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CITY OF HOUSTON, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2007

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WATKINS, WARD and STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HOUSTON, MISSISSIPPI

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CITY OF HOUSTON, MISSISSIPPI

FINANCIAL AUDIT REPORT



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INDEPENDENT AUDITOR'S REPORT

Mayor and Board of Aldermen
City of Houston, Mississippi

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2008, on our consideration of the City of Houston, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 8 and the Budgetary Comparison Schedule and corresponding notes on pages 35 through 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Houston's basic financial statements. The Schedule of Surety Bonds for City Officials and the Reconciliation of Original Ad Valorem Tax Rolls to Fund Collections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Surety Bonds for City Officials and the Reconciliation of Original Ad Valorem Tax Rolls to Fund Collections have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

January 29, 2008

Watkins, Ward and Stafford, PLLC

CITY OF HOUSTON, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

BILLY VOYLES, Marshall
BOBBY SANDERSON, City Clerk
ELIZABETH FOX AUSBERN, City Attorney
JAMES M. HOOD, JR., Prosecuting Attorney
RICHARD NICHOLS, Public Works Supervisor
RICHARD G. BENNETT, City Judge

CITY OF HOUSTON

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THOMAS E. GRIFFIN, Ward One
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FRANK THOMAS, Ward Three
WILLIE MAE MCKINNEY, Ward Four
BARRY L. SPRINGER, Ward At Large

CITY OF HOUSTON, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2007

The discussion and analysis of the City of Houston's financial performance provides an overall narrative review of the city's financial activities for the years ended September 30, 2007 and 2006. The intent of this discussion and analysis is to look at the city's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$209,056 which represents a 2 % increase from fiscal year 2006.
- General revenues account for \$2,162,228 in revenue, or 63% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,270,886 or 37% of total revenues.
- The City had \$3,224,058 in expenses; only \$1,270,886 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$2,162,228 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$2,151,967 in revenues and \$1,971,165 in expenditures. The General Fund's fund balance increased \$110,519 over the prior year. The Library Fund had \$72,522 in revenues and \$67,787 in expenditures. The Library Fund's fund balance increased \$4,735 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$245,542.
- Long-term debt decreased by \$257,005. In addition, the liability for compensated absences increased by \$5,467 from the prior fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements 3) proprietary fund financial statements, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include police, fire, public works, parks & recreation, library, and general administration.

The government-wide financial statements can be found on pages 10 - 11 of this report.

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

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation that can be found on pages 13 and 15.

Proprietary Funds. When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's proprietary fund is the same as business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 33 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 33-36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets: Net assets may serve over time as a useful indicator of government's financial position. In the case of the City, assets exceeded liabilities by \$8,986,722 as of September 30, 2007 and by \$8,806,175 as of September 30, 2006.

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

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

	<u>2007</u>	<u>2006</u>
Current assets	\$ 1,717,811	1,611,605
Capital assets, net	<u>10,122,757</u>	<u>10,368,299</u>
Total assets	<u>11,840,557</u>	<u>11,979,904</u>
Current liabilities	331,131	394,487
Long-term debt outstanding	<u>2,522,704</u>	<u>2,779,242</u>
Total liabilities	<u>2,853,835</u>	<u>3,173,729</u>
Net assets:		
Invested in capital assets, net of related debt	7,420,803	7,409,440
Restricted	53,596	43,677
Unrestricted	<u>1,512,223</u>	<u>1,353,058</u>
Total net assets	\$ <u>8,986,722</u>	<u>8,806,175</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The principal retirement of \$237,979 of long-term debt.
- Increase in the liability for compensated absences in the amount of \$5,467
- For prior year comparative purposes, the 2006 net assets stated above do not reflect the prior period adjustment of \$28,209. Had we included the prior period adjustment, the increase in net assets would be \$209,056.

Changes in net assets: The City's total revenues for the fiscal year ended September 30, 2007 and 2006 were \$3,433,114 and \$3,584,500. The total cost of all programs and services was \$3,224,058 and \$3,166,686. The following table presents a summary of the changes in net assets for the fiscal year ended September 30:

	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues	\$ 1,270,886	\$ 1,396,991
General revenues	<u>2,162,228</u>	<u>2,187,509</u>
Total revenues	<u>3,433,114</u>	<u>3,584,500</u>
Expenses:		
Governmental Activities	2,340,726	2,294,256
Business-type Activities	<u>883,332</u>	<u>872,430</u>
Total expenses	<u>3,224,058</u>	<u>3,166,686</u>
Increase in net assets	\$ <u>209,056</u>	<u>\$ 417,814</u>

- **Governmental activities:**

Phase III of the Houston Airport project was begun in 2006 and completed in early 2007, consisting of complete renovations to the terminal building/pilot's lounge and the addition of a PAPI approach lighting system. Previous phases of the project expanded the runway from 3,000 feet to 3,800 feet, added turnarounds to the runway, added a game fence on the perimeter, and overlaid the runway, taxiways, apron, and access road. The work was funded almost entirely with federal and state grants and has greatly enhanced the prospects for industrial development in the area.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$858,949 an increase of \$165,022. \$805,353 or 94% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion.

The General Fund is the principal operating fund of the City. The increase in fund balance in the General Fund for the fiscal year was \$110,519. The increase in fund balance in the Library Fund for the fiscal year was \$4,735. The fund balance in the Other Governmental (Non-Major funds) increased in the amount of \$49,768.

BUDGETARY HIGHLIGHTS

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

A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund and the major special revenue fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of September 30, 2007, the City's total net capital assets were \$10,122,757 including land, buildings, improvements, infrastructure, vehicles, and furniture and equipment. This amount represents a decrease of \$245,542 from the previous year.

Additional information of the City's capital assets can be found in Note 5 on page 28 of this report.

Debt Administration. At September 30, 2007, the City had \$2,701,854 in long-term debt outstanding, of which \$225,207 is due within one year. In addition, the liability for compensated absences increased by \$5,467 from the prior year.

Additional information of the City's long-term debt can be found in Note 7 on pages 29-32 of this report.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the City Clerk's Office at 120 East Madison Street, Houston, MS 38851, telephone 662-456-2328.

CITY OF HOUSTON

FINANCIAL STATEMENTS

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 861,817	708,492	1,570,309
Property tax receivable	10,776		10,776
Accounts receivable, net		100,708	100,708
Fines receivable, net	4,470		4,470
Intergovernmental receivables			0
Other receivables, net	16,800		16,800
Internal balances	2,721		2,721
Inventories		12,016	12,016
Capital assets, net	5,265,479	4,857,278	10,122,757
Total Assets	6,162,063	5,678,494	11,840,557
LIABILITIES			
Claims payable			0
Accrued interest payable	4,375	2,598	6,973
Accrued wages payable	37,635	5,919	43,554
Internal Balance		2,721	2,721
Customer deposits		52,676	52,676
Long-term liabilities			
Due within one year:			
Capital related debt	131,910	93,297	225,207
Non-capital debt	0		0
Due in more than one year:			
Capital related debt	228,745	2,247,902	2,476,647
Non-capital debt	41,752	4,305	46,057
Total Liabilities	444,417	2,409,418	2,853,835
NET ASSETS			
Invested in capital assets, net of related debt	4,904,824	2,516,079	7,420,903
Restricted net assets:			
Expendable:			
Debt service	53,596		53,596
Nonexpendable			
Unrestricted (deficit)	759,226	752,997	1,512,223
Total Net Assets	\$ 5,717,646	3,269,076	8,986,722

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

CITY OF HOUSTON
Statement of Activities
For the Year Ended September 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 456,960	174,378		140,512	(142,070)		(142,070)
Public safety	896,983	61,587			(835,396)		(835,396)
Public works	805,117				(805,117)		(805,117)
Health and welfare	154,716				(154,716)		(154,716)
Culture and recreation					0		0
Conversation of natural resources	6,678				(6,678)		(6,678)
Loss on disposal of asset	17,982				(17,982)		(17,982)
Interest on long-term debt	2,290				(2,290)		(2,290)
Other debt							
Total Governmental Activities	2,340,726	235,965	0	140,512	(1,964,249)	0	(1,964,249)
Business-type activities:							
Water & Sewer	883,332	894,409		0	0	11,077	11,077
Total business-type activities	883,332	894,409	0	0	0	11,077	11,077
Total Primary Government	\$ 3,224,058	1,130,374	0	140,512	(1,964,249)	11,077	(1,953,172)
General revenues:							
Taxes:							
Property taxes					\$ 947,457		947,457
Sales taxes					937,570		937,570
Franchise tax					129,228		129,228
Unrestricted investment income					58,311		58,311
Miscellaneous					89,287	375	89,662
Total General Revenues, Special Item, Extraordinary Item and Transfers					2,161,853	375	2,162,228
Changes in Net Assets					197,604	11,452	209,056
Net Assets - Beginning					5,591,576	3,214,599	8,806,175
Prior period adjustment					(71,534)	43,025	(28,509)
Net Assets - Beginning restated					5,520,042	3,257,624	8,777,666
Net Assets - Ending					\$ 5,717,646	3,269,076	8,986,722

CITY OF HOUSTON
 Balance Sheet - Governmental Funds
 September 30, 2007

Exhibit 3

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Library Fund		
ASSETS				
Cash and investments	\$ 558,717	108,374	194,726	861,817
Property tax receivable	8,808	688	1,280	10,776
Fines receivable	4,470			4,470
Other receivables	16,800			16,800
Due from other funds	5,776		3,258	9,034
Total Assets	\$ 594,571	109,062	199,264	902,897
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accrued Payroll	\$ 34,673	1,400	1,562	37,635
Due to other funds	6,313			6,313
Total Liabilities	40,986	1,400	1,562	43,948
Fund balances:				
Reserved for:				
Debt Service			53,596	53,596
Unreserved, reported in:				
General fund	553,585			553,585
Special revenue funds		107,662	145,097	252,759
Capital project funds			(991)	(991)
Total Fund Balances	553,585	107,662	197,702	858,949
Total Liabilities and Fund Balances	\$ 594,571	109,062	199,264	902,897

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

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2007

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 858,949
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	5,265,479
Capital assets net of depreciation as of 10-1-06	5,328,662
Plus capital outlay expenditures made during the year	196,948
Less loss on disposal of capital asset	(6,678)
Less depreciation expense recorded during the year	<u>(253,453)</u>
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.	(406,782)
Long-term liabilities	(402,407)
Accrued interest on bonds	<u>(4,375)</u>
 Total net assets - governmental activities (Exhibit 1)	 \$ <u><u>5,717,646</u></u>

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

CITY OF HOUSTON
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2007

Exhibit 4

	Major Funds			Total Governmental Funds
	General Fund	Library Fund	Other Governmental Funds	
REVENUES				
Property taxes	\$ 735,446	71,007	141,004	947,457
Licenses, commissions and other revenue	9,689			9,689
Fines and forfeitures	61,587			61,587
Intergovernmental revenues	1,084,990		159,815	1,244,805
Charges for services	174,378			174,378
Interest income	58,311			58,311
Miscellaneous revenues	27,566	1,515	13,022	42,103
Total Revenues	2,151,967	72,522	313,841	2,538,330
EXPENDITURES				
Current:				
General government	368,352			368,352
Public safety	857,890			857,890
Public works	660,355			660,355
Health and welfare				0
Culture and recreation		67,787	86,455	154,242
Capital outlay	67,078		146,713	213,791
Economic development and assistance				0
Debt service:				
Principal	16,121		105,000	121,121
Interest	1,369		17,898	19,267
Other			2,290	2,290
Total Expenditures	1,971,165	67,787	358,356	2,397,308
Excess of Revenues over (under) Expenditures	180,802	4,735	(44,515)	141,022
OTHER FINANCING SOURCES (USES)				
Proceeds of long term debt	24,000			24,000
Transfers in			94,283	94,283
Transfers out	(94,283)			(94,283)
Total Other Financing Sources and Uses	(70,283)	0	94,283	24,000
SPECIAL ITEM				0
EXTRAORDINARY ITEM				0
Net Changes in Fund Balances	110,519	4,735	49,768	165,022
Fund Balances - Beginning	443,066	102,927	147,934	693,927
Prior period adjustment				0
Fund Balance - Beginning restated	443,066	102,927	147,934	693,927
Fund Balances - Ending	\$ 553,585	107,662	197,702	858,949

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

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2007

Net changes in fund balances - total governmental funds (Exhibit 4)	\$	165,022
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$196,948 exceeded depreciation \$(253,453) in the current period.		(56,505)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$ 121,121 exceeded debt proceeds \$24,000		97,121
Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.		(6,678)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long- term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:		
Compensated absences	(2,641)	
Accrued interest on bonds	<u>1,285</u>	(1,356)
Change in net assets of governmental activities (Exhibit 2)	\$	<u><u>197,604</u></u>

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

CITY OF HOUSTON
Statement of Net Assets
Proprietary Funds
September 30, 2007

Exhibit 5

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 708,492
Accounts receivable, net	100,708
Inventories	12,016
Total Current Assets	<u>821,216</u>
Noncurrent assets:	
Restricted cash and cash equivalents:	
Bonds	
Deposits	
Capital assets:	
Land	137,099
Machinery	156,266
Vehicles	36,753
Buildings	61,800
Infrastructure	7,603,262
Less accumulated depreciation	<u>(3,137,902)</u>
Total Noncurrent assets	<u>4,857,278</u>
Total assets	<u>5,678,494</u>
LIABILITIES	
Current Liabilities:	
Accrued wages payable	5,919
Internal Balances	2,721
Customer Deposits	52,676
Bonds, notes, and loans payable	93,297
Total Current Liabilities	<u>154,613</u>
Noncurrent Liabilities	
Compensated absence	4,305
Accrued interest payable	2,598
Bonds, notes, and loans payable	2,247,902
Total noncurrent liabilities	<u>2,254,805</u>
Total liabilities	<u>2,409,418</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,516,079
Unrestricted (deficit)	752,997
Total Net Assets	<u>\$ 3,269,076</u>

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

CITY OF HOUSTON
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2007

Exhibit 6

	<u>Proprietary Fund</u>
	<u>Water and</u>
	<u>Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 894,409
Miscellaneous	375
Total operating revenues	<u>894,784</u>
OPERATING EXPENSES	
Personal services	250,249
Materials and supplies	55,489
Utilities	118,348
Repairs and maintenance	67,498
Insurance	
Depreciation	207,261
Miscellaneous	61,047
Total operating expenses	<u>759,892</u>
Operating income(loss)	<u>134,892</u>
NONOPERATING REVENUES	
(EXPENSES)	
Interest expense	123,440
Loss on sale of capital assets	
Total nonoperating revenue (expenses)	<u>123,440</u>
Income (loss) before contributions and transfers	11,452
Transfers In	
Transfers Out	
Change in net assets	<u>11,452</u>
Total net assets beginning	3,214,599
Prior period adjustments	43,025
Restated beginning net assets	<u>3,257,624</u>
Total net assets ending	<u>\$ 3,269,076</u>

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

CITY OF HOUSTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Exhibit 7

<u>Cash Flows From Operating Activities</u>	
Operating Income	\$ 134,892
Adjust net income to cash provided by operations:	
Depreciation Expense	207,261
Increase in accounts receivable	(197)
Decrease in accrued liabilities	(3,215)
Net cash flows from operating activities	<u>338,741</u>
 <u>Cash Flows From Noncapital Financing Activities</u>	
Net Cash Flows From Noncapital Financing Activities	<u>0</u>
 <u>Cash Flows From Capital and Related Financing Activities</u>	
Principal paid on capital debt	(116,859)
Interest paid on capital debt	(123,440)
Addition to capital assets	(96,436)
Net Cash Flows From Noncapital Financing Activities	<u>(336,735)</u>
 <u>Cash Flows From Investing Activities</u>	
Increase in meter deposits	<u>73</u>
Net Cash Flows From Investing Activities	<u>73</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 2,079
 Cash and Cash Equivalents at Beginning of Year	 <u>706,413</u>
 Cash and Cash Equivalents at End of Year	 <u>\$ 708,492</u>

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

CITY OF HOUSTON
Statement of Fiduciary Assets and Liabilities
September 30, 2007

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 5,003
Total Assets	<u>\$ 5,003</u>
LIABILITIES	
Intergovernmental payables	5,003
Total Liabilities	<u>\$ 5,003</u>

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

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Houston was incorporated in 1837 under the laws of the State of Mississippi and operates under a Mayor-Board of Aldermen form of government and provides public safety, streets and sidewalks, water and sewerage, sanitation, health and social services, culture, recreation, education, public improvements, planning and zoning and general administrative services.

B. Basis of Presentation

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Fund Financial Statements:

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

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total for all funds of that category or type; and

- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined.

The funds of the City are described below:

Governmental Funds

General Fund

The general fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Funds

The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Debt Service Funds

The Debt Service Funds account for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the city other than debt service payments made by enterprise funds. Ad valorem taxes are used for the payment of principle and interest on the City's judgment.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City's only enterprise fund consists of the Water and Sewer fund.

Fiduciary Funds (Not included in government wide statements)

Expendable Trust Fund

The expendable trust fund is used to account for funds that are to be used for book purchases by the City.

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Major Funds

The City reports two major funds as follows:

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

Library Fund – This fund is used to account for the cultural activities of the public library.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes as “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Cash and Investments.

For the purpose of the Statement of Net Assets cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments in governmental securities are stated at fair value. However, the city did not invest in any governmental securities during the fiscal year.

E. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

F. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available finance resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

G. Capital Assets.

Capital acquisition and construction are reflected as expenditures in governmental fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statement. All purchased capital assets are stated at historical cost where

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds.

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	n/a
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy will correspond with the amounts for the asset classification, as listed above.

H. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column on the statement of net assets.

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

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

I. Equity Classifications.

Government-wide Financial statements:

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

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, constructions or improvements of those assets.

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

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

Fund Financial Statements:

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

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

J. Property Tax Revenues.

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Aldermen, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

K. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

L. Compensated Absences.

The city has adopted a policy of compensation for accumulated unpaid employee benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

2. Deposits

Deposits:

The carrying amount of the city's total deposits with financial institutions at September 30, 2007 and 2006, was \$1,574,912 and \$1,412,301, and the bank balance was \$1,721,826 and \$1,551,568. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

3. Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2007:

A. Due From/To Other Funds:

	Due From	Due To
Major Funds:		
City General Fund	\$ 5,776	6,313
Non-major Governmental Funds:		
Fire Protection Fund	3,258	
Enterprise Funds:		
Water & Sewer Fund	20,368	23,089
	\$ 29,402	29,402

The amount payable to the nonmajor governmental funds represents a loan from the fire protection fund to the water & sewer fund. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

	Transfer In	Transfer Out
Major Funds:		
City General Fund	\$	94,283
Non-major Governmental Funds:		
General Obligation '94 Bond Fund	94,283	
	\$ 94,283	94,283

All interfund transfers were routine and consistent with the activities of the fund making the transfer.

4. Intergovernmental Receivables.

The City of Houston had no intergovernmental receivables at September 30, 2007.

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

5. Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2007.

	Oct. 1, 2006	Adjustment	Oct. 1, 2006	Additions	Deletions	Sept. 30, 2007
Non-depreciable capital assets:						
Land	\$ 304,808		304,808	0	0	304,808
Construction in progress	45,231		45,231	140,512	(185,743)	0
Total non-depreciable capital assets	<u>350,039</u>		<u>350,039</u>	<u>140,512</u>	<u>(185,743)</u>	<u>304,808</u>
Depreciable capital assets:						
Buildings	1,072,581		1,072,581	141,544	0	1,214,125
Improvements	213,730		213,730	0	0	213,730
Infrastructure	5,872,297		5,872,297	45,794	0	5,918,091
Furniture and equipment	409,322		409,322	17,715	0	427,037
Vehicles	603,930		603,930	37,126	(61,380)	579,676
Total depreciable capital assets	<u>8,171,860</u>		<u>8,171,860</u>	<u>242,179</u>	<u>(61,380)</u>	<u>8,352,659</u>
Less accumulated depreciation for:						
Buildings	469,122		469,122	19,589	0	488,711
Improvements	115,700		115,700	4,581	0	120,281
Infrastructure	1,723,381	71,534	1,794,915	192,475	0	1,987,390
Furniture and equipment	308,447		308,447	18,929	0	327,376
Vehicles	505,053		505,053	17,879	(54,702)	468,230
Total accumulated depreciation	<u>3,121,703</u>	<u>71,534</u>	<u>3,193,237</u>	<u>253,453</u>	<u>(54,702)</u>	<u>3,391,988</u>
Total depreciable capital assets, net	<u>5,050,157</u>	<u>71,534</u>	<u>4,978,623</u>	<u>(11,274)</u>	<u>(6,678)</u>	<u>4,960,671</u>
Governmental activities capital assets, net	<u>\$ 5,400,196</u>	<u>71,534</u>	<u>5,328,662</u>	<u>129,238</u>	<u>(192,421)</u>	<u>5,265,479</u>
Business-type Activities:						
Land	\$ 137,099		137,099	0	0	137,099
Buildings	61,800		61,800	0	0	61,800
Improvements	0		0	0	0	0
Infrastructure	7,598,959		7,598,959	4,302	0	7,603,261
Machinery and Equipment	100,885		100,885	55,381	0	156,266
Vehicles	0		0	36,753	0	36,753
Total Capital Assets	<u>7,898,743</u>		<u>7,898,743</u>	<u>96,436</u>	<u>0</u>	<u>7,995,179</u>
Less Accumulated Depreciation:						
Buildings	40,755		40,755	1,235	0	41,990
Improvements	0		0	0	0	0
Infrastructure	2,814,388		2,814,388	190,082	0	3,004,470
Machinery and Equipment	75,497		75,497	9,329	0	84,826
Vehicles	0		0	6,615	0	6,615
Total Accumulated Depreciation	<u>2,930,640</u>		<u>2,930,640</u>	<u>207,261</u>	<u>0</u>	<u>3,137,901</u>
Business-type Activities Capital Assets, net	<u>\$ 4,968,103</u>		<u>4,968,103</u>	<u>(110,825)</u>	<u>0</u>	<u>4,857,278</u>

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities	
General government	\$ 87,973
Public safety	21,288
Public works	<u>144,192</u>
Total governmental activities depreciation expense	<u>\$ 253,453</u>

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

6. Claims and Judgments

Risk Financing.

The city finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The city pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for law enforcement personnel and \$350,000 for all other employees for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

7. Long-term Debt.

The following is a summary of changes in long-term debt for the year ended September 30, 2007.

	Balance Oct 1 2006	Prior Period Adjustments	Adjusted Balance Oct 1, 2006	Additions	Deductions	Balance Sept. 30 2007	Amounts Due Within One Year
Governmental Activities							
Bonds Payable	\$ 425,000		425,000		105,000	320,000	110,000
Loans Payable	0		0			0	0
Capital Leases Payable	32,776		32,776	24,000	16,121	40,655	21,910
Compensated Absences	39,111		39,111	2,641		41,752	
Total Governmental Activities	\$ 496,887		496,887	26,641	121,121	402,407	131,910
Business-Type Activities							
Revenue Bonds	\$ 2,501,083	-43,026	2,458,057		116,858	2,341,199	93,297
Loans Payable	0		0			0	0
Compensated Absences	5,153		5,153		848	4,305	
Total Business-Type Activities	\$ 2,506,236	-43,026	2,463,210	43,201	117,706	2,345,504	93,297

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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

Year Ending <u>September 30</u>	Governmental Activities		Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	132,536	13,528	93,297	114,836
2009	121,732	11,964	74,124	105,356
2010	32,013	3,742	58,999	98,981
2011	25,000	2,563	63,882	94,098
2012	25,000	1,538	68,773	89,207
2013 and after	25,000	513	1,982,124	759,555
	<u>361,281</u>	<u>33,848</u>	<u>2,341,199</u>	<u>1,262,033</u>

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-like activities.

Governmental Activities:

As of September, 30 2007, the governmental long-term debt of the financial reporting entity consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
A. General Obligation Bonds:			
\$1,000,000, 1994 Series Street Improvement Bonds, due in annual installments of \$45,000 to \$90,000 with interest paid semi-annually.	\$ 180,000	4.0 to -5.5%	03/01/09
\$220,000, 2002 Series Street Improvement Bonds, due in annual installments of \$20,000 to \$25,000 with interest paid semi-annually.	<u>140,000</u>	4.1%	11/01/12
Total General Obligation Bonds	<u>\$ 320,000</u>		
Current Portion	\$ 110,000		
Noncurrent Portion	\$ 210,000		

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

B. Capital Leases:

\$23,853, Capital Lease issued			
November 25, 2005 due in monthly			
installments of \$705.83 (2006 Ford)	\$	9,630	4.15% 12/25/08
\$19,348, Capital Lease issued			
February 25, 2006 due in monthly			
installments of \$572.52 (2006 GMC)		8,897	4.15% 02/25/09
\$24,000, Capital Lease issued			
July 15, 207 due in monthly			
installments of \$716.61 (2007 Ford)		<u>22,128</u>	4.75% 07/15/03
Total Capital Leases	\$	<u>40,655</u>	
Current Portion	\$	21,910	
Noncurrent Portion	\$	18,745	

C. Compensated Absences:

Current Portion	\$	0
Noncurrent Portion		<u>41,752</u>
Total Compensated Absences	\$	<u>41,752</u>
Total Governmental Activities Debt	\$	<u>361,752</u>
Current Portion	\$	110,000
Noncurrent Portion	\$	251,752

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

As of September 30, 2007, the long-term debt payable from proprietary fund resources consisted of the following:

A. Revenue Bonds			
\$530,000, 1974 Series, combined water and sewer system bonds, due in monthly installments of \$2,795.	\$	4,041	5.00% 01/01/09
\$280,000, 1988 Series, combined water and sewer system bonds, due in annual installments of \$10,000 to \$25,000 with interest paid semi-annually		25,000	7.75% 05/01/08
\$2,356,000, 1998 Series, combined water and sewer system bonds, due in monthly installments of \$12,085.		2,079,380	4.875% 03/02/30
\$200,000, 1989 Series, combined water and sewer system junior lien bonds, due in annual installments of \$5,000 to \$20,000 with interest paid semi-annually.		35,000	7.3 to 9% 06/01/09
\$224,000, 2000 Series, combined water and sewer system bonds, due in monthly installments of \$1,080.		<u>197,778</u>	4.375% 12/30/10
Total Revenue Bonds	\$	<u>2,341,199</u>	
Current Portion	\$	93,297	
Noncurrent Portion	\$	2,247,902	

Legal Debt Margin – The amount of debt, excluding specific exempted debt, that can be incurred by the city is limited by the state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the city. As of September 30, 2007, the amount of outstanding debt was equal to 1.6 % of the latest property assessments.

**CITY OF HOUSTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

8. Contingencies.

Federal Grants – The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the city. No provision for any liability that may result has been recognized in the city's financial statements.

Litigation – The city is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the city with respect to the various proceedings. However, the city's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the city.

9. Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the city is required to contribute at an actuarially determined rate. The current rate is 11.3% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The city's contributions (employer share only) to PERS for the years ending September 30, 2007, 2006, and 2005 were \$123,727, \$115,570 and \$107,805, respectively, equal to the required contributions for each year.

9. Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. To adjust prior period accumulated depreciation to actual	\$ (71,534)
2. To adjust beginning note payable to actual	<u>43,025</u>
	<u>\$ (28,509)</u>

10. Subsequent Events.

Subsequent to September 30, 2007, the city had no subsequent events that were required to be disclosed in the notes to the financial statements.

CITY OF HOUSTON
REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOUSTON, MISSISSIPPI
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 720,700	724,700	710,680	(14,020)
Road and bridge privilege taxes	24,000	24,000	24,766	766
Licenses, commissions and other revenue	1,000	1,000	9,689	8,689
Fines and forfeitures	50,000	56,000	61,587	5,587
Special assessments				0
Intergovernmental revenues	1,042,352	1,073,352	1,084,990	11,638
Charges for services	158,000	158,000	174,378	16,378
Interest income	35,000	55,000	58,311	3,311
Miscellaneous revenues	44,100	44,100	27,566	(16,534)
Total Revenues	<u>2,075,152</u>	<u>2,136,152</u>	<u>2,151,967</u>	<u>15,815</u>
EXPENDITURES				
Current:				
General government	395,100	403,000	368,352	34,648
Public safety	908,775	932,175	857,890	74,285
Public works	699,650	723,450	660,355	63,095
Debt service:				
Principal			16,121	(16,121)
Interest			1,369	(1,369)
Capital Outlay	89,500	89,500	67,078	22,422
Total Expenditures	<u>2,093,025</u>	<u>2,148,125</u>	<u>1,971,165</u>	<u>176,960</u>
Excess of Revenues over (under) Expenditures	<u>(17,873)</u>	<u>(11,973)</u>	<u>180,802</u>	<u>192,775</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued			24,000	24,000
Refunding bonds issued				0
Proceeds from sale of capital assets				0
Premiums on bonds issued				0
Compensation for loss of capital assets				0
Transfers in				0
Transfers out	(114,000)	(114,000)	(94,283)	19,717
Payment to bond refunding escrow agent				0
Discount on bonds issued				0
Other financing sources				0
Other financing uses				0
Total Other Financing Sources and Uses	<u>(114,000)</u>	<u>(114,000)</u>	<u>(70,283)</u>	<u>43,717</u>
Net Change in Fund Balance	<u>(131,873)</u>	<u>(125,973)</u>	<u>110,519</u>	<u>236,492</u>
Fund Balances - Beginning	443,066	443,066	443,066	0
Fund Balances - Ending	<u>\$ 311,193</u>	<u>317,093</u>	<u>553,585</u>	<u>236,492</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CITY OF HOUSTON, MISSISSIPPI
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Library Fund
 For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 69,728	69,728	71,007	1,279
Miscellaneous revenues	1,300	1,300	1,515	215
Total Revenues	<u>71,028</u>	<u>71,028</u>	<u>72,522</u>	<u>1,494</u>
EXPENDITURES				
Current:				
Culture and recreation	106,710	108,110	67,787	40,323
Total Expenditures	<u>106,710</u>	<u>108,110</u>	<u>67,787</u>	<u>40,323</u>
Excess of Revenues over (under) Expenditures	<u>(35,682)</u>	<u>(37,082)</u>	4,735	<u>41,817</u>
OTHER FINANCING SOURCES (USES)				
Other financing uses				0
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	(35,682)	(37,082)	4,735	41,817
Fund Balances - Beginning	102,927	102,927	102,927	0
Fund Balances - Ending	<u>\$ 67,245</u>	<u>65,845</u>	<u>107,662</u>	<u>41,817</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CITY OF HOUSTON, MISSISSIPPI

Notes to the Required Supplementary Information
For the Year Ended September 30, 2007

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and revisions.

The budget is adopted by the board of aldermen and filed with the taxing authority. Amendments can be made on the approval of the board. By statute, final budget revisions must be approved on or before the date established by the State of Mississippi. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

CITY OF HOUSTON, MISSISSIPPI
SUPPLEMENTAL INFORMATION

CITY OF HOUSTON, MISSISSIPPI
 SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
 September 30, 2007

EMPLOYEE	POSITION	SURETY	AMOUNT OF BOND
Bobby H. Sanderson	City Clerk	Union Ins.	50,000
	City Clerk	Brierfield	86,000
	City Clerk	Tabb Ins.	166,000
Barbara Buggs	Deputy Clerk	Tabb	23,000
Angela McFarland	Deputy Clerk	Tabb	23,000
Mary Harville	Deputy Clerk	Tabb	22,500
Kathy Smith	Deputy Clerk	Tabb	22,500
Billy Voyles	Police Chief	Union Ins.	50,000
Stacey W. Parker	Mayor	Western Surety	50,000
Policemen*	Officers	Fidelity & Deposit	25,000
Dispatchers*	Dispatcher	Fidelity & Deposit	25,000
Barry Springer	Alderman	Travelers	80,000
Willie Mae McKinney	Alderman	Travelers	80,000
Frank Thomas	Alderman	Travelers	80,000
Shenia Jones	Alderwoman	Travelers	80,000
Thomas Griffin	Alderman	Travelers	80,000

*Commercial Insurance - Public employee dishonesty coverage for eight (8) policemen and Five (5) dispatchers

CITY OF HOUSTON, MISSISSIPPI
RECONCILIATION OF ORIGINAL AD VALOREM TAX ROLLS TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Assessed Valuation and Millage:	Assessed Values	Mills	Amount	
Realty	\$ 14,585,115	83.75	1,221,503	
Personal	7,881,670	83.75	660,090	
Utility	687,278	83.75	<u>57,560</u>	
				\$ 1,939,153
Total Assessment				
Adjustments:				
Less: Homestead Exemption			\$ (219,830)	
Industrial Realty Exemption			(18,977)	
Industrial Personal Realty Exemption			(61,217)	
Delinquent Personal Property Tax			(6,045)	
Delinquent Real Property Tax			(1,185)	
Refund			(3,803)	
Add: Sewer & Street Assessment			12,292	
Priviledge Licenses			7,521	
Interest Charges			<u>9,019</u>	
Net Adjustment				<u>(282,225)</u>
Total To Account For				<u>\$ 1,656,928</u>
Collection Credit to Funds:				
General Fund			\$ 535,095	
Library Fund			54,544	
Park Fund			74,293	
School Maintenance			936,575	
Sewer and Paving Receipts			22,570	
Interest and Penalty			9,019	
Priviledge License			7,521	
Special St. G.O.			12,292	
Rails to trails			<u>5,019</u>	
Total Accounted For				<u>\$ 1,656,928</u>

CITY OF HOUSTON, MISSISSIPPI
REPORTS ON COMPLIANCE AND INTERNAL CONTROL



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA	R. Steve Sinclair, CPA
Harry W. Stevens, CPA	Michael L. Pierce, CPA
Boyd M. Edwards, CPA	Marsha L. McDonald, CPA
Paul A. Ray, CPA	Wanda S. Holley, CPA
S. Keith Winfield, CPA	Robin Y. McCormick, CPA/PFS
William B. Stagers, CPA	J. Randy Scrivner, CPA
Aubrey R. Holder, CPA	Kimberly S. Caskey, CPA
David M. Howell, CPA	Susan M. Lumms, CPA
Michael W. McCully, CPA	Thomas J. Browder, CPA
Mort Stroud, CPA	Stephen D. Flake, CPA
Gary C. Hamilton, CPA	John N. Russell, CPA

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

Mayor and Board of Aldermen
City of Houston, Mississippi

We have audited the financial statements of the City of Houston, Mississippi as of and for the year ended September 30, 2007 and have issued our report thereon dated January 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the city's internal control over financial reporting 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 city's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the city'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 internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 07-01, 07-02, 07-03, 07-04, and 07-05 to be significant deficiencies in internal control over financial reporting.

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 city's internal control.

Our consideration of 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 to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-02 and 07-03 to be material weaknesses.

Compliance and Other Matters

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

The City of Houston's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Houston's responses and, accordingly, we express no opinion on it.

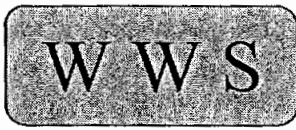
This report is intended solely for the information and use of the board of aldermen and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

January 29, 2008

Watkins, Ward and Stafford, PLLC

CITY OF HOUSTON, MISSISSIPPI

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



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA	R. Steve Sinclair, CPA
Harry W. Stevens, CPA	Michael L. Pierce, CPA
Boyd M. Edwards, CPA	Martha L. McDonald, CPA
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen
City of Houston, Mississippi

We have audited the general purpose financial statements of the City of Houston, Mississippi as of and for the year ended September 30, 2007, and have issued our report thereon dated January 29, 2008. 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 no material instances of noncompliance with state laws and regulations.

This report is intended solely for the information of the City'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.

January 29, 2008

Watkins, Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND RESPONSES

CITY OF HOUSTON

Schedule of Findings and Responses FYE 9/30/07

Significant Deficiencies

07-01 Statement of Condition

During the test of preferential treatment, it was noted that several employees and elected officials' water service was not disconnected for nonpayment nor were they charged a re-connect fee. The absence of this control procedure is indicative of a deficiency in the internal controls over financial reporting.

Criteria

It is the City of Houston's policy to disconnect each individual's service whose account is not paid by the 15th of each month. Once the individual is disconnected from the city's water supply, a re-connect fee should be charged in order to restore service.

Effect

A control deficiency exists due to the City's lack of controls and procedures necessary for the City to disconnect, in a timely manner, each individual's service whose account is not paid by the 15th of each month.

Cause

Each month the City of Houston prints a list of delinquent accounts. However, all of the accounts are not disconnected on the same day. The personnel in charge of disconnecting delinquent accounts start at the top of the list. An individual whose name is at the top of the list may be disconnected; however, another individual whose name is further down the list may pay his bill after the 15th and never be disconnected from the water supply nor charged a re-connect fee.

Recommendation

The City should ensure that each individual whose account is not paid by the 15th of each month is disconnected from the city's water supply.

Response

The City Clerk stated that the preferential treatment noted above is primarily due to a lack of manpower needed in order to disconnect all delinquent accounts in a timely manner.

07-02 Statement of Condition

During the course of the audit, it was noted that the City leased a '07 Crown Victoria for the police department. However, the only transaction that was recorded in the general ledger was the repayment of the debt. A control deficiency exists in that internal controls did not detect, prevent, and/or correct, misstatements in the financial statements. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City of Houston's internal control.

Criteria

The financial statements are the responsibility of the City of Houston, Mississippi. Therefore, all entries entered into the general ledger should follow accounting principles generally accepted in the United States of America.

Effect

A control deficiency exists due to the City of Houston lacking the expertise to properly analyze the lease arrangement and record the capital asset and the corresponding liability.

Cause

The City of Houston lacks the expertise necessary in order to properly record transactions involving the purchase of capital assets with lease arrangements.

Recommendation

In the future, the person with the responsibility of recording capital assets and their corresponding liability should take care in recording the capital asset as a capital outlay in the governmental funds and also recording the financing as debt proceeds. The capital asset should then be entered into the fixed asset subsidiary ledger.

Response

Capital assets acquired will be recorded as a capital outlay in the governmental funds and any financing will be entered as debt proceeds with the capital asset entered into the fixed asset subsidiary ledger. Technical assistance will be obtained as necessary to assure proper recording.

07-03 Statement of Condition

During the course of the audit, it was noted that debt payments in the Water and Sewer Fund are being coded to an expense account and not to the corresponding liability account. A control deficiency exists in that internal controls did not detect, prevent, and/or correct misstatements in the financial statements. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City of Houston's internal control.

Criteria

The financial statements are the responsibility of the City of Houston, Mississippi. Therefore, all entries entered into the general ledger should follow accounting principles generally accepted in the United States of America.

Effect

A control deficiency exists due to the City of Houston lacking the expertise to properly record the debt payments

Cause

The City of Houston is recording the payment of debt in the Water and Sewer fund, a proprietary fund, as though it were a governmental fund.

Recommendation

All repayment of debt in the Water and Sewer fund should be coded to the corresponding liability and not to an expense account.

Response

Water and Sewer fund debt payments will be coded to the corresponding liability rather than an expense account. Technical assistance will be utilized to ensure accuracy.

07-04 Statement of Condition

During the testing of fixed assets, it was noted that capital assets are not being recorded in the subsidiary ledger and that depreciation expense is not being calculated on those assets. The auditor prepared the additions and deletions of capital assets and the accumulated depreciation on those assets. Management reviewed, approved, and accepted responsibility for the listing of capital assets and the calculation of accumulated depreciation.

Criteria

The recording of capital assets and the calculation of depreciation is the responsibility of the City of Houston. Therefore, a listing of all capital assets including new additions and deletions along with the corresponding accumulated depreciation should be completed before preparation of the financial statements.

Effect

A control deficiency exists due to the City of Houston lacking the controls and procedures necessary for the recording of capital assets and the calculation of accumulated depreciation. However, the auditor prepared accumulated depreciation schedules give the City of Houston, Mississippi's management confidence that the financial statements are materially correct.

Cause

The City of Houston is capable of updating the capital asset records and calculating the accumulated depreciation. However, they lack the necessary controls and procedures in order to properly record capital assets and depreciation.

Recommendation

As capital assets are purchased they should be entered into the fixed asset subsidiary ledger and then depreciation for the asset should be calculated and recorded in the financial statements.

Response

Future capital asset acquisitions will be entered into the fixed asset subsidiary ledger and asset depreciation will be calculated and reflected in the financial statements.

07-05 Statement of Condition

As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management does not have the ability to evaluate the completeness of financial statement disclosures. The absence of this control procedure is considered a significant deficiency because the potential exists that a more than inconsequential but less than a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

Criteria

Preparation of the financial statements including the required note disclosures is the responsibility of the City of Houston. Our responsibility as auditors is to express an opinion on the financial statements.

Effect

A control deficiency exists due to the City lacking controls and procedures necessary for the preparation of the financial statements. However, the Auditor prepared financial statements give the City of Houston, Mississippi's management confidence that the financial statements are materially correct.

Cause

The City of Houston, Mississippi is capable of preparation of the financial statements. However, they lack the expertise to prepare the required disclosures.

Recommendation

Management of the City of Houston, Mississippi should review, approve, and accept auditor prepared financial statements, including disclosures prior to their issuance.

Response

Auditor-prepared financial statements and disclosures will be reviewed, approved, and accepted by City of Houston management prior to their issuance.

Auditee's Summary of Prior Year Findings

The 2006 audited financial statements contained no findings relative to internal control over financial reporting and compliance and other matters.