997,823. The Water and Sewer fund's unrestricted net assets totaled \$488,402, with the non-major funds comprising the remaining \$509,421. These funds are supported by user fees.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

General Fund Budgetary Highlights

The General Fund original budget was amended during fiscal year 2006 to adjust revenues to final estimated amounts. Resources were also allocated to other expenditure categories as determined by management during the budget revision process.

General Fund revenues for 2006 were under the budgeted amount by \$661,951, a 5.2% unfavorable difference, and expenditures were under the budgeted amount by \$949,485, a 6.9% favorable difference. These differences were due primarily to budgeted grant activity which was not completed during the year ended September 30, 2006. The net result of the differences is a favorable variance in the current year budget of \$287,534.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2006 amounts to \$41,496,717, net of accumulated depreciation of \$14,181,835. This investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, machinery, equipment, and construction in progress.

**Condensed Statement of Capital Assets
As of September 30, 2006 and 2005**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Capital assets, not being depreciated:						
Land	\$ 4,783,388	\$ 4,783,388	\$ 1,055,250	\$ 1,055,250	\$ 5,838,638	\$ 5,838,638
Construction in progress	904,216	749,776	691,668	55,557	1,595,884	805,333
Total capital assets, not being depreciated	<u>5,687,604</u>	<u>5,533,164</u>	<u>1,746,918</u>	<u>1,110,807</u>	<u>7,434,522</u>	<u>6,643,971</u>
Capital assets, net of depreciation:						
Buildings	5,166,670	5,404,296	1,931,548	1,999,520	7,098,218	7,403,816
Improvements other than buildings	5,097,542	4,856,293	-	-	5,097,542	4,856,293
Infrastructure	8,546,411	6,554,610	9,811,375	9,844,795	18,357,786	16,399,405
Machinery and equipment	<u>3,033,014</u>	<u>1,770,912</u>	<u>475,635</u>	<u>280,823</u>	<u>3,508,649</u>	<u>2,051,735</u>
Total capital assets, net of depreciation	<u>21,843,637</u>	<u>18,586,111</u>	<u>12,218,558</u>	<u>12,125,138</u>	<u>34,062,195</u>	<u>30,711,249</u>
Total capital assets	<u>\$27,531,241</u>	<u>\$24,119,275</u>	<u>\$13,965,476</u>	<u>\$13,235,945</u>	<u>\$41,496,717</u>	<u>\$37,355,220</u>

Additional information on the City's capital assets can be found in Note 3C of this report.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

Long-term debt. The City had total outstanding debt of \$34,045,598 at September 30, 2006 which consisted of the following:

**Condensed Statement of Outstanding Debt
As of September 30, 2006 and 2005**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Bonds and notes payable:						
General obligation bonds	\$18,555,000	\$19,330,000	-	-	\$18,555,000	\$19,330,000
Special assessment bonds	305,000	405,000	-	-	305,000	405,000
Tax increment financing bonds	1,090,000	1,200,000	-	-	1,090,000	1,200,000
Revenue bonds	-	-	\$ 532,876	\$ 631,078	532,876	631,078
Special obligation bonds	-	-	3,500,000	3,500,000	3,500,000	3,500,000
Total bonds and notes payable	<u>19,950,000</u>	<u>20,935,000</u>	<u>4,032,876</u>	<u>4,131,078</u>	<u>23,982,876</u>	<u>25,066,078</u>
Other liabilities:						
Capital leases	2,353,421	2,454,474	119,840	87,935	2,473,261	2,542,409
Loans payable	1,127,586	1,062,109	6,046,626	5,414,731	7,174,212	6,476,840
Compensated absences	395,626	199,792	19,623	19,623	415,249	219,415
Total other liabilities	<u>3,876,633</u>	<u>3,716,375</u>	<u>6,186,089</u>	<u>5,522,289</u>	<u>10,062,722</u>	<u>9,238,664</u>
Total outstanding debt	<u>\$23,826,633</u>	<u>\$24,651,375</u>	<u>\$10,218,965</u>	<u>\$ 9,653,367</u>	<u>\$34,045,598</u>	<u>\$34,304,742</u>

The City had total bonded debt outstanding of \$23,982,876 at September 30, 2006. Of this amount, \$18,555,000 comprises debt backed by the full faith and credit of the government and \$5,427,876 represents bonds secured by specified revenue sources.

The City has entered into lease agreements as lessee for financing the acquisition of various equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Capital lease obligations totaling \$2,473,261 are recorded as other liabilities at September 30, 2006.

The City has received several loans to finance various projects including infrastructure, fire stations and water/sewer improvements. Loans outstanding totaled \$7,174,212 at September 30, 2006.

CITY OF MADISON, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2006

The City's total debt decreased a net amount of \$259,144 during the 2006 fiscal year. New debt totaling \$1,766,378 was used to finance infrastructure construction projects and acquire other capital assets. Debt payments of \$2,025,522 were made during the fiscal year.

Additional information on the City's long-term debt can be found in Note 3F of this report.

Economic Factors and 2007 Budget Information

The 2007 General Fund budget anticipates that revenues will total \$13,453,868, a 4% increase over the 2006 revised budget. Total 2007 expenditures are budgeted at \$13,452,150, a 2% decrease from the prior year revised budget.

Management anticipates that property tax revenues and sales tax revenues will continue to increase in 2007 from residential and commercial growth within the City. The City's property tax rate for fiscal year 2007 has been set at 28.8 mills per thousand dollars of assessed value (\$.0288 per assessed dollar) the same as 2006.

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report may be addressed to the Department of Finance, City of Madison, 1004 Madison Avenue, P.O. Box 40, Madison, MS 39130.

CITY OF MADISON, MISSISSIPPI

BASIC FINANCIAL STATEMENTS

CITY OF MADISON, MISSISSIPPI
STATEMENT OF NET ASSETS
September 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,177,707	\$ 1,589,083	\$ 3,766,790	\$ 245,475
Receivables, net	1,611,684	339,046	1,950,730	-
Internal balances	30,781	(30,781)	-	-
Restricted cash and cash equivalents	3,506,141	-	3,506,141	-
Other current assets	122,886	44,360	167,246	-
Total current assets	<u>7,449,199</u>	<u>1,941,708</u>	<u>9,390,907</u>	<u>245,475</u>
Noncurrent assets:				
Restricted cash and cash equivalents	-	344,848	344,848	-
Capital assets, not being depreciated	5,687,604	1,746,918	7,434,522	3,500,000
Capital assets, being depreciated, net	21,843,637	12,218,558	34,062,195	2,257,889
Debt issuance costs, net	410,189	146,822	557,011	5,765
Total noncurrent assets	<u>27,941,430</u>	<u>14,457,146</u>	<u>42,398,576</u>	<u>5,763,654</u>
Total assets	<u>35,390,629</u>	<u>16,398,854</u>	<u>51,789,483</u>	<u>6,009,129</u>
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	515,666	301,474	817,140	12,203
Accrued interest payable	137,276	95,510	232,786	8,016
Current portion of long-term liabilities	1,710,126	493,107	2,203,233	4,050,000
Total current liabilities	<u>2,363,068</u>	<u>890,091</u>	<u>3,253,159</u>	<u>4,070,219</u>
Noncurrent liabilities:				
Long-term liabilities	22,116,507	9,725,858	31,842,365	-
Customer meter deposits payable	-	307,733	307,733	-
Total noncurrent liabilities	<u>22,116,507</u>	<u>10,033,591</u>	<u>32,150,098</u>	<u>-</u>
Total liabilities	<u>24,479,575</u>	<u>10,923,682</u>	<u>35,403,257</u>	<u>4,070,219</u>
NET ASSETS				
Invested in capital assets, net of related debt	8,258,741	4,332,767	12,591,508	1,707,889
Restricted for:				
Debt service	354,780	144,582	499,362	-
Public improvements	713,012	-	713,012	-
Unemployment benefits	18,344	-	18,344	-
Unrestricted	1,566,177	997,823	2,564,000	231,021
Total net assets	<u>\$10,911,054</u>	<u>\$ 5,475,172</u>	<u>\$16,386,226</u>	<u>\$ 1,938,910</u>

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

CITY OF MADISON, MISSISSIPPI
STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 2,587,698	\$ 481,599	-	-	\$ (2,106,099)	-	\$ (2,106,099)
Public safety	5,440,279	475,038	\$ 163,830	\$ 673,969	(4,127,442)	-	(4,127,442)
Public works	2,581,349	964,570	-	350,000	(1,266,779)	-	(1,266,779)
Culture and recreation	1,315,394	231,815	-	304,122	(779,457)	-	(779,457)
Economic development	159,252	-	-	-	(159,252)	-	(159,252)
Interest and fiscal charges	994,642	-	-	-	(994,642)	-	(994,642)
Total governmental activities	13,078,614	2,153,022	163,830	1,328,091	(9,433,671)	-	(9,433,671)
Business-type activities:							
Water and sewer	3,057,074	2,808,682	-	23,100	-	\$ (225,292)	(225,292)
East Madison service area	157,760	303,034	-	-	145,274	-	145,274
Airport	193,465	110,006	-	501,083	417,624	-	417,624
Total business-type activities	3,408,299	3,221,722	-	524,183	337,606	-	337,606
Total primary government	\$16,486,913	\$5,374,744	\$ 163,830	\$1,852,274	(9,433,671)	337,606	(9,096,065)
Component unit:							
Madison Square Redevelopment Authority	\$ 231,433	-	-	-	-	-	\$ (231,433)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					3,500,958	-	3,500,958
Property taxes, levied for debt purposes					1,490,677	-	1,490,677
Road and bridge privilege taxes					368,887	-	368,887
Sales taxes					4,030,619	-	4,030,619
Franchise taxes					743,858	-	743,858
Payments in lieu of taxes					174,415	-	174,415
Contributions - infrastructure					2,210,400	-	2,210,400
Unrestricted investment income					130,768	28,303	159,071
Unrestricted rental income					161,019	-	161,019
Miscellaneous					147,222	108,105	255,327
Transfers					200,000	(200,000)	-
Total general revenues and transfers					13,158,823	(63,592)	13,095,231
Change in net assets					3,725,152	274,014	3,999,166
Net assets, beginning of year					7,185,902	5,201,158	12,387,060
Net assets, end of year					\$10,911,054	\$5,475,172	\$16,386,226

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

CITY OF MADISON, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2006

	General	2003/2004 G.O. Bonds	General Obligation Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,288,493	-	\$ 112,712	\$ 776,502	\$ 2,177,707
Receivables, net	805,676	\$ 560,879	15,729	229,400	1,611,684
Due from other funds	-	52,044	191,193	-	243,237
Restricted cash and cash equivalents	-	3,126,036	-	380,105	3,506,141
Total assets	\$ 2,094,169	\$ 3,738,959	\$ 319,634	\$ 1,386,007	\$ 7,538,769
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 316,503	\$ 98,944	-	-	\$ 415,447
Accrued expenses	30,219	60,000	-	-	90,219
Due to other funds	654	-	-	\$ 211,802	212,456
Matured bonds payable	-	-	-	10,000	10,000
Deferred revenue	-	-	-	229,400	229,400
Total liabilities	347,376	158,944	-	451,202	957,522
Fund balance:					
Reserved for:					
Debt service	-	-	\$ 319,634	35,146	354,780
Public improvements	-	3,580,015	-	881,315	4,461,330
Unemployment benefits	-	-	-	18,344	18,344
Unreserved	1,746,793	-	-	-	1,746,793
Total fund balance	1,746,793	3,580,015	319,634	934,805	6,581,247
Total liabilities and fund balance	\$ 2,094,169	\$ 3,738,959	\$ 319,634	\$ 1,386,007	\$ 7,538,769

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

CITY OF MADISON, MISSISSIPPI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
September 30, 2006

Total fund balance - governmental funds	\$	6,581,247
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		27,531,241
Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in the statement of net assets.		122,886
Receivables that will be collected after year-end but are not available soon enough to pay for the current period's expenditures are deferred in the funds.		229,400
Governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		410,189
Liabilities not due and payable in the current period are not reported in the funds:		
Long-term liabilities		(23,826,633)
Accrued interest on debt		(137,276)
		(24,963,909)
Net assets of governmental activities	\$	10,911,054

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

CITY OF MADISON, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended September 30, 2006

	General	2003/2004 G.O. Bonds	General Obligation Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 3,500,958	-	\$ 1,490,677	-	\$ 4,991,635
Payments in lieu of taxes	174,415	-	-	-	174,415
Special assessments	-	-	-	\$ 112,589	112,589
Licenses and permits	466,831	-	-	-	466,831
Intergovernmental	5,401,327	\$ 560,879	-	19,771	5,981,977
Charges for services	1,032,765	-	-	-	1,032,765
Impact fees	-	-	-	176,304	176,304
Fines and forfeitures	298,734	-	-	-	298,734
Franchise fees	743,858	-	-	-	743,858
Investment earnings	43,152	33,084	16,749	37,783	130,768
Miscellaneous	359,191	-	-	-	359,191
Total revenues	12,021,231	593,963	1,507,426	346,447	14,469,067
EXPENDITURES					
Current:					
General government	2,458,454	-	-	165,308	2,623,762
Public safety	6,262,455	-	-	-	6,262,455
Public works	2,251,998	112,379	-	217,440	2,581,817
Culture and recreation	1,218,814	212,174	-	19,771	1,450,759
Economic development	170,911	-	-	-	170,911
Debt service:					
Principal	621,544	-	710,887	272,149	1,604,580
Interest and other charges	149,468	-	859,842	65,883	1,075,193
Other	-	-	-	22,500	22,500
Total expenditures	13,133,644	324,553	1,570,729	763,051	15,791,977
Excess (deficiency) of revenues over expenditures	(1,112,413)	269,410	(63,303)	(416,604)	(1,322,910)
OTHER FINANCING SOURCES (USES)					
Proceeds of loans	-	-	-	119,608	119,608
Lease purchase proceeds	464,396	-	-	-	464,396
Transfers in	200,000	-	-	36,306	236,306
Transfers out	(5,000)	-	(31,306)	-	(36,306)
Total other financing sources and (uses)	659,396	-	(31,306)	155,914	784,004
Net change in fund balances	(453,017)	269,410	(94,609)	(260,690)	(538,906)
Fund balances, beginning of year	2,199,810	3,310,605	414,243	1,195,495	7,120,153
Fund balances, end of year	\$ 1,746,793	\$ 3,580,015	\$ 319,634	\$ 934,805	\$ 6,581,247

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

CITY OF MADISON, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

Net change in fund balances - total governmental funds \$ (538,906)

Amounts reported for governmental activities in the statement of activities are different because:

Contributions of infrastructure in the statement of activities do not provide current financial resources and are not reported as revenues in the funds. 2,210,400

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays (\$2,585,250) exceeded depreciation (\$1,372,849) in the current period, less current year disposals (\$10,835). 1,201,566

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year-end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. The City's accounting records indicate that this is the amount of revenue collected during the current year that had been deferred in a prior year because of the availability criterion under the modified accrual basis of accounting. (75,700)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayment (\$1,604,580) exceeded debt proceeds (\$584,004). 1,020,576

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues.

Decrease in accrued interest on debt 110,313
Increase in compensated absences payable (195,834)

Governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. (7,263)

Change in net assets of governmental activities \$ 3,725,152

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

CITY OF MADISON, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2006

ASSETS	Enterprise Funds		Total
	Water and Sewer	Other Enterprise Funds	
Current assets:			
Cash and cash equivalents	\$ 1,136,197	\$ 452,886	\$ 1,589,083
Receivables, net	288,412	50,634	339,046
Due from other funds	160,412	-	160,412
Other	34,608	9,752	44,360
Total current assets	<u>1,619,629</u>	<u>513,272</u>	<u>2,132,901</u>
Noncurrent assets:			
Restricted cash and cash equivalents	236,860	107,988	344,848
Deferred charges - bond issuance costs, net	146,822	-	146,822
Capital assets, net	12,454,340	1,511,136	13,965,476
Total noncurrent assets	<u>12,838,022</u>	<u>1,619,124</u>	<u>14,457,146</u>
Total assets	<u>14,457,651</u>	<u>2,132,396</u>	<u>16,590,047</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other current liabilities	290,967	10,507	301,474
Accrued interest payable	95,510	-	95,510
Due to other funds	191,193	-	191,193
Current portion of long-term liabilities	468,572	24,535	493,107
Total current liabilities	<u>1,046,242</u>	<u>35,042</u>	<u>1,081,284</u>
Noncurrent liabilities:			
Long-term liabilities	9,442,340	283,518	9,725,858
Customer meter deposits payable	307,733	-	307,733
Total noncurrent liabilities	<u>9,750,073</u>	<u>283,518</u>	<u>10,033,591</u>
Total liabilities	<u>10,796,315</u>	<u>318,560</u>	<u>11,114,875</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,129,684	1,203,083	4,332,767
Restricted for debt service	43,250	101,332	144,582
Unrestricted	488,402	509,421	997,823
Total net assets	<u>\$ 3,661,336</u>	<u>\$ 1,813,836</u>	<u>\$ 5,475,172</u>

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

CITY OF MADISON, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended September 30, 2006

	Enterprise Funds		Total
	Water and Sewer	Other Enterprise Funds	
OPERATING REVENUES			
Charges for services	\$ 2,568,114	\$ 303,034	\$ 2,871,148
Tap and inspection fees	224,349	-	224,349
Lease revenue	-	110,006	110,006
Sewer assessment fees	16,219	-	16,219
Miscellaneous	65,941	42,164	108,105
Total operating revenues	2,874,623	455,204	3,329,827
OPERATING EXPENSES			
Personal services	680,639	72,000	752,639
Supplies	278,807	-	278,807
Other services and charges	623,421	123,808	747,229
Metro sewer charge	548,260	-	548,260
Depreciation	477,194	138,846	616,040
Total operating expenses	2,608,321	334,654	2,942,975
Operating income	266,302	120,550	386,852
NONOPERATING REVENUES (EXPENSES)			
Interest	14,170	14,133	28,303
Interest expense	(448,753)	(16,571)	(465,324)
Total nonoperating revenues (expenses)	(434,583)	(2,438)	(437,021)
Income (loss) before contributions and transfers	(168,281)	118,112	(50,169)
Capital contributions	23,100	501,083	524,183
Transfers out	(200,000)	-	(200,000)
Change in net assets	(345,181)	619,195	274,014
Total net assets, beginning of year	4,006,517	1,194,641	5,201,158
Total net assets, ending of year	\$ 3,661,336	\$ 1,813,836	\$ 5,475,172

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

CITY OF MADISON, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2006

	Enterprise Funds		
	Water and Sewer	Other Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,864,091	\$ 429,808	\$ 3,293,899
Payments to suppliers	(1,639,777)	(129,008)	(1,768,785)
Payments to employees	(680,639)	(72,000)	(752,639)
Net cash provided by operating activities	<u>543,675</u>	<u>228,800</u>	<u>772,475</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating subsidies and transfers to other funds	(200,000)	-	(200,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital contributions from federal grants	-	501,083	501,083
Capital contributions from customers	23,100	-	23,100
Purchases of capital assets	(734,592)	(610,979)	(1,345,571)
Proceeds from sale of capital assets	40,941	38,593	79,534
Proceeds of loans payable	920,905	-	920,905
Principal paid on revenue bonds payable	(74,835)	(23,367)	(98,202)
Principal paid on other loans payable	(289,010)	-	(289,010)
Interest paid on long-term debt	(442,162)	(16,570)	(458,732)
Payment of bond issuance costs	(30,000)	-	(30,000)
Capital lease proceeds	65,635	-	65,635
Payments on capital lease obligations	(33,730)	-	(33,730)
Net interfund loan activity	60,510	(12,500)	48,010
Net cash used by capital and related financing activities	<u>(493,238)</u>	<u>(123,740)</u>	<u>(616,978)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest revenue	14,170	14,133	28,303
Net cash provided by investing activities	<u>14,170</u>	<u>14,133</u>	<u>28,303</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(135,393)	119,193	(16,200)
Balances, beginning of year	1,508,450	441,681	1,950,131
Balances, end of year	<u>\$ 1,373,057</u>	<u>\$ 560,874</u>	<u>\$ 1,933,931</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 266,302	\$ 120,550	\$ 386,852
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	477,194	138,846	616,040
Gain on sale of capital assets	(40,941)	(38,593)	(79,534)
Change in assets and liabilities:			
Receivables, net	30,409	13,197	43,606
Accounts payable and accrued expenses	(189,289)	(5,200)	(194,489)
Net cash provided by operating activities	<u>\$ 543,675</u>	<u>\$ 228,800</u>	<u>\$ 772,475</u>

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

CITY OF MADISON, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

CITY OF MADISON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

1. Summary of Significant Accounting Policies.

A. Reporting Entity.

The City of Madison, Mississippi, was incorporated November 30, 1944, under the provisions of Title 16, Mississippi State Code of 1942. The City operates under a Mayor - Aldermen form of government and provides services as authorized by its charter: public safety (police and fire), streets, culture and recreation, public improvements, planning and zoning and general administrative services.

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 accounting principles generally accepted in the United States of America. Based upon the application of these criteria, the financial statements present the primary government and the discretely presented component unit described in the following paragraph for which the primary government is considered to be financially accountable.

The Madison Square Redevelopment Authority (MSRA) was established as the urban renewal agency of the City to exercise the urban renewal project powers as defined in Section 43-35-1, Mississippi Code of 1972, as amended. The Authority is governed by a five-member board of commissioners appointed by the City. The initial project undertaken by the Authority is the acquisition and redevelopment of the Madison Station School property.

There are no other potential component units.

B. Government-wide and Fund Financial Statements.

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The 2003/2004 G. O. Bonds Fund is a capital project fund that accounts for major construction projects and the funds generated to pay for those projects.

The General Obligation Debt Service fund accounts for a substantial portion of the funds generated and used to pay for the long term debts of the City.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water and sewer system. The proceeds of several bond issues and loans have been used specifically for the construction of water and sewer systems and facilities. Since it is the intention of the City to repay these bonds and loans through the operations of this fund, these obligations are classified as debt of this fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with 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 this same limitation. The City has elected not to follow subsequent private-sector guidance.

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.

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Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and 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 enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Net Assets or Fund Equity.

1. Deposits and Investments.

Cash and cash equivalents include demand deposit accounts, petty cash and certificates of deposit. As further discussed in Note 3, collateral is pledged by the various financial institutions to secure City funds.

2. Receivables and Payables.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles.

3. Restricted Assets.

Certain proceeds of the City's bonds, as well as certain resources set aside for debt repayment, are classified as restricted assets on the balance sheet and the statement of net assets because their use is limited by applicable bond covenants.

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4. *Capital Assets.*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	20
Infrastructure	20-50
Machinery and equipment	5-10

5. *Compensated Absences.*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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6. Long-term Obligations.

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

7. Fund Equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

CITY OF MADISON, MISSISSIPPI
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2. Stewardship, Compliance and Accountability.

The City follows these procedures in establishing budgetary data.

1. During July and August, the Mayor and Board of Aldermen prepare a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the City Hall to obtain taxpayer comments.
3. The budget is adopted in September and published in a local newspaper.
4. The City Clerk is not authorized to transfer budgeted amounts between departments within any fund. Any revisions that alter expenditures of any fund must be approved by the Board of Aldermen.
5. Budgets for the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds are adopted on the cash basis of accounting modified to include recognition of expenditures paid within 30 days after year end as required by the State of Mississippi. This method is not consistent with U.S. generally accepted accounting principles. Fiduciary funds are not required to be budgeted.
6. Budgeted revenues and expenditures or expenses are amended as necessary by the Board of Aldermen throughout the fiscal year.

3. Detailed Notes on All Funds.

A. Cash and Cash Equivalents.

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

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The City can invest its excess funds in accordance with state statutes in certificates of deposit with municipal depositories and obligations of the United States of America, the State of Mississippi, or any county, municipality or school district of Mississippi.

State statute allows the investment of funds received from the sale of bonds, notes, or certificates of indebtedness which are not immediately required for disbursement for the purpose issued, in direct obligations issued by or guaranteed in full by the United States of America, or in certificates of deposit with approved municipal depositories.

Primary Government:

Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. The Mississippi State Treasurer manages that risk on behalf of the City. The carrying amount of the City's deposits with financial institutions was \$7,617,779, and the bank balance was \$7,829,844. The uninsured bank balance of \$7,445,961 as of September 30, 2006 was subject to custodial credit risk through participation in the statewide collateral pool.

The following amounts of cash and other deposits are classified as restricted assets at September 30, 2006.

	Governmental Funds	Enterprise Funds
General obligation bond and loan proceeds restricted for public improvements	\$ 3,506,141	-
Restricted amounts required by revenue bond ordinances	-	\$194,848
Water department customer deposits	-	150,000
	\$ 3,506,141	\$344,848

Component Unit:

The carrying amount of MSRA's deposits with financial institutions and the bank balance were \$245,475. The uninsured bank balance of \$145,475 as of September 30, 2006 was subject to custodial credit risk through participation in the statewide collateral pool.

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B. Receivables.

Receivables at September 30, 2006 for the City's individual major funds and nonmajor funds in the aggregate consisted of the following:

Governmental activities:

	<u>General</u>	2003/2004 G.O. <u>Bonds</u>	General Obligation <u>Debt Service</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Property taxes	\$ 54,021	-	\$ 15,729	-	\$ 69,750
Sales tax	311,036	-	-	-	311,036
Customers	64,874	-	-	-	64,874
Special assessments	-	-	-	\$229,400	229,400
Grant reimbursements	279,057	\$ 560,879	-	-	839,936
Franchise tax	83,000	-	-	-	83,000
Other	<u>13,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,688</u>
Total	<u>\$ 805,676</u>	<u>\$ 560,879</u>	<u>\$ 15,729</u>	<u>\$229,400</u>	<u>\$1,611,684</u>

Business-type activities:

	<u>Water and Sewer</u>	Nonmajor Enterprise <u>Funds</u>	<u>Total</u>
Customers	<u>\$288,412</u>	<u>\$50,634</u>	<u>\$339,046</u>

Special assessments include the amounts due at September 30, 2006 for the special levies assessed against certain real property for the construction and extension of various streets in the City. These assessments are due over periods extending through the year 2010. Governmental funds recognize revenue related to the special assessment levies when the revenue is both measurable and available. The portion of the levies that is not considered to be measurable and available is reported as deferred revenue at September 30, 2006.

Property taxes are recognized as receivables when tax notices are mailed. Property taxes are billed and collected by Madison County which retains a percentage for performing this service. Property tax for the year ended September 30, 2006 was 20.15 mills per dollar of assessed valuation for general governmental service and 8.65 mills per dollar of assessed valuation for payment of principal and interest on long-term debt.

CITY OF MADISON, MISSISSIPPI
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C. Capital Assets.

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

Primary Government:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	Ending <u>Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 4,783,388	-	-	-	\$ 4,783,388
Construction in progress	<u>749,776</u>	<u>\$ 1,588,739</u>	<u>-</u>	<u>\$(1,434,299)</u>	<u>904,216</u>
Total capital assets, not being depreciated	<u>5,533,164</u>	<u>1,588,739</u>	<u>-</u>	<u>(1,434,299)</u>	<u>5,687,604</u>
Capital assets, being depreciated:					
Buildings	7,137,685	-	-	-	7,137,685
Improvements other than buildings	6,144,753	136,220	-	344,299	6,625,272
Infrastructure	6,906,361	2,327,901	-	-	9,234,262
Machinery and equipment	<u>4,226,494</u>	<u>742,790</u>	<u>\$ (99,969)</u>	<u>1,090,000</u>	<u>5,959,315</u>
Total capital assets, being depreciated	<u>24,415,293</u>	<u>3,206,911</u>	<u>(99,969)</u>	<u>1,434,299</u>	<u>28,956,534</u>
Less accumulated depreciation for:					
Buildings	(1,733,389)	(237,626)	-	-	(1,971,015)
Improvements other than buildings	(1,288,460)	(239,270)	-	-	(1,527,730)
Infrastructure	(351,751)	(336,100)	-	-	(687,851)
Machinery and equipment	<u>(2,455,582)</u>	<u>(559,853)</u>	<u>89,134</u>	<u>-</u>	<u>(2,926,301)</u>
Total accumulated depreciation	<u>(5,829,182)</u>	<u>(1,372,849)</u>	<u>89,134</u>	<u>-</u>	<u>(7,112,897)</u>
Total capital assets, being depreciated, net	<u>18,586,111</u>	<u>1,834,062</u>	<u>(10,835)</u>	<u>1,434,299</u>	<u>21,843,637</u>
Governmental activities capital assets, net	<u>\$24,119,275</u>	<u>\$ 3,422,801</u>	<u>\$ (10,835)</u>	<u>\$ -</u>	<u>\$27,531,241</u>

CITY OF MADISON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
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	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	Ending <u>Balance</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 1,055,250	-	-	-	\$ 1,055,250
Construction in progress	<u>55,557</u>	<u>\$ 683,244</u>	<u>-</u>	<u>\$ (47,133)</u>	<u>691,668</u>
Total capital assets, not being depreciated	<u>1,110,807</u>	<u>683,244</u>	<u>-</u>	<u>(47,133)</u>	<u>1,746,918</u>
Capital assets, being depreciated:					
Buildings	2,039,148	-	-	-	2,039,148
Infrastructure	15,641,161	415,984	-	-	16,057,145
Machinery and equipment	<u>1,180,735</u>	<u>246,343</u>	<u>\$ (283,008)</u>	<u>47,133</u>	<u>1,191,203</u>
Total capital assets, being depreciated	<u>18,861,044</u>	<u>662,327</u>	<u>(283,008)</u>	<u>47,133</u>	<u>19,287,496</u>
Less accumulated depreciation for:					
Buildings	(39,628)	(67,972)	-	-	(107,600)
Infrastructure	(5,796,366)	(449,404)	-	-	(6,245,770)
Machinery and equipment	<u>(899,912)</u>	<u>(98,664)</u>	<u>283,008</u>	<u>-</u>	<u>(715,568)</u>
Total accumulated depreciation	<u>(6,735,906)</u>	<u>(616,040)</u>	<u>283,008</u>	<u>-</u>	<u>(7,068,938)</u>
Total capital assets being depreciated, net	<u>12,125,138</u>	<u>46,287</u>	<u>-</u>	<u>47,133</u>	<u>12,218,558</u>
Business-type activities capital assets, net	<u>\$13,235,945</u>	<u>\$ 889,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$13,965,476</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 139,471
Public safety	578,339
Public works	525,529
Culture and recreation	<u>129,510</u>
Total depreciation expense - governmental activities	<u>\$1,372,849</u>
Business-type activities:	
Water and sewer	\$ 477,194
East Madison service area	17,044
Airport	<u>121,802</u>
Total depreciation expense - business-type activities	<u>\$ 616,040</u>

CITY OF MADISON, MISSISSIPPI
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Construction in progress is composed of the following:

<u>Project</u>	<u>9/30/06 Balance</u>	<u>Remaining Estimated Commitment</u>
Governmental Activities:		
Grandview Blvd. project	\$ 53,573	\$ 4,000,000
Old Canton project	332,822	15,623
Park Property/Detention Lake	212,174	-
Public Services Complex renovations	159,758	561,887
Other	<u>145,889</u>	<u>-</u>
Total	<u>\$ 904,216</u>	<u>\$ 4,577,510</u>
Business-type Activities:		
Public Services Complex renovations	\$ 159,757	\$ 561,887
Airport improvement projects	<u>531,911</u>	<u>997,959</u>
Total	<u>\$ 691,668</u>	<u>\$ 1,559,846</u>

Component Unit:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 3,500,000	-	-	-	\$ 3,500,000
Total capital assets, not being depreciated	<u>3,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,500,000</u>
Capital assets, being depreciated:					
Buildings	2,460,000	-	-	-	2,460,000
Total capital assets, being depreciated	<u>2,460,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,460,000</u>
Less accumulated depreciation for:					
Buildings	<u>(120,111)</u>	<u>\$ (82,000)</u>	<u>-</u>	<u>-</u>	<u>(202,111)</u>
Total capital assets, being depreciated, net	<u>2,339,889</u>	<u>(82,000)</u>	<u>-</u>	<u>-</u>	<u>2,257,889</u>
Component unit capital assets, net	<u>\$ 5,839,889</u>	<u>\$ (82,000)</u>	<u>-</u>	<u>-</u>	<u>\$ 5,757,889</u>

CITY OF MADISON, MISSISSIPPI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

D. Interfund Receivables, Payables and Transfers.

The composition of interfund balances as of September 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
2003/2004 G.O. bonds	Other governmental funds	\$ 52,044
G. O. debt service	Water and sewer	191,193
Water and sewer	General	654
	Other governmental funds	<u>159,758</u>
Total		<u>\$ 403,649</u>

Interfund transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 200,000	\$ 5,000
General obligation debt service	-	31,306
Other governmental funds	36,306	-
Water and sewer	<u>-</u>	<u>200,000</u>
Total	<u>\$ 236,306</u>	<u>\$ 236,306</u>

E. Leases.

Operating Leases

The City has no significant operating leases.

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of various facilities and equipment in both the governmental and business-type activities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

CITY OF MADISON, MISSISSIPPI
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The assets recorded under capital leases as of September 30, 2006 were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Machinery and equipment	\$ 3,092,122	\$ 187,603
Building	225,000	-
Land	375,000	-
Less: Accumulated depreciation	<u>(913,511)</u>	<u>(50,879)</u>
Total	<u>\$ 2,778,611</u>	<u>\$ 136,724</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2006, were as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2007	\$ 750,831	\$ 56,414
2008	671,549	44,685
2009	444,843	24,797
2010	276,223	-
2011	215,007	-
2012-2014	<u>272,235</u>	<u>-</u>
Total minimum lease payments	2,630,688	125,896
Less: amount representing interest	<u>(277,267)</u>	<u>(6,056)</u>
Present value of minimum lease payments	<u>\$2,353,421</u>	<u>\$ 119,840</u>

CITY OF MADISON, MISSISSIPPI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

F. Long-term Debt.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	2.0% - 6.25%	\$ 18,555,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 800,000	\$ 740,965
2008	870,000	710,376
2009	905,000	676,601
2010	985,000	640,227
2011	1,040,000	600,278
2012	1,095,000	557,079
2013	1,070,000	514,384
2014	1,060,000	472,611
2015	1,110,000	429,224
2016	1,165,000	383,330
2017	1,225,000	334,692
2018	1,285,000	282,975
2019	915,000	228,558
2020	965,000	191,758
2021	1,005,000	152,695
2022	1,055,000	111,375
2023	1,090,000	67,956
2024	600,000	32,898
2025	315,000	6,773
Total	<u>\$18,555,000</u>	<u>\$7,134,755</u>

CITY OF MADISON, MISSISSIPPI
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Revenue Bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities	5.0% - 9.0%	\$ 532,876

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending September 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 116,100	\$ 29,219
2008	53,655	20,814
2009	55,587	18,131
2010	46,436	15,377
2011	48,758	13,055
2012	51,196	10,617
2013	52,858	8,057
2014	34,524	5,414
2015	36,250	3,688
2016	<u>37,512</u>	<u>1,876</u>
Total	<u>\$ 532,876</u>	<u>\$ 126,248</u>

Special Assessment Bonds

The City also issued special assessment debt in 1989, 1990 and 1991 to provide funds for the construction of streets. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The bonds have stated rates of interest of 6.75% - 7.78%.

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September 30, 2006

Annual debt service requirements to maturity for special assessment bonds are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 85,000	\$ 21,056
2008	95,000	14,831
2009	100,000	7,144
2010	<u>25,000</u>	<u>1,800</u>
Total	<u>\$ 305,000</u>	<u>\$ 44,831</u>

Tax Increment Limited Obligation Bonds

The City issued tax increment limited obligation bonds to provide funds for the costs of constructing certain infrastructure improvements needed for a commercial development. The City has pledged incremental increases in ad valorem and sales tax receipts from the property benefiting from the infrastructure improvements to pay debt service. As a result the bonds are not a general obligation of the City.

Annual debt service requirements to maturity for tax increment limited obligation bonds are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 115,000	\$ 41,300
2008	120,000	36,600
2009	125,000	31,700
2010	130,000	26,600
2011	140,000	21,200
2012	145,000	15,500
2013	155,000	9,500
2014	<u>160,000</u>	<u>3,200</u>
Total	<u>\$1,090,000</u>	<u>\$ 185,600</u>

CITY OF MADISON, MISSISSIPPI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

Special Obligation Bonds

Special obligation bonds were issued to provide funds to make a loan to the City, the proceeds of which loan were used for the acquisition of land and a building. Annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	-	\$ 140,318
2008	\$ 125,000	140,318
2009	135,000	134,693
2010	140,000	128,618
2011	145,000	122,317
2012-2016	845,000	521,531
2017-2021	1,060,000	348,440
2022-2025	<u>1,050,000</u>	<u>110,755</u>
Total	<u>\$3,500,000</u>	<u>\$1,646,990</u>

Loans Payable

The City has received several loans to finance various projects including infrastructure, a fire station and water and sewer improvements. Loans currently outstanding are as follows:

<u>Loan Type</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities:		
Mississippi Development Bank	Variable	\$ 1,127,586
Business-type activities:		
State Revolving Fund	4.50%	289,352
Capital Improvement (CAP)	3.00%	805,998
Mississippi Development Bank	Variable	<u>4,951,276</u>
		<u>\$ 7,174,212</u>

CITY OF MADISON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Loan debt service requirements to maturity are as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 54,135	\$ 60,529	\$ 329,444	\$ 301,334
2008	54,135	57,552	331,635	284,443
2009	54,135	54,574	333,905	267,471
2010	54,135	51,597	336,260	250,416
2011	54,135	48,619	338,702	233,274
2012-2016	270,675	198,435	1,733,405	905,965
2017-2021	270,675	123,999	1,694,310	470,510
2022-2026	270,675	49,564	948,965	96,677
2027	44,886	1,489	-	-
Total	<u>\$1,127,586</u>	<u>\$ 646,358</u>	<u>\$6,046,626</u>	<u>\$2,810,090</u>

Madison Square Redevelopment Authority (Urban Renewal Notes)

In April 2004, MSRA issued \$4,050,000 of urban renewal notes to finance the acquisition and redevelopment of the Madison Station School property. Annual debt service requirements to maturity for the urban renewal notes are as follows:

Year Ending September 30	Component Unit Activities	
	Principal	Interest
2007	<u>\$4,050,000</u>	<u>\$ 48,094</u>
Total	<u>\$4,050,000</u>	<u>\$ 48,094</u>

In March 2007, MSRA issued notes in the amount of \$4,150,000 to refund the urban renewal notes due on March 1, 2007. The refunding notes mature on March 1, 2010 and bear interest at a rate of 4.0%.

MSRA has entered into a Contribution Agreement with the City. Under the agreement the City is obligated to contribute sums sufficient to pay the interest on MSRA's urban renewal notes as they mature and become due and payable and, in addition, any related administrative fees related to those notes. However, these payments are the obligation of MSRA to the extent that MSRA has funds sufficient to meet the obligation. The City entered into a similar agreement related to the obligations issued by MSRA to refund the urban renewal notes.

CITY OF MADISON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities:</u>					
Bonds payable:					
General obligation bonds	\$19,330,000	-	\$ (775,000)	\$18,555,000	\$ 800,000
Special assessment bonds	405,000	-	(100,000)	305,000	85,000
Tax increment financing bonds	<u>1,200,000</u>	<u>-</u>	<u>(110,000)</u>	<u>1,090,000</u>	<u>115,000</u>
Total bonds payable	<u>20,935,000</u>	<u>-</u>	<u>(985,000)</u>	<u>19,950,000</u>	<u>1,000,000</u>
Other liabilities:					
Capital leases	2,454,474	\$ 464,396	(565,449)	2,353,421	655,991
Loans payable	1,062,109	119,608	(54,131)	1,127,586	54,135
Compensated absences	<u>199,792</u>	<u>195,834</u>	<u>-</u>	<u>395,626</u>	<u>-</u>
Total other liabilities	<u>3,716,375</u>	<u>779,838</u>	<u>(619,580)</u>	<u>3,876,633</u>	<u>710,126</u>
Governmental activities long-term liabilities	<u>\$24,651,375</u>	<u>\$ 779,838</u>	<u>\$(1,604,580)</u>	<u>\$23,826,633</u>	<u>\$ 1,710,126</u>
<u>Business-type activities:</u>					
Bonds payable:					
Revenue bonds	\$ 631,078	-	\$ (98,202)	\$ 532,876	\$ 116,100
Special obligation bonds	<u>3,500,000</u>	<u>-</u>	<u>-</u>	<u>3,500,000</u>	<u>-</u>
Total bonds payable	<u>4,131,078</u>	<u>-</u>	<u>(98,202)</u>	<u>4,032,876</u>	<u>116,100</u>
Other liabilities:					
Capital leases	87,935	\$ 65,635	(33,730)	119,840	47,563
Loans payable	5,414,731	920,905	(289,010)	6,046,626	329,444
Compensated absences	<u>19,623</u>	<u>-</u>	<u>-</u>	<u>19,623</u>	<u>-</u>
Total other liabilities	<u>5,522,289</u>	<u>986,540</u>	<u>(322,740)</u>	<u>6,186,089</u>	<u>377,007</u>
Business-type activities long-term liabilities	<u>\$ 9,653,367</u>	<u>\$ 986,540</u>	<u>\$(420,942)</u>	<u>\$10,218,965</u>	<u>\$ 493,107</u>
Component Unit - Madison Square Redevelopment Authority:					
Urban renewal notes	<u>\$ 4,050,000</u>	<u>-</u>	<u>-</u>	<u>\$ 4,050,000</u>	<u>\$ 4,050,000</u>

CITY OF MADISON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

4. Other Information.

A. Contingent Liabilities.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is party to various litigations and unasserted possible claims incidental to conducting City business. The ultimate outcome of these matters cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

On June 15, 2006, the Mississippi Supreme Court affirmed a 2004 state circuit court decision related to impact fees collected by Ocean Springs, Mississippi (No. 2004-CC-01278-SCT). The Court ruled that impact fees adopted by Ocean Springs constitute a tax the municipality has no authority to assess. The City of Madison has collected impact fees under its ordinances since 1986. The City discontinued collecting impact fees in June 2006 until further study of this ruling is completed.

B. Pension Plan.

Plan Description. The City 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 report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

CITY OF MADISON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 11.3% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2006, 2005 and 2004 were approximately \$540,000, \$470,000 and \$390,000, respectively, which equaled the required contributions for each year.

C. Risk Management.

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

The City is a participant in the Mississippi Municipal Workers' Compensation Group, a group self-insurer. The City has jointly and severally agreed to assume, pay and discharge any liabilities incurred under the provisions of the Mississippi Workers' Compensation Act by each and every member of the group during the respective periods of the City's membership in the group. No assessments in excess of the City's premium have been necessary to settle claims in any of the past three fiscal years.

D. Subsequent Events.

In August 2007, the City made additional draws of \$1,409,022 on loan agreements with the Mississippi Development Bank to provide funds for the purpose of financing certain capital projects and improvements. The debt bears interest at a variable rate (presently 4.94%) and will mature over the project life up to a maximum of 24 years.

The City was not required to report major infrastructure assets retroactively at the time the provisions of Governmental Accounting Standards Board Statement 34 and related pronouncements were implemented. However, all infrastructure assets except for the streets network were reported retroactively. The City is completing an inventory of streets and, a restatement of the infrastructure asset balance will be recorded resulting in a substantial increase in the City's net assets.

CITY OF MADISON, MISSISSIPPI

REQUIRED SUPPLEMENTARY INFORMATION

City of Madison, Mississippi
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,596,000	\$ 3,481,780	\$ 3,500,958	\$ 19,178
Payments in lieu of taxes	175,000	174,400	174,415	15
Licenses and permits	560,000	391,750	466,831	75,081
Fines and forfeitures	366,000	331,996	298,734	(33,262)
Franchise fees	650,000	730,000	743,858	13,858
Intergovernmental	6,142,820	6,134,622	5,486,176	(648,446)
Charges for services	1,181,000	1,119,550	1,029,832	(89,718)
Miscellaneous	387,985	401,000	402,343	1,343
Total revenues	<u>13,058,805</u>	<u>12,765,098</u>	<u>12,103,147</u>	<u>(661,951)</u>
EXPENDITURES				
General government	2,435,120	2,683,557	2,637,210	46,347
Public safety	7,116,566	7,406,770	6,453,423	953,347
Public works	2,092,549	2,127,114	2,183,668	(56,554)
Culture and recreation	1,288,839	1,216,195	1,195,139	21,056
Economic development	160,000	178,000	170,911	7,089
Debt service	158,000	158,000	179,800	(21,800)
Total expenditures	<u>13,251,074</u>	<u>13,769,636</u>	<u>12,820,151</u>	<u>949,485</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(192,269)</u>	<u>(1,004,538)</u>	<u>(717,004)</u>	<u>287,534</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	200,000	200,000	-
Transfers out	(5,000)	(5,000)	(5,000)	-
Total other financing sources (uses)	<u>195,000</u>	<u>195,000</u>	<u>195,000</u>	<u>-</u>
Net change in fund balance	2,731	(809,538)	(522,004)	287,534
Fund balance, beginning of year	<u>1,141,910</u>	<u>1,743,000</u>	<u>1,743,198</u>	<u>198</u>
Fund balance, end of year	<u>\$ 1,144,641</u>	<u>\$ 933,462</u>	<u>\$ 1,221,194</u>	<u>\$ 287,732</u>

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

CITY OF MADISON, MISSISSIPPI
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended September 30, 2006

A. Budgetary Information

Statutory requirements dictate how and when the City's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Mayor and Board of Aldermen, using historical and anticipated fiscal data and proposed budgets submitted by the various department managers for their respective department, prepare an original budget for each of the governmental funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Aldermen that budgetary estimates will not be met, it may make revisions to the budget.

The City's budget is adopted on the cash basis of accounting modified to include recognition of expenditures paid within 30 days after year end as required by the State of Mississippi. This method is not consistent with U.S. generally accepted accounting principles (GAAP).

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

A reconciliation of the financial reporting U.S. generally accepted accounting principles basis to the budgetary cash basis is presented below.

	<u>General Fund</u>
Revenues and other sources over (under) expenditures and other uses - GAAP basis	\$ (453,017)
Reconciling items:	
Receivables and deferred revenue	81,916
Accounts payable and accrued expenses	<u>(150,903)</u>
Revenues and other sources over (under) expenditures and other uses - budgetary cash basis	<u>\$ (522,004)</u>

CITY OF MADISON, MISSISSIPPI

SUPPLEMENTAL INFORMATION

CITY OF MADISON, MISSISSIPPI
 SCHEDULE RECONCILING ORIGINAL AD VALOREM TAX ROLLS
 TO FUND COLLECTIONS
 Year Ended September 30, 2006

	<u>Assessed Value</u>	<u>Tax</u>
<u>Adjusted Assessed Valuation:</u>		
City Tax:		
Realty	\$ 127,540,517	
Personal - other than auto	8,369,550	
Public utilities	4,468,438	
Personal - auto (remitted by county)	<u>43,056,287</u>	
Total City @ 28.8 mills	<u>\$ 183,434,792</u>	\$ 5,282,922
Less: Homestead exemption allowed		<u>(176,949)</u> \$ 5,105,973
Add: Actual homestead reimbursement		14,371
Penalties and interest on delinquent taxes		<u>16,782</u> 31,153
Deduct: County Tax Collector's commissions		<u>(137,001)</u>
<u>Total to be Accounted for</u>		<u>\$ 5,000,125</u>

<u>Credits:</u>	<u>Taxes</u>	<u>Homestead Reimbursement</u>	<u>Total</u>	
Collections Allocated to:				
General Fund	\$ 3,486,587	\$ 14,371	\$ 3,500,958	
Debt Service Fund	1,490,677	-	1,490,677	
Totals	<u>4,977,264</u>	<u>14,371</u>		\$ 4,991,635
Balance Represented by:				
Unpaid realty			861	
Unpaid personal			5,544	
Unaccounted for - undersettled			<u>2,085</u>	<u>8,490</u>
<u>Total Accounted for</u>				<u>\$ 5,000,125</u>

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

Name	Position	Bonding Company	Amount of Bond
Mary Hawkins Butler	Mayor	U. S. Fidelity and Guaranty Co.	\$ 100,000
Lisa Clingan-Smith	Alderman-At-Large	U. S. Fidelity and Guaranty Co.	100,000
Tawanna Tatum	Alderman-Ward 1	U. S. Fidelity and Guaranty Co.	100,000
Patricia Peeler	Alderman-Ward 2	U. S. Fidelity and Guaranty Co.	100,000
Dan Prather	Alderman-Ward 3	U. S. Fidelity and Guaranty Co.	100,000
Steve Hickok	Alderman-Ward 4	U. S. Fidelity and Guaranty Co.	100,000
Michael Hudgins	Alderman-Ward 5	U. S. Fidelity and Guaranty Co.	100,000
John Howland	Alderman-Ward 6	U. S. Fidelity and Guaranty Co.	100,000
Susan Crandall	City Clerk	U. S. Fidelity and Guaranty Co.	50,000
Sherrye LaCour	Asst. City Clerk	U. S. Fidelity and Guaranty Co.	10,000
Helen Broockmann	Deputy Clerk	U. S. Fidelity and Guaranty Co.	10,000
Angie Gelston	Deputy Clerk	U. S. Fidelity and Guaranty Co.	10,000
Mae Hardy	Deputy Clerk	U. S. Fidelity and Guaranty Co.	10,000
Arkita Manning	Deputy Clerk	U. S. Fidelity and Guaranty Co.	10,000
Lisa Winstead	Deputy Clerk	U. S. Fidelity and Guaranty Co.	10,000
Eugene Waldrop	Chief of Police	U. S. Fidelity and Guaranty Co.	50,000
Police Officers		U. S. Fidelity and Guaranty Co.	25,000
Employees Handling Cash		U. S. Fidelity and Guaranty Co.	10,000

CITY OF MADISON, MISSISSIPPI
 SCHEDULE OF LONG-TERM DEBT
 September 30, 2006

	Rates (%)	Payment Date	Issue Date	Maturity Date	Balance Outstanding 10/01/05	Transactions During Fiscal Year			Balance Outstanding 09/30/06
						Issued	Redeemed		
General Obligation Bonds:									
Refunding bonds	5.20 5.50	Oct. 1 Apr. 1	04/93	04/08	\$ 60,000	-	\$ 20,000	\$ 40,000	
Public improvement bonds	4.37 6.25	June 1 Dec. 1	06/98	06/18	3,860,000	-	205,000	3,655,000	
Public improvement bonds	3.30 4.70	Apr. 1 Oct. 1	04/03	04/23	6,285,000	-	225,000	6,060,000	
Refunding bonds	2.00 3.60	Oct. 1 Apr. 1	10/03	04/13	2,125,000	-	255,000	1,870,000	
Public improvement bonds	3.97 4.38	Oct. 1 Apr. 1	10/04	10/24	3,500,000	-	70,000	3,430,000	
Public building bond project	4.00 4.50	Jan. 1 Jul. 1	02/05	01/25	3,500,000	-	-	3,500,000	
Limited Obligation Bonds:									
Tax increment financing bonds	4.00	Apr. 1 Oct. 1	04/04	04/14	1,200,000	-	110,000	1,090,000	
					1,200,000	-	110,000	1,090,000	
Special Obligation Bonds:									
Public building bond project	3.50 4.50	Jan. 1 Jul. 1	02/05	07/25	3,500,000	-	-	3,500,000	
					3,500,000	-	-	3,500,000	
Revenue Bonds:									
Water and sewer bonds	5.00	Jan. 1	01/75	01/09	33,884	-	-	33,884	
Water and sewer bonds	5.00	Jan. 1	12/78	01/13	140,774	-	14,835	125,939	
Water and sewer bonds	9.00	July 1	07/87	07/07	125,000	-	60,000	65,000	
Sewer bonds	5.00	Aug. 13	08/81	08/16	331,420	-	23,367	308,053	
					631,078	-	98,202	532,876	

CITY OF MADISON, MISSISSIPPI
 SCHEDULE OF LONG-TERM DEBT - (Cont'd.)
 September 30, 2006

	Rates (\$)	Payment Date	Issue Date	Maturity Date	Balance Outstanding 10/01/05	Transactions		Balance Outstanding 09/30/06
						During Fiscal Year Issued	Redeemed	
Special Assessment Bonds:								
Street improvement bonds	7.13	Oct. 1 Apr. 1	10/89	10/09	270,000	-	60,000	210,000
Street improvement bonds	7.78	Oct. 1 Apr. 1	04/90	04/10	115,000	-	20,000	95,000
Street improvement bonds	6.75	Aug. 1 Feb. 1	02/91	02/06	20,000	-	20,000	-
					<u>405,000</u>	<u>-</u>	<u>100,000</u>	<u>305,000</u>
Other Loans Payable:								
State revolving fund loan	4.50	Monthly	9/98	5/18	307,831	-	18,479	289,352
Capital improvements loan	3.00	Monthly	12/98	11/21	849,893	-	43,895	805,998
Capital Projects and Equipment Acquisition Program Loan	Variable	Monthly	12/01	10/27	5,319,116	\$ 1,040,513	280,767	6,078,862
					<u>6,476,840</u>	<u>1,040,513</u>	<u>343,141</u>	<u>7,174,212</u>
					<u>\$ 31,542,918</u>	<u>\$ 1,040,513</u>	<u>\$ 1,426,343</u>	<u>\$ 31,157,088</u>

CITY OF MADISON, MISSISSIPPI
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Federal Agency/Pass-through Entity/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Entity Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>			
Passed-Through Natural Resources Conservation Service Project Development Grant	10.XXX	69-4423-6-1622	\$ 210,879
<u>U. S. Department of Housing and Urban Development</u>			
Direct Program - Community Development Block Grant - Economic Development Initiative	14.246	N/A	19,771
<u>U. S. Department of Justice</u>			
Passed-Through City of Ridgeland, Mississippi Public Safety Communications Upgrade and Center Linking	16.XXX	2005-DD-BX-1093	493,322
<u>U. S. Department of Transportation</u>			
Direct Programs:			
Airport Improvement Program	20.106	N/A	501,083
Railroad Development Grant	20.314	N/A	49,625
Total U.S. Department of Transportation			550,708
<u>U. S. Department of Homeland Security</u>			
Direct Program - Assistance to Firefighters Grant	97.044	N/A	49,950
Passed-Through Mississippi Emergency Management Agency			
Disaster Grant - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1604- DR-MS	158,830
Passed-Through Mississippi Department of Public Safety			
State Law Enforcement Terrorism Prevention Grant	97.067	04LE249	26,286
State Homeland Security Grant	97.067	04HS249	14,963
Total U.S. Department of Homeland Security			250,029
Total for All Federal Awards			\$ 1,524,709

Notes to Schedule:

- The City had direct loans from Farmers Home Administration outstanding at September 30, 2006 as set forth below. The loans were made under the Water and Water Disposal Systems for Rural Communities Program (CFDA No. 10.760).

<u>Description</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 9/30/06</u>
Water and sewer bonds	5.00%	Jan. 1	01/75	01/09	\$ 33,884
Water and sewer bonds	5.00%	Jan. 1	12/78	01/13	125,939
Sewer bonds	5.00%	Aug. 13	08/81	08/16	308,053
					<u>\$ 467,876</u>

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

CITY OF MADISON, MISSISSIPPI

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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*

Honorable Mayor and Board of Aldermen
City of Madison, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison, Mississippi (the City), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 to 06-3.

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

COLLINS & CORBIN, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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*

Honorable Mayor and Board of Aldermen
City of Madison, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison, Mississippi (the City), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 to 06-3.

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

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

We noted certain matters that we reported to management of the City of Madison, Mississippi, in a separate letter dated August 22, 2007.

This report is intended solely for the information and use of the Mayor, Board of Aldermen, management, the State of Mississippi, 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.

Collins & Coburn, LTD.

August 22, 2007

COLLINS & CORBIN, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Honorable Mayor and Board of Aldermen
City of Madison, Mississippi

Compliance

We have audited the compliance of the City of Madison, Mississippi (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. 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, the City of Madison, 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 Madison, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, Board of Aldermen, management, the State of Mississippi, 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.

Collins & Carbin, Ltd.

August 22, 2007

COLLINS & CORBIN, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Honorable Mayor and Board of Aldermen
City of Madison, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Madison, Mississippi (the City) as of and for the year ended September 30, 2006, and have issued our report thereon dated August 22, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements of the Mississippi Office of the State Auditor and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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 all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures and our audit of the financial statements disclosed no instances of noncompliance with state laws and regulations, except as described in the following finding.

Finding

Expenditures for the year exceeded budgeted amounts in some categories.

Recommendation

We recommend the City comply with Section 21-35-15, Miss. Code Ann. (1972), and limit expenditures in all categories to the amounts estimated for such items.

* * *

This report is intended solely for the information and use of the Mayor, Board of Aldermen, management and the State of Mississippi 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.

Collins & Carbin, Ltd.

August 22, 2007

CITY OF MADISON, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MADISON, MISSISSIPPI

Schedule of Findings and Questioned Costs
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. | Unqualified |
| 2. Material noncompliance relating to the financial statements? | None |
| 3. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Reportable conditions identified that are not considered to be material weaknesses? | None |

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs. | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weaknesses identified? | None |
| b. Reportable conditions identified that are not considered to be material weaknesses? | None |
| 6. Any audit findings reported as required by Section __.510(a) of OMB Circular A-133? | None |
| 7. Federal programs identified as major programs: | |
| a. CFDA # 10.XXX - U.S. Department of Agriculture, Project Development Grant | |
| b. CFDA # 16.XXX - U.S. Department of Justice, Public Safety Communications Upgrade and Center Linking | |
| c. CFDA # 20.106 - U.S. Department of Transportation, Airport Improvement Program | |

Section 1: Summary of Auditor's Results (Cont'd)

- | | |
|--|-----------|
| 8. The dollar threshold used to distinguish between Type A and B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | No |
| 10. Prior fiscal year audit finding(s) 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? | None |

Section 2: Financial Statement Findings

06-1 General ledger balances of utility customer accounts receivable were not reconciled to the subsidiary system balances in a timely manner during the year.

Recommendation

We recommend the general ledger balances of utility customer accounts receivable be reconciled to the subsidiary system balances each month.

06-2 Controls were not in place to ensure that fixed asset records were reconciled to amounts reported in the basic financial statements.

Recommendation

We recommend controls be implemented to ensure that fixed asset records are reconciled to amounts reported in the basic financial statements.

06-3 Material audit adjustments were required to correct payroll liability balances and transactions posted to an incorrect fund.

Recommendation

We recommend monthly general ledger activity be reviewed to ensure transactions are accurately posted.

See Auditee's Corrective Action Plan on page 72.

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 MADISON, MISSISSIPPI

OTHER ITEMS



CITY OF MADISON

1004 MADISON AVENUE • POST OFFICE BOX 40 • MADISON, MISSISSIPPI 39130-0040 • (601) 856-7116 • FAX (601) 856-8786

MAYOR

Mary Hawkins Butler

CITY CLERK

Susan B. Crandall

AUDITEE'S CORRECTIVE ACTION PLAN

BOARD OF ALDERMEN

AT LARGE

Lisa Clingan-Smith

As required by Section ____ .315(c) of OMB Circular A-133, the City of Madison, Mississippi has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006:

WARD I

Tawanna Tatum

WARD II

Patricia H. Peeler

Finding

Corrective Action Plan Details

WARD III

Dan E. Prather

06-1

a. Name of contact person responsible for corrective action:

WARD IV

Steve Hickok

Ms. Susan Crandall
City Clerk / Administrative Director
(601) 856-7116

WARD V

Michael L. Hudgins

WARD VI

John Howland

b. Corrective action planned:

The City converted the utilities billing and accounting system to a new software package including electronic meter reading capabilities. Implementation of the electronic meter reading equipment continued throughout the year. In addition, the City's long-time clerk resigned, requiring some of the deputy clerks to train and work in this area at times. These factors contributed to a delay in completing reconciliations of the utility customer accounts receivable balances.

The City has designed a checklist of procedures to be used in the review and approval of monthly financial reports. This control will ensure that the utility customer accounts receivable balances are reconciled in a timely manner each month.

c. Anticipated completion date:

October 31, 2007

SISTER CITY



06-2

- a. Name of contact person responsible for corrective action:

Ms. Susan Crandall
City Clerk / Administrative Director
(601) 856-7116

- b. Corrective action planned:

The City did not complete a reconciliation of the fixed assets records in a timely manner due to an increased workload experienced during the year. The City's long-time utilities clerk resigned, requiring some of the deputy clerks to train and work in utilities billing and accounting. A new full-time utilities clerk has been hired and the City has developed procedures to provide for reconciliation of the fixed assets records in a timely manner.

- c. Anticipated completion date:

October 31, 2007

06-3

- a. Name of contact person responsible for corrective action:

Ms. Susan Crandall
City Clerk / Administrative Director
(601) 856-7116

- b. Corrective action planned:

The City has implemented a new general ledger accounting system and utilities billing and accounting system. Due to the implementation, all controls had not yet been put in place to ensure that a review of general ledger activity was performed and documented.

The City has designed a checklist of procedures to be used in the review and approval of monthly financial reports. This control will ensure that general ledger transactions are properly recorded each month.

- c. Anticipated completion date:

October 31, 2007