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FINANCIAL STATEMENTS
TOWN OF BYHALIA, MISSISSIPPI
Year Ended September 30, 2007

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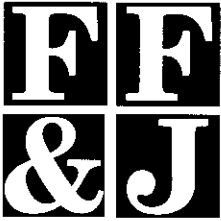
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INDEPENDENT AUDITOR'S REPORT

**FRANKS,
FRANKS &
JARRELL, P.A.**

Honorable Mayor and Board of Aldermen
Town of Byhalia, Mississippi

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MEMBERS OF THE

AICPA & MSCPA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Byhalia, Mississippi as of September 30, 2007, and for the year then ended, which collectively comprises the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Byhalia, Mississippi's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

Accounting controls were not properly exercised over the cash receipts and disbursements functions of the Town of Byhalia, Mississippi. Adequate controls over coding of the proper classification of cash receipts and disbursements for entry into the general ledger were not exercised by the Town. Accordingly, it is not practicable for us to extend our audit of coding classification of cash receipts and disbursements beyond their original entry into the general ledger.

The Town of Byhalia, Mississippi does not maintain complete and adequate subsidiary records documenting the existence, completeness and valuation of the fixed assets included in the governmental activities or the business-type activities. Due to the lack of adequate subsidiary records, we were unable to satisfy ourselves as to the fair presentation of the fixed assets reported in the governmental activities or the business-type activities of the Town of Byhalia, Mississippi at September 30, 2007.

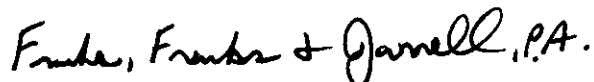
Also, the Town of Byhalia, Mississippi does not maintain subsidiary records on procedures related to inventories. Due to lack of adequate subsidiary records and procedures, we were unable to satisfy ourselves as to the fair presentation of inventories.

In our opinion, except for the fact that some fixed assets may not be reported, the lack of adequate subsidiary records and procedures over inventories, and effects of such adjustments, if any, as might have been determined to be necessary had the controls over the coding and classification of cash receipts and disbursements as referred to in the preceding three paragraphs been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of Byhalia, Mississippi as of September 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 11, is not a required part of the basic financial statements but is supplementary information required by the 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2009, on our consideration of the Town of Byhalia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



FRANKS, FRANKS & JARRELL, P.A.
September 9, 2009

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information for the Year Ended September 30, 2007

This section of the Town of Byhalia's Financial Report presents our discussion and analysis of the Town's financial performance during the fiscal year ending September 30, 2007. Please read it in conjunction with the Town of Byhalia financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at September 30, 2007 and 2006 by \$4,605,064 and \$3,808,360. Of this amount, \$111,064 and \$163,559 may be used to meet the Town of Byhalia's ongoing obligations to citizens and creditors.
- As of September 30, 2007 and 2006, the Town of Byhalia governmental funds reported combined ending fund balances of \$46,401 and \$211,234, an decrease of \$164,833 and \$178,230 in comparison to the prior years. Approximately 100% of the combined fund balances, \$46,401 and \$211,234 is considered unreserved and is available for spending at the Town of Byhalia's discretion.
- The Town of Byhalia's total debt as of September 30, 2007 and 2006 was \$2,495,451 and \$2,550,639. Debt in the amount of \$275,797 and \$517,733 was issued during the years ended September 30, 2007 and 2006, all of which was issued for governmental fund capital assets. Debt in the amount of \$330,985 and \$191,844 was repaid during the year ended September 30, 2007 and 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds. The basic financial statements include two types of statements that present different views of the Town of Byhalia.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Town of Byhalia's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Town of Byhalia's operations in more detail than the government-wide statements.

The Governmental Funds statements tell how general government services such as public safety were financed in the short term as well as what remains for future spending. The Town of Byhalia has two Governmental Fund types: the General and Special Revenue.

Proprietary fund statements offer short- and long-term financial information about the activities the government operates in a similar manner as businesses, and include the Water, Sewer and Gas System funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and presented in single columns in the basic financial statements.

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-1 summarizes the major features of the Town of Byhalia's financial statements, including the portion of the Town of Byhalia they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of the Town of Byhalia's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire Town Government (except fiduciary funds) and the Town's component units.	The activities of the Town that are not proprietary or fiduciary, such as police, fire, and parks and recreation	Activities the Town operates similar to private businesses: Water, Sewer and Gas System.
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 Net Assets' Statement of Net 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, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during 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 year, regardless of when cash is received or paid

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Statements

The government-wide statements report information about the Town of Byhalia as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town of Byhalia's net assets and how they have changed. Net assets—the difference between the Town of Byhalia's assets and liabilities—is one way to measure the Town of Byhalia's financial health, or position.

- Over time, increases or decreases in the Town of Byhalia's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town of Byhalia, the reader should consider additional non-financial factors such as changes in the Town of Byhalia's property tax base.
- *Governmental activities* –Most of the Town of Byhalia's basic services are included here, such as the police, fire, public works, and parks and recreation departments, and general administration. Property taxes, sales and use taxes, and state and federal grants finance most of these activities.
- *Business-type activities* – The Town of Byhalia charges fees to customers to help it cover the costs of certain services it provides. The Town of Byhalia's water, sewer and gas systems services are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town of Byhalia's most significant funds—not the Town as a whole. The "fund" level is where the basic unit of financial organization and operation within the Town of Byhalia exists. Funds are accounting tools that are used to keep track of specific sources of funding and spending for particular purposes. They are the basic budgetary and accounting entities.

- Some funds are required by State law and by bond covenants.
- The Board of Alderman establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town of Byhalia has two types of funds:

- **Governmental funds**—most of the Town of Byhalia's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town of Byhalia's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them. The measurement focus of governmental funds is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income determination. These funds are maintained on a modified accrual basis of accounting (explained further in the notes to the financial statements under "Summary of significant Accounting Policies"). The basic financial statements for governmental funds are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance. The Town of Byhalia utilizes two types of governmental funds: the General Fund and Special Revenue Funds.
- **Proprietary funds**—Services for which the Town of Byhalia charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Town has only one type of proprietary funds—enterprise funds. The Town of Byhalia's enterprise funds are the same as its business-type activities yet provide more detail and additional information, such as cash flows. The measurement focus of proprietary funds is upon determination of net income, financial position and change in financial position. These funds are maintained on the accrual basis of accounting. The Statement of Fund Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows are all required statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town of Byhalia's assets exceeded liabilities by \$4,605,064 at the close of the most recent fiscal year, compared to \$3,808,360 in the prior year.

A large portion, 98 percent and 96 percent, of the Town's net assets reflects its investment in capital assets (such as land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; however, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-1

Town of Byhalia's Net Assets (000's Omitted)

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 848	\$ 708	\$ 969	\$ 1,106	\$ 1,817	\$ 1,814
Non-current Assets	2,367	1,552	4,625	4,646	6,992	6,198
Total Assets	3,215	2,260	5,594	5,752	8,809	8,012
Current and Other Liabilities	758	429	1,219	1,444	1,977	1,873
Long-Term Liabilities	1,013	958	1,213	1,372	2,226	2,330
Total Liabilities	1,771	1,387	2,432	2,816	4,203	4,203
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,246	525	3,248	3,120	4,494	3,645
Unrestricted	198	348	(86)	(184)	112	164
Total Net Assets	\$ 1,444	\$ 873	\$ 3,162	\$ 2,936	\$ 4,606	\$ 3,809

An additional portion of the Town's net assets represents resources that are subject to external restrictions on how they may be used. The \$111,064 and \$163,559 of unrestricted net assets provides excess funds to meet the government's ongoing obligations to citizens and creditors.

Unrestricted net assets of our business-type activities had a deficit of \$86,712 and \$184,207 at the end of the current fiscal year. These resources cannot be used to add to the net asset surplus in governmental activities. The Town of Byhalia generally can only use these net assets to finance the continuing operations of the business type activities.

Changes in net assets: Approximately 5.84 percent and 8.55 percent of the Town of Byhalia's revenue comes from property taxes, with 17.42 percent and 24.77 percent of all revenue coming from some type of tax for the years ended September 30, 2007 and 2006. (See Table A-2.) Another 56.32 percent and 69.62 percent comes from fees charged for services, 18.70 percent and 0 percent from operating and capital grants and contributions and the balance is from investment earnings and other miscellaneous receipts.

Table A-2 and the narrative that follows consider the operations of governmental and business-type activities separately.

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-2
Changes in the Town of Byhalia's Net Assets
(000's Omitted)

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 184	\$ 182	\$ 2,812	\$ 2,659	\$ 2,996	\$ 2,841
Operating Grants & Contributions	0	0	0	0	0	0
Capital Grants & Contributions	847	0	148	0	995	0
General Revenues:						
Property Taxes	310	349	0	0	310	349
Other Taxes	616	662	0	0	616	662
Capital Grants	0	0	0	0	0	0
Intergovernmental Revenues	316	193	0	0	316	193
Investment Income	1	1	1	5	2	6
Other	86	30	0	0	86	30
Total Revenues	<u>2,360</u>	<u>1,417</u>	<u>2,960</u>	<u>2,664</u>	<u>5,321</u>	<u>4,081</u>
Expenses						
General Government	360	383	0	0	360	383
Public Safety	1,071	967	0	0	1,071	967
Public Works	292	276	0	0	292	276
Culture & Recreation	28	19	0	0	28	19
Debt Service	43	43	0	0	43	43
Water, Sewer, & Gas System			2,728	3,014	2,728	3,014
Total Expenses	<u>1,795</u>	<u>1,688</u>	<u>2,728</u>	<u>3,014</u>	<u>4,523</u>	<u>4,702</u>
Excess of Revenue Over Expenses	565	(271)	232	(350)	798	(621)
Transfers	6	0	(6)	0	0	0
Increase (Decrease) in Net Assets	<u>571</u>	<u>(271)</u>	<u>226</u>	<u>(350)</u>	<u>798</u>	<u>(621)</u>
Net Assets—Beginning restated	<u>873</u>	<u>1,144</u>	<u>2,936</u>	<u>3,286</u>	<u>3,808</u>	<u>4,430</u>
Net Assets—Ending	<u>\$ 1,444</u>	<u>\$ 873</u>	<u>\$ 3,162</u>	<u>\$ 2,936</u>	<u>\$ 4,606</u>	<u>\$ 3,809</u>

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

Governmental activities increased (decreased) the Town's net assets by \$570,788 and (\$271,684), thereby accounting for 71.65 percent and 43.69 percent of the total change in the net assets of the Town for the years ended September 30, 2007 and 2006. Key elements of this increase are as follows:

The largest funding sources for the Town's governmental activities, as a percent of total revenues, are other taxes (26%) and (47%), property taxes (13%) and (25%), intergovernmental revenues (13%) and (14%) and charges for services (8%) and (13%) for the years ended September 30, 2007 and 2006.

The largest expense category for the Town's governmental activities is public safety (60%) and (57%) for the years ended September 30, 2007 and 2006.

Business-type Activities

Business-type activities increased (decreased) the Town's net assets by \$225,916 and (\$350,139) for the years ended September 30, 2007 and 2006.

Charges for services are the major revenue categories for the enterprise funds. Total business-type revenues are comprised of \$2,811,613 and \$2,659,364 for water, sewer and gas system charges for services for the years ended September 30, 2007 and 2006.

Financial Analysis of the Government's Funds

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

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

General Fund—The general fund is the chief operating fund of the Town. At the end of the most recent fiscal years ended, unreserved fund balance of the general fund was \$235,846 and \$408,282, which comprised the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both the fund balance, reserved and unreserved, to total fund expenditures. Total fund balance represents percent and 9 percent of total fund expenditures. The fund balance of the Town's general fund decreased by \$172,436 and \$179,571 for the fiscal years ended September 30, 2007 and 2006.

Special Revenue Fund—The special revenue fund is used to account for the programs and projects primarily funded by grants from the federal and state governments. As of September 30, 2007 and 2006, the fund balance (deficit) was (\$189,445) and (\$197,048).

Proprietary Funds—The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of the proprietary funds as of September 30, 2007 and 2006, totaled \$3,161,535 and \$2,935,619.

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

The Town's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations for the proprietary funds as well as the governmental funds.

The Town's 2006-07 general fund operating budget increased by approximately \$205,675 during the current fiscal year. This increase was primarily related to increases in other services and charges expenditures for general government and park and recreation.

The Town's tax millage for the 2007 fiscal year remained constant with no change. The Town has not increased the tax millage rate in the past nineteen years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—In accordance with GASB 34, the Town has recorded depreciation expense associated with all of its capital assets, including infrastructure. The Town's investment in capital assets for its governmental and business-type activities as of September 30, 2007 and 2006, amounted to \$6,989,451 and \$6,195,439, net of accumulated depreciation of \$4,419,704 and \$4,041,339. This investment in capital assets includes land, buildings, improvements other than buildings, machinery & equipment and construction in progress.

Table A-3
Town of Byhalia's Capital assets
(000's Omitted)

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	461	461	75	75	536	536
Plant, Buildings & Improvements	1,119	846	7,669	7,477	8,788	8,323
Machinery & Equipment	1,051	798	582	579	1,633	1,377
Construction in Progress	451	0	0	0	451	0
Accumulated Depreciation	(715)	(553)	(3,705)	(3,488)	(4,420)	(4,041)
Total	<u>2,367</u>	<u>1,552</u>	<u>4,621</u>	<u>4,643</u>	<u>6,988</u>	<u>6,195</u>

TOWN OF BYHALIA, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term Debt—At September 30, 2007 and 2006, the Town had \$2,495,451 and \$2,550,639 in bonds and notes outstanding. More detailed information about the Town of Byhalia's long-term liabilities is presented in the notes to the financial statements.

Table A-4
Town of Byhalia's Outstanding Debt

	Governmental		Business-Type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Bonds Payable	\$ 589,778	\$ 478,000	\$ 878,035	\$ 940,852	1,467,813	\$ 1,418,852
CAP Loans	0	0	122,096	140,181	122,096	140,181
Promissory Notes	368,237	376,782	342,340	402,981	710,577	779,763
Capital Leases Payable	<u>163,677</u>	<u>172,225</u>	<u>31,288</u>	<u>39,618</u>	<u>194,965</u>	<u>211,843</u>
Total	<u>1,121,692</u>	<u>1,027,007</u>	<u>\$ 1,373,759</u>	<u>\$ 1,523,632</u>	<u>\$ 2,495,451</u>	<u>\$ 2,550,639</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town considered current year operational expenses and estimated increases based on economic factors when establishing the fiscal year 2008 budget. The total budgeted appropriations for the Town general fund operations is \$1,498,964. This budget reflects an increase of approximately \$51,039. The increase is primarily related to an increase in the public safety expenditures.

CONTACTING THE TOWN OF BYHALIA FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town of Byhalia finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town of Byhalia's Finance Department, P.O. Box 412 Byhalia, MS 38611.

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF NET ASSETS - GOVERNMENT-WIDE
September 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS:</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 120,381	\$ 34,662	\$ 155,043
Accounts Receivable	48,816	157,592	206,408
Court Fine Receivables	132,155		132,155
Other Receivables	19,220		19,220
Due From Other Funds	<u>527,000</u>	<u>777,208</u>	<u>1,304,208</u>
TOTAL CURRENT ASSETS	<u>847,572</u>	<u>969,462</u>	<u>1,817,034</u>
Noncurrent Assets:			
Bond Issue Costs, net of amortization		2,456	2,456
Capital Assets:			
Land	461,196	75,374	536,570
Plant, Buildings and Improvements	873,168	7,669,114	8,542,282
Machinery and Equipment	1,050,893	582,477	1,633,370
Construction in Progress	451,049		451,049
Infrastructure	245,884		245,884
Accumulated Depreciation	<u>(714,745)</u>	<u>(3,704,959)</u>	<u>(4,419,704)</u>
TOTAL NONCURRENT ASSETS	<u>2,367,445</u>	<u>4,624,462</u>	<u>6,991,907</u>
TOTAL ASSETS	<u><u>\$ 3,215,017</u></u>	<u><u>\$ 5,593,924</u></u>	<u><u>\$ 8,808,941</u></u>

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF NET ASSETS - GOVERNMENT-WIDE
September 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>LIABILITIES:</u>			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 44,382	\$ 132,047	\$ 176,429
Current Maturities of Long-Term Debt	108,481	160,775	269,256
Accrued Liabilities	95,569	14,177	109,746
Due to Other Funds	509,845	799,011	1,308,856
Refundable Meter Deposits		113,395	113,395
TOTAL CURRENT LIABILITIES	<u>758,277</u>	<u>1,219,405</u>	<u>1,977,682</u>
Noncurrent Liabilities:			
Long-Term Debt, net of current maturities	<u>1,013,211</u>	<u>1,212,984</u>	<u>2,226,195</u>
TOTAL NONCURRENT LIABILITIES	<u>1,013,211</u>	<u>1,212,984</u>	<u>2,226,195</u>
TOTAL LIABILITIES	<u>1,771,488</u>	<u>2,432,389</u>	<u>4,203,877</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	1,245,753	3,248,247	4,494,000
Restricted for:			
Special Revenue Projects			-
Unrestricted	<u>197,776</u>	<u>(86,712)</u>	<u>111,064</u>
TOTAL NET ASSETS	<u>\$ 1,443,529</u>	<u>\$ 3,161,535</u>	<u>\$ 4,605,064</u>

See accompanying notes to financial statements.

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - GOVERNMENT-WIDE
September 30, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charge for Services	Capital		PRIMARY GOVERNMENT	
			Operating Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities
PRIMARY GOVERNMENT						
Government Activities:						
General Government	\$ 360,634	\$ -	\$ -	\$ -	\$ (360,634)	\$ (360,634)
Public Safety	1,070,990	136,121	-	136,121	(934,869)	(934,869)
Public Works	291,995	48,417	846,934	895,351	603,356	603,356
Culture and Recreation	28,453	-	-	-	(28,453)	(28,453)
Debt Service	43,053	-	-	-	(43,053)	(43,053)
TOTAL GOVERNMENTAL ACTIVITIES	1,795,125	184,538	846,934	1,031,472	(763,653)	(763,653)
Business-Type Activities:						
Water System	318,452	263,541	75,159	338,700	20,248	20,248
Sewer System	204,414	204,862	72,649	277,511	73,097	73,097
Gas System	2,205,591	2,343,210	-	2,343,210	137,619	137,619
TOTAL BUSINESS-TYPE ACTIVITIES	2,728,457	2,811,613	147,808	2,959,421	230,964	230,964
TOTAL PRIMARY GOVERNMENT	\$ 4,523,582	\$ 2,996,151	\$ -	\$ 3,990,893	\$ (763,653)	\$ (532,689)
GENERAL REVENUES:						
Taxes:						
Property Taxes					\$ 310,399	\$ 310,399
Sales Taxes					562,709	562,709
Privilege and Franchise Taxes					53,463	53,463
Licenses and Permits					24,110	24,110
In Lieu Taxes					31,112	31,112
Intergovernmental Revenues					315,811	315,811
Grants and Contributions not Restricted to Specific Programs					-	-
Penalties and Late Fees					5,737	5,737
Investment Earnings					1,406	1,206
Gain on Sale of Assets					-	-
Miscellaneous					23,440	23,440
Transfers					6,254	(6,254)
TOTAL GENERAL REVENUES AND TRANSFERS					1,334,441	1,329,393
CHANGE IN NET ASSETS					570,788	796,704
NET ASSETS--BEGINNING					872,741	3,808,360
NET ASSETS--ENDING					\$ 1,443,529	\$ 4,605,064

See accompanying notes to financial statements.

**TOWN OF BYHALIA, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2007**

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>			
Cash on Deposit	\$ 78,950	\$ 41,431	\$ 120,381
Accounts Receivable	48,816		48,816
Other Receivables	0		-
Due from Other Funds	527,000		527,000
TOTAL ASSETS	\$ 654,766	\$ 41,431	\$ 696,197
<u>LIABILITIES AND FUND BALANCES:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$ 44,382	\$ 0	\$ 44,382
Accrued Expenses	95,569		95,569
Due to Other Funds	278,969	230,876	509,845
TOTAL LIABILITIES	418,920	230,876	649,796
<u>FUND BALANCES:</u>			
Unrestricted:			
Special Revenue Funds		(189,445)	(189,445)
Undesignated	235,846		235,846
TOTAL FUND BALANCES	\$ 235,846	\$ (189,445)	\$ 46,401

See accompanying notes to financial statements.

**TOWN OF BYHALIA, MISSISSIPPI
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2007**

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	46,401
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.		2,367,445
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.		(1,121,692)
Deferred revenues for delinquent property taxes deferred in the governmental funds because they will not be received within sixty days of the Consolidated Government's year end.		19,220
Accrual of court fine revenues to qualify as financial resources.		132,155
		1,443,529
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	1,443,529

See accompanying notes to financial statements.

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
For the year ended September 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Ad Valorem Taxes	\$ 305,264		\$ 305,264
Sales and Use Taxes	562,709		562,709
Privilege and Franchise Taxes	53,463		53,463
Licenses and Permits	24,110		24,110
In Lieu of Taxes	31,112		31,112
Intergovernmental Revenues	292,470	23,341	315,811
Garbage Services	48,417		48,417
Penalties and Late Fees	5,737		5,737
Fines and Forfeits	126,413		126,413
Interest Revenues	1,221	185	1,406
Sale of Land and Equipment	0		0
Sale of Cemetery Lots	10,250		10,250
Grant Income	801,077	0	801,077
Grant Matching Funds	45,857		45,857
Miscellaneous Revenues	1,789	11,401	13,190
TOTAL REVENUES	2,309,889	34,927	2,344,816
EXPENDITURES:			
Current:			
General Government	1,067,836		1,067,836
Public Safety	1,203,208	677	1,203,885
Public Works	265,896		265,896
Culture and Recreation	29,918		29,918
Debt Service	197,518	26,647	224,165
TOTAL EXPENDITURES	2,764,376	27,324	2,791,700
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(454,487)	7,603	(446,884)
OTHER FINANCING SOURCES (USES)			
Proceeds from Debt Issued	275,797	0	275,797
Transfers (to) from Other Funds	6,254	0	6,254
TOTAL OTHER FINANCING SOURCES (USES)	282,051	0	282,051
NET CHANGE IN FUND BALANCES	(172,436)	7,603	(164,833)
FUND BALANCES - Beginning	408,282	(197,048)	211,234
FUND BALANCES - Ending	\$ 235,846	\$ (189,445)	\$ 46,401

See accompanying notes to financial statements.

TOWN OF BYHALIA, MISSISSIPPI
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT
OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended September 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	(164,833)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental Funds report capital outlay as expenditures. However, in the Government Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		976,830
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.		(161,367)
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.		9,708
Because some property taxes will not be collected for several months after the Government's fiscal year ends, they are not considered "available" revenues in the governmental funds.		5,135
Proceeds from the disposition of assets is reported as income in the Governmental Funds. There was a gain on the sale of the land, therefore, only the gain is reported as income in the Government-Wide Statement of Activities and Changes in Net Assets.		-
Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.		
Repayment of long - term debt		181,112
Proceeds from issuance of long - term debt		(275,797)
		570,788
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	570,788

See accompanying notes to financial statements.

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
September 30, 2007

	Water	Sewer	Gas	Total
<u>ASSETS</u>				
<u>Current Assets</u>				
Cash and Cash Equivalents	\$ 17,214	\$ 6,298	\$ 11,150	\$ 34,662
Due From Other Funds	606,990	8,936	161,282	777,208
Accounts Receivable	30,740	22,409	104,443	157,592
Total Current Assets	<u>654,944</u>	<u>37,643</u>	<u>276,875</u>	<u>969,462</u>
<u>Fixed Assets</u>				
Water, Sewer, and Gas System,				
Buildings, Vehicles and Equipment	2,813,025	3,408,072	2,030,494	8,251,591
Land	7,734	56,640	11,000	75,374
Less: Accumulated Depreciation	(1,449,487)	(1,318,035)	(937,437)	(3,704,959)
Net Fixed Assets	<u>1,371,272</u>	<u>2,146,677</u>	<u>1,104,057</u>	<u>4,622,006</u>
<u>Other Assets</u>				
Bond Issue Cost, net of amortization	2,456	0	0	2,456
Total Other Assets	<u>2,456</u>	<u>0</u>	<u>0</u>	<u>2,456</u>
TOTAL ASSETS	<u>\$ 2,028,672</u>	<u>\$ 2,184,320</u>	<u>\$ 1,380,932</u>	<u>\$ 5,593,924</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>Current Liabilities</u>				
Accounts Payable	\$ 24,285	\$ 3,216	\$ 104,546	\$ 132,047
Due to Other Funds	29,251	375,714	394,046	799,011
Refundable Meter Deposits	50,586		62,809	113,395
Accrued Liabilities	2,452	1,860	9,865	14,177
Notes, Bonds and Capital Leases Payable -				
Within One Year	8,181	83,231	69,363	160,775
Total Current Liabilities	<u>114,755</u>	<u>464,021</u>	<u>640,629</u>	<u>1,219,405</u>
<u>Long-Term Debt</u>				
Notes, Bonds and Capital Leases Payable				
Less Current Portion	<u>89,854</u>	<u>381,205</u>	<u>741,925</u>	<u>1,212,984</u>
<u>Net Assets</u>				
Invested in Capital Assets, net of related debt	1,273,237	1,682,241	292,769	3,248,247
Unrestricted	550,826	(343,147)	(294,391)	(86,712)
Total Net Assets	<u>1,824,063</u>	<u>1,339,094</u>	<u>(1,622)</u>	<u>3,161,535</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,028,672</u>	<u>\$ 2,184,320</u>	<u>\$ 1,380,932</u>	<u>\$ 5,593,924</u>

See accompanying notes to financial statements.

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
For The Year ended September 30, 2007

	Water	Sewer	Gas	Totals
<u>OPERATING REVENUES</u>				
Charges for Services	\$ 249,086	\$ 192,027	\$ 2,302,872	\$ 2,743,985
Service Charges and Penalties	13,654	6,179	31,472	51,305
Other Receipts	801	6,656	8,866	16,323
Total operating revenues	<u>263,541</u>	<u>204,862</u>	<u>2,343,210</u>	<u>2,811,613</u>
Less: Gas Purchased			<u>1,805,372</u>	<u>1,805,372</u>
Net Income Before Operating Expenses	<u>263,541</u>	<u>204,862</u>	<u>537,838</u>	<u>1,006,241</u>
<u>OPERATING EXPENSES</u>				
Personnel Services	74,562	40,044	215,466	330,072
Contractual Services	24,666	4,249	46,841	75,756
Supplies	36,788	4,928	36,134	77,850
Depreciation and Amortization	72,526	101,290	43,182	216,998
Other Services	104,736	17,782	13,941	136,459
Total operating expenses	<u>313,278</u>	<u>168,293</u>	<u>355,564</u>	<u>837,135</u>
Operating Income	<u>(49,737)</u>	<u>36,569</u>	<u>182,274</u>	<u>169,106</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
Interest Income	155	121	930	1,206
Grant Income	75,159	72,649	0	147,808
Interest and Fiscal Charges	<u>(5,174)</u>	<u>(36,121)</u>	<u>(44,655)</u>	<u>(85,950)</u>
Total non-operating revenues (expenses)	<u>70,140</u>	<u>36,649</u>	<u>(43,725)</u>	<u>63,064</u>
<u>INCOME BEFORE OPERATING TRANSFERS</u>	<u>20,403</u>	<u>73,218</u>	<u>138,549</u>	<u>232,170</u>
Operating Transfers (Out)	<u>(2,245)</u>	<u>(2,085)</u>	<u>(1,924)</u>	<u>(6,254)</u>
NET INCOME (LOSS)	18,158	71,133	136,625	225,916
NET ASSETS - OCTOBER 1,	<u>1,805,905</u>	<u>1,267,961</u>	<u>(138,247)</u>	<u>2,935,619</u>
NET ASSETS - SEPTEMBER 30,	<u>\$ 1,824,063</u>	<u>\$ 1,339,094</u>	<u>\$ (1,622)</u>	<u>\$ 3,161,535</u>

See accompanying notes to financial statements.

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2007

	Water	Sewer	Gas	Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash Received from Customers	\$ 267,773	\$ 207,441	\$ 2,390,999	\$ 2,866,213
Cash Payments for Gas Purchases	0	0	(1,805,372)	(1,805,372)
Cash Payments for Personal Services	(71,435)	(38,407)	(216,087)	(325,929)
Cash Payments for Contractual Services	(24,666)	(4,249)	(46,841)	(75,756)
Cash Payments for Supplies	(18,161)	(4,928)	(36,134)	(59,223)
Cash Payments for Other Services	(104,736)	(14,624)	(60,912)	(180,272)
Net Cash Provided By Operating Activities	48,775	145,233	225,653	419,661
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Operating Transfers - In from (Out) to Other Funds	(21,208)	(28,911)	(150,234)	(200,353)
Miscellaneous Funds-Net	0	0		0
Net Cash Flows Provided By (Used In)	(21,208)	(28,911)	(150,234)	(200,353)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Acquisition of Fixed Assets	(82,824)	(72,856)	(39,867)	(195,547)
Principal Paid on Bonds and Notes Payable	(7,817)	(78,725)	(63,330)	(149,872)
Proceeds from Capital Lease	0	0	0	0
Contributed Capital Received - Grants	75,159	72,649	0	147,808
Interest Paid on Bonds and Notes Payable	(5,174)	(36,121)	(44,655)	(85,950)
Net Cash (Used In) Capital Financing Activities	(20,656)	(115,053)	(147,852)	(283,561)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest on Investments	155	121	930	1,206
Net Cash Provided By Investing Activities	155	121	930	1,206
NET INCREASE (DECREASE) IN CASH	7,066	1,390	(71,503)	(63,047)
CASH, OCTOBER 1	10,148	4,908	82,653	97,709
CASH, SEPTEMBER 30	\$ 17,214	\$ 6,298	\$ 11,150	\$ 34,662
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Operating Income (Loss)	\$ (49,737)	\$ 36,569	\$ 182,274	\$ 169,106
 Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities				
Depreciation	72,526	101,290	43,182	216,998
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	2,232	2,579	46,514	51,325
Increase (Decrease) in Accounts Payable - operating activities	18,627	3,158	(46,971)	(25,186)
Increase (Decrease) in Accrued Expenses - operating activities	3,127	1,637	(621)	4,143
Increase in Customer Deposits	2,000	0	1,275	3,275
Total Adjustments	98,512	108,664	43,379	250,555
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 48,775	\$ 145,233	\$ 225,653	\$ 419,661

See accompanying notes to financial statements.

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - Summary of Significant Accounting Policies

The Town of Byhalia, Mississippi was incorporated in 1873. The Town operates under a Board of Aldermen-Mayor form of government and provides the following services: public safety (police and fire), streets, sanitation, culture, recreation, public improvements, planning and zoning, utilities, and general administrative services.

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information on all nonfiduciary activities of the primary government and its component units. The statements distinguish between those activities of the Town that are governmental, which are normally supported by taxes and intergovernmental revenues, and those that are considered business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets presents the financial condition of the governmental and business-type activities for the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for the business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods and services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

Fund Financial Statements

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements. The focus of governmental and enterprise fund financial statements are on major funds. Each major fund is presented in a separate column. Nonmajor funds, where applicable, are aggregated and presented in a single column. Fiduciary funds are reported by type.

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT POLICIES (continued)

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 proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

Government 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 in the current period or soon enough thereafter to pay liabilities of the current period. For this purposes, the government 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 services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Significant revenues considered to be susceptible to accrual in addition to general property taxes include sales tax and various categorical grants.

The Town reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources of the primary government except those required to be accounted for in another fund. The majority of current operations are financed by this fund. Transfers to other funds and agencies are made from this fund. Monies from other funds may be received unless prohibited by the purpose and object of such funds.

Additionally the Town reports the following governmental fund types:

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific federal and state grants that are legally restricted to expenditures for specified purposes, all of the special revenue funds are non-major funds.

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT POLICIES (continued)

The Town reports the following major proprietary funds:

The Water, Sewer and Gas Funds – These funds are used to account for the Town's water and sewer treatment and distribution system as well as the gas distribution system. These funds are responsible for water and gas delivery to the residents of the Town of Byhalia.

The Town has elected to apply all Governmental Accounting Standards Board (GASB) pronouncements, applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues are those which cannot be associated directly with program activities.

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 for the proprietary funds are as follows: sale of water for the Water Fund and refuse collection charges for the Solid Waste Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation of 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 government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Change in Method of Accounting

Effective October 1, 2003, the Town adopted the provisions of the following standards issued by Governmental Accounting Standards Board (GASB):

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—of State and Local Governments* and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* – these statements establish new financial reporting requirements and significantly change the format and content of the financial statements. The new governmental reporting model has the following sections: Management's Discussion and Analysis, Government-wide Financial Statements, and Fund Financial Statements.

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT POLICIES (continued)

GASB Statement No. 38, *Certain Financial Statements Note Disclosures* – this statement modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* – this interpretation clarifies the application of existing standards for modified accrual recognition of certain liabilities and expenditures in governmental funds.

Due to the implementation of GASB Statement No. 34, the prior year retained earnings and contributed capital for the enterprise funds were restated to reflect the net assets.

Budgets and Budgetary Accounting

The mayor and board of aldermen generally follow the following proposed budget calendar of the State Department of Audit in establishing the budgetary data reflected in the financial statements:

- (1) The mayor and board of aldermen formulate the budget policy at the May board meeting.
- (2) Department budget requests are prepared by the appropriate people and submitted by the July board meeting.
- (3) A proposed budget is presented at the August meeting and a notice of public budget hearings and availability of the budget for inspection is published.
- (4) Between August 15th-30th a public hearing is held and the budget is adopted. The anticipated tax levy is reviewed to determine whether public notice is required on any levy.
- (5) Between September 1st-15th the budget must be adopted and the tax levy set.
- (6) Between September 1st-30th, in accordance with the Town's population, the budget must be posted in three public places.
- (7) And, between September 15th-30th the budget as adopted should be written up, filed with the municipal clerk and public notice given of the availability of the budget for inspection. Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations were necessary.
- (8) Further, budgets are used as management control devices in the General Debt Service and Proprietary Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP), except the Proprietary Fund recognizes all expenditures for debt as expense and no depreciation expense is recognized.

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - Summary of Significant Accounting Policies – Continued

Unused appropriations for all of the above annually budgeted funds lapse at the end of the year. The budget amounts shown in the financial statements are the final authorized amounts after appropriate revisions during the year.

Expenditures may not legally exceed budgeted appropriations at the activity level except for capital outlays, election expenses and emergency expenditures.

Cash and Investments

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

Investments - State statutes, Town bond ordinances and Town resolutions authorize the Town's investments. The Town is authorized to invest in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, or of any school district, which such county or municipal or school district bonds have been approved by a reputable bond attorney or have been validated by a decree of the chancery court, or in obligations issued or guaranteed in full as to principal and interest by the United States of America which are subject to a repurchase agreement with a qualified depository or in interest-bearing time certificates of deposit with municipal depositories serving in accordance with Section 27-105-353 at a rate of interest not less than a simple interest rate numerically equal to the average bank discount rate on United States Treasury bills of comparable maturity.

Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

The Town has an agreement with the County pursuant to which the tax collector of the County has assumed the duty and responsibility for billing and collecting all Town ad valorem taxes, including all taxes on real property, personal property and public utilities property by the Town.

The Town recognizes tax revenues upon collection of the taxes or upon collection from the county tax collector. In addition the Town makes an accrual for amounts collected by the county tax collector as of September 30 and remitted to the Town within 30 days after year end.

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - Summary of Significant Accounting Policies – Continued

General Obligation Enterprise Bonds

The enterprise funds provide the annual debt service requirements on certain general obligation enterprise bonds (not secured by system revenues) issued to finance system improvements. Since the enterprise funds provide the annual debt service on these general obligation enterprise bonds, the bonds are considered to be obligations of the Enterprise Funds and have been reported on the balance sheets of the Enterprise Funds.

Although the general obligation enterprise bonds are reported on the balance sheets of the Enterprise Funds, they are backed by the full faith and credit of the Town and are therefore a contingent liability to the general government.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

Business Information

The Town of Byhalia provides gas, water, and sewer services to customers located within the Town limits of Byhalia, Mississippi as well as a limited number of customers outside the Town limits. Credit is extended to all of these customers for services.

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 2 - PROPERTY AND EQUIPMENT

The following is a summary of capital asset activity as of September 30, 2007:

Primary Government:

	<u>Balance</u> <u>10-01-06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>09-30-07</u>
Capital Assets, not being depreciated:				
Land	\$ 461,196	\$ 0	\$ 0	\$ 461,196
Construction in Progress	<u>0</u>	<u>451,049</u>	<u>0</u>	<u>451,049</u>
Total Capital Assets, not being Depreciated:	461,196	451,049	0	912,245
Capital Assets being depreciated:				
Plant, Buildings, & Improvements	846,253	26,915	0	873,168
Infrastructure	0	245,884	0	245,884
Machinery and Equipment	<u>797,911</u>	<u>252,982</u>	<u>0</u>	<u>1,050,893</u>
Total Capital Assets being depreciated	1,644,164	525,781	0	2,169,945
Less Accumulated Depreciation for:				
Plant, Buildings, & Improvements	(94,187)	(19,379)	0	(113,566)
Machinery and Equipment	(459,191)	(137,562)	0	(596,753)
Infrastructure	<u>0</u>	<u>(4,426)</u>	<u>0</u>	<u>(4,426)</u>
Total Accumulated Depreciation	(553,378)	(161,367)	0	(714,745)
Total Capital Assets, depreciated, net Governmental Activities	<u>1,090,786</u>	<u>364,414</u>	<u>0</u>	<u>1,455,200</u>
Capital Assets, net	<u>\$ 1,551,982</u>	<u>\$ 815,463</u>	<u>\$ 0</u>	<u>\$ 2,367,445</u>

The Town adopted a capitalization threshold of \$500 for general fixed assets and a threshold of \$5,000 for infrastructure assets effective for the current fiscal year. The Town has retroactively applied these thresholds to all general fixed assets in service at September 30, 2003. The Town has not retroactively capitalized infrastructure assets in service at September 30, 2003, the Town will record infrastructure for years after September 30, 2003. The beginning accumulated depreciation balances have been adjusted to reflect the Town's new capitalization policy.

A summary of business-type capital asset activity at September 30, 2007 follows:

	<u>Balance</u> <u>10-01-06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>09-30-07</u>
Capital Assets, not being depreciated:				
Land	\$ 75,374	\$ 0	\$ 0	\$ 75,374
Construction in Progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Capital Assets, not being Depreciated:	75,374	0	0	75,374

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 2 - FIXED ASSETS – Continued

	<u>Balance</u> <u>10-01-06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>09-30-07</u>
Capital Assets being depreciated:				
Plant, Buildings, & Improvements	\$ 7,477,026	\$ 192,088	\$ 0	\$ 7,669,114
Machinery and Equipment	<u>579,018</u>	<u>3,459</u>	<u>0</u>	<u>582,477</u>
Total Capital Assets being depreciated	8,056,044	195,547	0	8,251,591
Less Accumulated Depreciation for:				
Plant, Buildings, & Improvements	(3,058,530)	(199,465)	0	(3,257,995)
Machinery and Equipment	<u>(429,431)</u>	<u>(17,533)</u>	<u>0</u>	<u>(446,964)</u>
Total Accumulated Depreciation	<u>(3,487,961)</u>	<u>(216,998)</u>	<u>0</u>	<u>(3,704,959)</u>
Total Capital Assets, depreciated, net Business-type Activities	<u>4,568,083</u>	<u>(21,451)</u>	<u>0</u>	<u>4,546,632</u>
Capital Assets, net	<u>\$ 4,643,457</u>	<u>\$ (21,451)</u>	<u>\$ 0</u>	<u>\$ 4,622,006</u>

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation has been calculated on the fixed assets using the following useful lives:

Plant, building, and Improvements	5 – 40 Years
Machinery and Equipment	5 – 15 Years
Furniture and Fixtures	5 – 20 Years
Vehicles	5 – 10 Years

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

Governmental Activities:	
General Government	\$ 19,028
Public Safety	114,464
Public Works	27,875
Culture & Recreation	<u>0</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 161,367</u>
*Depreciation expense for Water, Sewer and Gas was	\$ 216,998

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 3 - Long-Term Debt

The following is a summary of bond transactions of the Town for the year ended September 30, 2007:

	<u>Notes & Bonds Payable</u>	<u>Capital Leases</u>	<u>Total</u>
Bonds and Other Long-Term Debt at 10/01/06	\$ 2,338,796	\$ 211,843	\$ 2,550,639
Add: Bonds and Other Long-Term Debt Acquired	235,817	39,980	275,797
Less: Bonds and Other Long-Term Debt Retired	<u>274,126</u>	<u>56,859</u>	<u>330,985</u>
Bonds and Other Long-Term Debt at 09/30/07	\$ <u>2,300,487</u>	\$ <u>194,964</u>	\$ <u>2,495,451</u>

Bonds and other long-term debt at September 30, 2007 are comprised of the following issues:

Revenue Bonds:

\$1,200,000 Gas System Revenue Bond due in variable semi-annual installments through January 2017; interest at 5.5 percent	\$ 780,000
\$478,000 General Obligation Bond due in variable annual installments through December 2025; interest at 6.82 percent	464,000
\$208,600 Combined Water & Sewer System Revenue Bond due in annual installments of \$13,038 through June 2017; interest at 5 percent	<u>98,035</u>
	<u>\$ 1,342,035</u>

Notes Payable:

\$1,020,359 Note due in 233 monthly installments of \$6,305 through September 2012; interest at 3.33 percent	\$ 342,340
\$400,000 Note due in 30 annual installments of \$24,920 through December 2032; interest at 4.625 percent	368,238
\$195,778 Note due in initial payment of \$70,000 and 4 annual installments of \$31,444 through December 2011; interest at 4.75 percent	125,778
\$282,138 Note due in 180 monthly installments of \$2,045 through July 2013; interest at 4 percent	<u>122,096</u>
	<u>\$ 958,452</u>

TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 3 - Long-Term Debt – Continued

Capital Leases:

Capital Lease dated May 30, 2003 due in 48 monthly installments of \$1,112 through May 2007; collateralized by computer equipment.	\$	17,400
Capital Lease dated May 1, 2001 due in 10 annual installments of \$26,646 through May 1, 2011; collateralized by a fire truck.		93,213
Capital Lease dated November 1, 2005 due in 24 monthly installments of \$1,022 through December 2007; collateralized by police cars.		2,033
Capital lease dated September 11, 2006 due in 36 monthly installments of \$481 through September 2009; collateralized by Ford truck.		11,050
Capital lease dated July 3, 2007 due in 36 monthly installments of \$1,193 through August 2010; collateralized by police cars.		39,980
Capital Lease dated January 1, 2005 due in 48 monthly installments of \$800 through December 2008; collateralized by equipment.		<u>31,288</u>
	\$	<u>194,964</u>

There are a number of limitations and restrictions contained in the various bond indentures. The Town is in compliance with all significant limitations and restrictions.

The Annual requirements to amortize all debt outstanding as of September 30, 2007 including interest payments of \$959,164 are as follows:

Year Ending September 30	Governmental Funds		Proprietary Funds		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 108,481	\$ 57,474	\$ 160,775	\$ 64,021	\$ 269,256	\$ 121,495
2009	101,815	53,934	177,074	56,415	278,889	110,349
2010	95,231	50,208	164,040	48,470	259,271	98,678
2011	83,715	47,370	173,091	41,324	256,806	88,694
2012	27,446	41,953	195,947	33,496	223,393	75,449
2013 - 2017	160,201	184,119	501,935	73,451	662,136	257,570
2018 - 2022	204,949	129,422	897	0	205,846	129,422
2023 - 2027	222,185	56,487	0	0	222,185	56,487
2028 - 2032	106,792	20,511	0	0	106,792	20,511
2033 - 2037	<u>10,877</u>	<u>509</u>	<u>0</u>	<u>0</u>	<u>10,877</u>	<u>509</u>
	<u>\$ 1,121,692</u>	<u>\$ 641,987</u>	<u>\$ 1,373,759</u>	<u>\$ 317,177</u>	<u>\$ 2,495,451</u>	<u>\$ 959,164</u>

**TOWN OF BYHALIA, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4 - Interfund Receivables and Payable

Individual fund interfund receivable and payable balances at September 30, 2007, were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 527,000	\$ 278,969
Special Revenue Fund		230,876
Enterprise Fund:		
Water, Sewer, and Gas System Fund	<u>777,208</u>	<u>799,011</u>
	<u>\$ 1,304,208</u>	<u>\$ 1,308,856</u>

NOTE 5 - Litigation

Certain claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against the Town. In the opinion of the elected officials, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Town if disposed of unfavorably.

NOTE 6 - Defined Benefit Pension Plan

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

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary and the Town of Byhalia is required to contribute at an actuarially determined rate. The current rate is 11.30% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town of Byhalia's contributions to PERS for the year ending September 30, 2007, 2006 and 2005 were \$120,056, \$103,708 and \$87,405 equal to the required contributions for the year.

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

TOWN OF BYHALIA, MISSISSIPPI
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-BUDGET AND ACTUAL -
BUDGETARY BASIS
For the year ended September 30, 2007

	Budget		Actual	Variance with Final Budget (Unfavorable)
	Original	Final		
REVENUES:				
Ad Valorem Taxes	\$ 292,050	\$ 292,050	\$ 309,661	\$ 17,611
Sales and Use Taxes	600,000	600,000	566,139	(33,861)
Privilege and Franchise Taxes	60,799	60,799	49,742	(11,057)
Licenses and Permits	60,000	60,000	24,110	(35,890)
In Lieu of Taxes	0	0	31,112	31,112
Intergovernmental Revenues	135,326	135,326	292,470	157,144
Charges for Services	41,000	41,000	48,417	7,417
Penalties and Interest	3,250	3,250	5,737	2,487
Fines and Forfeits	124,000	124,000	126,413	2,413
Interest Revenues	0	0	1,221	1,221
Sale of Land and Equipment	0	0	0	0
Sale of Cemetery Lots	5,000	5,000	10,250	5,250
Grant Income	0	0	801,077	801,077
Grant Matching Funds	0	0	45,857	45,857
Miscellaneous Revenues	2,000	2,000	1,789	(211)
TOTAL REVENUES	<u>1,323,425</u>	<u>1,323,425</u>	<u>2,313,995</u>	<u>990,570</u>
EXPENDITURES:				
Current:				
General Government	319,250	418,525	1,067,836	(649,311)
Public Safety	999,900	1,055,525	1,203,208	(147,683)
Public Works	273,900	285,850	265,896	19,954
Culture and Recreation	6,500	45,325	29,918	15,407
Debt Service	80,000	80,000	197,518	(117,518)
TOTAL EXPENDITURES	<u>1,679,550</u>	<u>1,885,225</u>	<u>2,764,376</u>	<u>(879,151)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(356,125)</u>	<u>(561,800)</u>	<u>(450,381)</u>	<u>111,419</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Debt Issuances		0	275,797	275,797
Transfers (to) from Other Funds	356,125	356,125	6,254	(349,871)
TOTAL OTHER FINANCING SOURCES (USES)	<u>356,125</u>	<u>356,125</u>	<u>282,051</u>	<u>(74,074)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER FINANCING AND OTHER USES	<u>\$ 0</u>	<u>\$ (205,675)</u>	<u>\$ (168,330)</u>	<u>\$ 37,345</u>

See accompanying notes to financial statements.

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND
For the Fiscal Year Ended September 30, 2007

<u>REVENUES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Ad Valorem Taxes	\$ 292,050	\$ 309,661	\$ 17,611
Homestead Exemption Reimbursement	6,000	11,188	5,188
Privilege Licenses and Fees	7,799	15,119	7,320
Road Maintenance	120,000	156,258	36,258
Sales Tax	600,000	566,139	(33,861)
State Aid	926	121,239	120,313
Gasoline Tax	7,500	1,985	(5,515)
Fire Protection	0	0	0
Alcoholic Beverage Licenses	900	1,800	900
Federal and State Grant Funds	0	798,377	798,377
Grant Matching Funds	0	45,857	45,857
Building Permits	60,000	23,750	(36,250)
Court Fines and Fees	124,000	126,413	2,413
TVA In Lieu Tax	0	31,112	31,112
Miscellaneous	2,000	1,789	(211)
Penalties and Interest	750	2,491	1,741
Cable Franchise Fees	53,000	34,983	(18,017)
Sale of Cemetery Lots	5,000	10,250	5,250
Sale of Surplus Equipment	0	0	0
Interest Income	0	1,221	1,221
Late Charges - Utility	2,500	3,246	746
Grant Income	0	2,700	2,700
Sanitation Fees	41,000	48,417	7,417
Total revenues	1,323,425	2,313,995	990,570
 <u>EXPENDITURES</u>			
General Government			
Personnel Services	231,450	210,890	20,560
Supplies	5,700	5,595	105
Other Services and Charges	178,875	125,121	53,754
Capital Outlay	2,500	726,230	(723,730)
Total	418,525	1,067,836	(649,311)
Public Safety			
Personnel Services	806,200	733,213	72,987
Supplies	66,300	62,290	4,010
Other Services and Charges	163,025	160,345	2,680
Capital Outlay	20,000	247,360	(227,360)
Total	1,055,525	1,203,208	(147,683)
Public Works			
Personnel Services	162,025	165,894	(3,869)
Supplies	26,425	26,320	105
Other Services and Charges	25,300	26,429	(1,129)
Capital Outlay	22,000	1,776	20,224
Total	235,750	220,419	15,331

TOWN OF BYHALIA, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND - Continued
For the Fiscal Year Ended September 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
Cultural and Recreational			
Personnel Services	\$ 0	\$ 0	\$ 0
Supplies	0	0	0
Other Services and Charges	45,325	28,453	16,872
Capital Outlay	<u>0</u>	<u>1,465</u>	<u>(1,465)</u>
Total	<u>45,325</u>	<u>29,918</u>	<u>15,407</u>
Sanitation			
Personnel Services	0	0	0
Supplies	0	0	0
Other Services and Charges	50,100	45,477	4,623
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>50,100</u>	<u>45,477</u>	<u>4,623</u>
Debt service			
Principal Retirement	25,000	160,818	(135,818)
Interest and Fiscal Charges	<u>55,000</u>	<u>36,700</u>	<u>18,300</u>
Total	<u>80,000</u>	<u>197,518</u>	<u>(117,518)</u>
Total expenditures	<u>1,885,225</u>	<u>2,764,376</u>	<u>(879,151)</u>
Excess (Deficit) revenues over (under) expenditures	<u>(561,800)</u>	<u>(450,381)</u>	<u>111,419</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from long-term debt	0	275,797	275,797
Operating transfers in	<u>356,125</u>	<u>6,254</u>	<u>(349,871)</u>
Total other financing sources (uses)	<u>356,125</u>	<u>282,051</u>	<u>(74,074)</u>
Excess (Deficit) of revenues and other sources over (under) expenditures and other uses	<u>(205,675)</u>	<u>(168,330)</u>	<u>37,345</u>
Fund balances at October 1, 2006	<u>408,282</u>	<u>408,282</u>	<u>0</u>
Fund balances at September 30, 2007	\$ <u>202,607</u>	\$ 239,952	\$ <u>37,345</u>
Adjustments To GAAP Basis:			
Add/Less: Accrued revenue		<u>(4,106)</u>	
Fund Balance GAAP September 30, 2007		\$ <u>235,846</u>	

OTHER SUPPLEMENTAL INFORMATION

TOWN OF BYHALIA, MISSISSIPPI
RECONCILIATION OF ORIGINAL AD VALOREM TAX ROLLS TO FUND COLLECTIONS
For the Fiscal Year Ended September 30, 2007

<u>Adjusted Assessed Valuation</u>	<u>ASSESSED</u> <u>VALUE</u>	<u>TAX</u>
Realty	\$ 10,162,677	
Personal - Other than Auto and Public Utilities	5,079,114	
Industrial Exemption	<u>(4,017,853)</u>	
Total @ 26.50 Mills	<u>11,223,938</u>	\$ 297,434
Personal - Auto (Remitted by County) @ 26.50 Mills	<u>871,585</u>	<u>23,097</u>
		320,531
Add: Prior Year Tax Collections		2,835
Less: Homestead Exemption Allowed		
Over 65 Tax Losses		(11,188)
Delinquent Taxes		(7,970)
Change in Dollar Amounts		<u>(99)</u>
Total to be Accounted for:		<u>\$ 304,109</u>
<u>Credits:</u>	<u>TAXES</u>	
Collections Allocated to:		
General Fund	\$ <u>302,650</u>	
Total		\$ 302,650
Balance Represented by:		
Unaccounted for -(Over Settled)		\$ <u>1,459</u>
Total Accounted for:		<u>\$ 304,109</u>

TOWN OF BYHALIA
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
September 30, 2007

NAME	POSITION	BOND	INSURANCE COMPANY
Anna Marie Adkins	City Clerk	\$ 50,000	Ms Municipal Bond Program
Teresa Turner	Assistant Clerk	10,000	Ms Municipal Bond Program
Angie Clayton	Court Clerk	10,000	Ms Municipal Bond Program
Vivian Turner	Utility Collector	10,000	Ms Municipal Bond Program
Lynn Cannon	Utility Collector	10,000	Ms Municipal Bond Program
Kathy Vanderhook	Utility Collector	10,000	Ms Municipal Bond Program
Dori Rodgers	Utility Collector	10,000	Ms Municipal Bond Program
Jonathan Shipley	Utility Collector	10,000	Ms Municipal Bond Program
Danny Martin	Utility Collector	10,000	Ms Municipal Bond Program
Mike Novay	Police Chief	50,000	Ms Municipal Bond Program
Blanket Bond	Police Officers	25,000	Ms Municipal Bond Program
Michael Hamblin	Alderman	25,000	Ms Municipal Bond Program
Richard Minor	Alderman	25,000	Ms Municipal Bond Program
Robert Carrington	Alderman	25,000	Ms Municipal Bond Program
Terry Sawyer	Alderman	25,000	Ms Municipal Bond Program
Phillip Malone	Alderman	25,000	Ms Municipal Bond Program
Otis Dempsey	Mayor	50,000	Ms Municipal Bond Program

TOWN OF BYHALIA, MISSISSIPPI
SCHEDULE OF LONG TERM DEBT
For the Fiscal Year Ended September 30, 2007

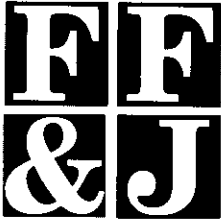
	BALANCE	TRANSACTIONS		BALANCE
	OUTSTANDING	DURING FISCAL YEAR		OUTSTANDING
	<u>October 1, 2006</u>	<u>ISSUED</u>	<u>REDEEMED</u>	<u>September 30, 2007</u>
<u>Revenue Bonds</u>				
General Obligation Bonds	\$ 478,000	\$	\$ 14,000	\$ 464,000
Combined Water and Sewer System	105,852		7,817	98,035
Gas System	835,000		55,000	780,000
<u>Other Long Term Debt</u>				
Notes Payable - State of Mississippi				
Proprietary Fund-SRF	402,981		60,641	342,340
Community Facility Loan	376,782		8,544	368,238
CAP Loan - State of Mississippi	140,181		18,085	122,096
Capital Lease Payable -				
Republic First National Corporation	113,507		20,294	93,213
Capital Lease Payable -				
2006 Ford Truck	16,233		5,183	11,050
Citizens Bank Loan		40,039	40,039	0
Capital Lease Payable -				
Police Cars (2)		39,980		39,980
Notes Payable - Citizens Bank				
Fire Truck		195,778	70,000	125,778
Capital Lease Payable -				
Computer System	28,541		11,141	17,400
Capital Lease Payable -				
Crown Victorias (2)	13,944		11,911	2,033
Capital Lease Payable -				
Backhoe	39,618		8,330	31,288
	<u>39,618</u>	<u></u>	<u>8,330</u>	<u>31,288</u>
TOTAL	\$ <u>2,550,639</u>	\$ <u>275,797</u>	\$ <u>330,985</u>	\$ <u>2,495,451</u>

**TOWN OF BYHALIA
SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2007**

Federal Grantor/ Pass Through Grantor/ Program Title	Grantor Agency Id Number	Federal CFDA Number	Federal Expenditures
PRIMARY GOVERNMENT:			
U. S. Department of Housing and Urban Development			
Passed through State Office of: Community Development Block Grant	1122-05-135-ED-01	14.228	\$ <u>316,122</u>
Total U.S. Department of Housing and Urban Development			\$ <u>316,122</u>
Appalachian Regional Commission			
Appalachian Area Development	1331-05-135-AR-02	23.002	\$ 200,000
Appalachian Area Development	1331-05-135-AR-01	23.002	<u>147,809</u>
Total Appalachian Regional Commission			\$ <u>347,809</u>
Total Expenditures of Federal Awards			\$ <u><u>663,931</u></u>

See accompanying notes to schedule of expenditures of federal awards.

OTHER REPORTS



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

**FRANKS,
FRANKS &
JARRELL, P.A.**

Mayor and Board of Aldermen
Town of Byhalia
Byhalia, Mississippi

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MARK THORNTON

OFFICES LOCATED IN

TUPELO, FULTON & AMORY

MEMBERS OF THE

AICPA & MSCPA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Byhalia, Mississippi as of and for the year ended September 30, 2007, which collectively comprise the Town of Byhalia, Mississippi's basic financial statements and have issued our report dated September 9, 2009. 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 Town of Byhalia, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Byhalia, Mississippi's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Byhalia, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Byhalia, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the Town of Byhalia, Mississippi's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting (See Findings 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 & 11).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Byhalia, Mississippi's internal controls.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies above, we consider Findings 1, 3, 4, 5, 7, 8 & 11 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Byhalia, Mississippi's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and reportable conditions as finding numbers 1, 2, 3, 4, 5, 7, 9 & 11.

The Town of Byhalia, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town of Byhalia, Mississippi's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Mayor, Board of Alderman, Mississippi State Audit Department and other related state agencies 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.

Franks, Franks + Jarrell, P.A.

FRANKS, FRANKS & JARRELL, P.A.
September 9, 2009



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

**FRANKS,
FRANKS &
JARRELL, P.A.**

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Honorable Mayor and Board of Aldermen
Town of Byhalia, Mississippi

Compliance

We have audited the compliance of the Town of Byhalia, Mississippi with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Town of Byhalia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Byhalia, Mississippi's management. Our responsibility is to express an opinion on the Town of Byhalia, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with 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 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 Town of Byhalia, Mississippi'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 Town of Byhalia, Mississippi's compliance with those requirements.

In our opinion, the Town of Byhalia, 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, 2007.

Internal Control Over Compliance

The management of the Town of Byhalia, 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 Town of Byhalia, Mississippi'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Byhalia, Mississippi's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Byhalia, Mississippi's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, Board of Aldermen, Office of the State Auditor of the State of Mississippi, 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.

Franks, Franks & Jarrell, P.A.

FRANKS, FRANKS & JARRELL, P.A.
September 9, 2009

**TOWN OF BYHALIA, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified
 Internal control over financial reporting:
 Material weakness identified? X Yes No
 Significant deficiencies identified?
 not considered to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? Yes X No
 Significant deficiency(s) identified
 not considered to be material weaknesses? Yes X None reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u> 14.228 </u>	<u>U.S. Department of Housing and Urban Development</u>
<u> 23.002 </u>	<u>Appalachian Area Development</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

**TOWN OF BYHALIA, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
September 30, 2007**

SECTION 2 – FINANCIAL STATEMENT FINDINGS:

FINDING NO. 1

Criteria: The Town is required, by state statutes, to maintain adequate subsidiary records substantiating the existence, completeness and valuation of its fixed assets.

Cause of Condition: The Town did not conduct inventory observations of fixed assets needed to maintain accountability of assets and prepare a complete listing of assets. The Town's listing did not include all assets owned by the Town. Additional assets were identified and added to the listing, however, it appears that additional asset may still exist that should be added as of September 30, 2007.

Recommendation: The Town should conduct year-end inventory observations of its fixed assets needed to maintain accountability of assets. The Town should also prepare a complete fixed asset listing substantiating the valuation, location, description and inventory tag numbers of its fixed assets. The Town should ensure all new assets purchased are tagged and properly accounted for on the fixed asset listing when the assets are placed in service.

Response: The Town will conduct year-end inventory observations of their fixed assets. Also, the Town will continue to develop a complete listing of all fixed assets to comply with state statutes.

**TOWN OF BYHALIA, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
September 30, 2007**

FINDING NO. 2

Criteria: The Town is required, by state statutes, to post a notice of a public hearing, hold such public hearing and document the public hearing in the board minutes of the Town.

Cause of Condition: The Town did not note in the Town's minutes that a public hearing was held prior to adoption of the budget. Therefore, no documentation of a public hearing is evident from the minutes. The Town did not note approval of the budget in the minutes of the Board meetings. Also, the Town did not post public notice of departmental budget amendments in excess of 10% as required by state statutes.

Recommendation: The Town should more closely monitor the procedures and prescribed schedule related to adopting the Town's annual budget. The Town should post notice of the public hearing as prescribed by state statutes and retain documentation of the notice and places that the notice was posted. The Town should include in its minutes the date, time and discussions from the public hearing. The Town should prepare a sign-in sheet for the public hearing and have all attendees sign in. The Town should retain the sign-in sheets for documentation of the public hearing. The Town should assure that the budget is formally adopted by September 15th. The Town should document the adoption of the budget in the minutes of the Board meeting. The Town should ensure that all departmental budget amendments in excess of 10% of the originally adopted departmental budget be posted in three public places as required by state statutes

Response: The Town will ensure that the annual budget is adopted prior to September 15th. The Town will follow required procedures related to posting notice and holding of a public hearing.

FINDING NO. 3

Criteria: The Town is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records.

Cause of Condition: The Town's internal control did not provide for adequate segregation of duties in relation to the various functions of the Town's operations. The utilities accountant is responsible for adding and deleting accounts, downloading meter readings, billings, adjustments, collections, deposits, and posting of payments. Adequate oversight was not being provided related to the utility system personnel and responsibilities.

Recommendation: The Town should implement adequate segregation of duties in all areas of the accounting system. The Town had an internal control study performed in a prior year. The Town should refer to the internal control study for specifics on the segregation of duties.

Response: The Town will ensure the procedures are put in operation to ensure adequate segregation of duties in the future.

TOWN OF BYHALIA, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
September 30, 2007

FINDING NO. 4

Criteria: The Town is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records. Mississippi Code Section 21-35-11, Miss. Code Ann. (1972) requires the Town Clerk to open and keep the books and records of the accounting system. The Town Clerk is responsible for the accounting records and at all times should assure that they are secure from loss, damage or alteration. In addition, according to the Mississippi Municipal Audit and Accounting Guide, the accounting records are to be maintained on a cash basis. Meaning transactions are recorded when cash is received or disbursements are made during the fiscal year.

Cause of Condition: The Town did not maintain adequate internal controls over its general ledger accounting functions. The Town did not ensure that all bank reconciliations were properly prepared and agreed to the general ledger in a timely manner. Numerous receipts and disbursements were not recorded in the accounting records of the Town as they were received or disbursed. Numerous adjustments were necessary to correct various general ledger accounts to supporting documentation and subsidiary ledgers. Monthly revenue and expense reports were not being provided to the Board of Alderman in a timely manner.

Recommendation: The Town should implement adequate internal controls over all its accounting functions sufficient to provide timely information to provide for management control and oversight. The Town should ensure that the Town Clerk is responsible for keeping the books and records of the accounting system. Additionally, the Town should ensure that the Town Clerk records all receipts and disbursements on the accounting records as the funds are received or disbursed. The Town should ensure that all bank accounts are reconciled on a monthly basis and the Board is provided a monthly revenue and expense comparison report.

Response: The Town has taken steps to strengthen internal controls over the general ledger functions. The Town has converted to a new general ledger accounting software package and has addressed other issues related to various accounting functions.

FINDING NO. 5

Criteria: The Town is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records.

Cause of Condition: The Town did not maintain adequate internal controls over its court collection procedures. The Town did not ensure that all settlements of assessments were paid to the State on a monthly basis. The Town was several months past due on remitting assessments to the State.

Recommendation: The Town should implement adequate internal controls over all its court collection and settlement functions. The Town should begin remitting the assessments to the State on a monthly basis.

Response: The Town will take steps to ensure that the proper settlements are made to the State on a monthly basis for all future months. The Town will recalculate the amount due to the State related to all collections not previously settled to the State.

**TOWN OF BYHALIA, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
September 30, 2007**

FINDING NO. 6

Criteria: The Town is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records.

Cause of Condition: The Town did not retain statements related to a credit card account of the Town. The Town did not maintain evidence reconciling the invoices, payments and statements. Therefore, the Town incurred finance charges related to the credit card account. The Town did not provide invoices or adequate support for certain expenditures selected for testing.

Recommendation: The Town should retain all credit card statements and reconcile invoices and payments to the monthly statements. The Town should ensure that payments are made on the accounts in sufficient time to avoid all finance charges. The Town should implement adequate internal controls to ensure that all invoices for all expenditures are retained for support.

Response: The Town will take steps to ensure that monthly credit card statements are reconciled to invoices for purchases and payments made. Further, the Town will ensure that payments are made in sufficient time to avoid all finance charges. The Town will ensure that all invoices are maintained for adequate support.

FINDING NO. 7

Criteria: The Town is required, by state statutes, to prepare a budget for all funds of the Town and to monitor and modify the budget as necessary to ensure all expenditures are within the budgeted amounts. Also, Section 21-35-13, Mississippi Code Ann. (1972), requires the Town Clerk to prepare a budget report to be presented to the governing authority at the regular meeting each month.

Cause of Condition: The Town had budget overages in some expenditure categories for the year ended September 30, 2007. The Town did not modify the budgeted amounts for various revenue sources when it was evident that the budgeted revenues would not be collected. The Town Clerk did not prepare accurate revenue and expense budget to actual comparisons on a monthly basis for review and approval by the Board of Aldermen for the purpose of monitoring the status of the budget.

Recommendation: The Town should ensure that all expenditures are within the final amended budget amounts. The Town Clerk should utilize the current software to generate monthly budget to actual revenue and expense reports that should be used to ensure budgets are amended before expenditures are disbursed in excess of budgeted amounts. The Town Clerk should provide the budget reports to the Board at each monthly meeting.

Response: The Town will take steps necessary to provide the Board with accurate revenue and expense budget to actual comparisons on a monthly basis. The Town will take steps necessary to ensure that budgets are amended prior to budget overages occurring.

TOWN OF BYHALIA, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
September 30, 2007

FINDING NO. 8

Criteria: The Town is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records.

Cause of Condition: The Town made numerous large transfers of funds between the various funds of the Town. Some of these transfers were reflected as due to/from other funds on the Town's general ledger. However, many of the transfers of funds between the funds of the Town were not recorded on the general ledger. The Town did not maintain any reconciliation of the transfers to ensure that the transfers between funds balanced.

Recommendation: The Town should limit the transfer or borrowing of funds between the various funds of the Town. Any transfers or borrowing should be recorded in the general ledger and monitored and balanced so that repayment between funds can be made in the future.

Response: The Town will monitor and balance all transfers and borrowing of funds and ensure that all transfers or borrowings are recorded on the general ledger.

Criteria: The Town is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records.

FINDING NO. 9

Criteria: The Town is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records. The Town is to comply with state purchasing laws for all applicable purchases over certain dollar thresholds.

Cause of Condition: The Town did not obtain competitive quotes for four purchases during the fiscal year, as required by state statutes.

Recommendation: The Town should implement adequate internal controls over all state purchase laws to ensure that the Town strictly adheres to the purchase laws in all departments of the Town.

Response: Purchase laws are now being complied with by all department heads and we have established procedures which will ensure compliance with purchase laws.

**TOWN OF BYHALIA, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
September 30, 2007**

FINDING NO. 10

Criteria: The Town is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records. The Town is to ensure that all expenditures are within legal guidelines and supported by adequate documentation.

Cause of Condition: The Town paid travel expenses to the City Clerk of the Town for expenses that were not supported by adequate documentation. Further, the travel expenses were paid related to a trip that was never taken by the City Clerk.

Recommendation: The Town should implement adequate internal controls over the reimbursement of travel expenses.

Response: The Town will implement procedures related to travel expenses to ensure that all travel expenses are supported by adequate documentation for actual travel expenses incurred. Fourteen months later the City Clerk repaid the travel expenses.

FINDING NO. 11

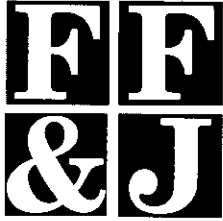
Criteria: The Town is to maintain adequate internal controls to ensure compliance with state statutes related to the handling of drug fund seizures and forfeitures.

Cause of Condition: The Town did not ensure proper and timely accounting for drug fund seizure and forfeiture funds taken by the Town's police department. Several instances of drug fund seizures were not timely deposited into a bank account of the Town. It appears that there were instances where funds were held by Town employees prior to depositing into Town bank accounts. Also, it appears there were instances of seized property being sold by the Town without proper declarations of forfeiture provided by the court. It further appears that Town drug fund cash was used by Town employees for a relief effort administered by the City Clerk and the Mayor. The relief effort was not to be associated with the Town of Byhalia.

Recommendation: The Town should implement adequate internal controls over the handling of seized and forfeited property by the Town. The Town should ensure that they follow state laws and statutes related to seized and forfeited property.

Response: The Town will implement procedures related to the handling of seized and forfeited property.

- * Findings 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 are considered Significant Deficiencies.
- * Findings 1, 3, 4, 5, 7, 8 and 11 are considered Material Weaknesses.
- * Findings 1, 2, 3, 4, 5, 7, 9 and 11 are considered noncompliance findings.
- * Findings 1, 2, 3, 4, 5, 6, 7 and 8 were findings in the prior year.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE
LAWS AND REGULATIONS**

**FRANKS,
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JARRELL, P.A.**

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MARK THORNTON

Honorable Mayor and Board of Aldermen
Town of Byhalia, Mississippi

We have audited the general purpose financial statements of Town of Byhalia, Mississippi as of and for the year ended September 30, 2007 and have issued our report dated September 9, 2009. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures and our audit of the general purpose financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses can be found in the accompanying schedule of findings and responses as findings 1, 2, 3, 4, 5, 7, 9 and 11.

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

This report is intended for the information of the Town's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Franks, Franks + Jarrell, P.A.

FRANKS, FRANKS & JARRELL, P.A.
September 9, 2009

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