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CITY OF MACON, MISSISSIPPI

AUDIT REPORT

SEPTEMBER 30, 2007

**WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF MACON, MISSISSIPPI
AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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WATKINS, WARD AND STAFFORD

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**INDEPENDENT AUDITORS' REPORT
ON THE COMBINED STATEMENT OF CASH RECEIPTS AND
DISBURSEMENTS AND
SUPPLEMENTAL INFORMATION**

Honorable Mayor and Board of Alderman
City of Macon
Macon, Mississippi

We have audited the accompanying Combined Statement of Cash Receipts and Disbursements of the City of Macon, Mississippi, as of and for the year ended September 30, 2007, as listed in the table of contents. The Combined Statement of Cash Receipts and Disbursements is the responsibility of the City of Macon, Mississippi's management. Our responsibility is to express an opinion on the Combined Statement of Cash Receipts and Disbursements based on our audit.

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*, 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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.

As discussed in Note 1C, the City of Macon, Mississippi, prepares its financial statement on the cash receipts and disbursements basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note 1A, the Combined Statement of Cash Receipts and Disbursements presents only the governmental funds, fiduciary fund, and one proprietary fund and does not purport to, and does not, present fairly the respective results of its operations – cash basis of the City of Macon, Mississippi, as of September 30, 2007, and its proprietary

fund types and nonexpendable trust funds respective results of operations – cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1C.

In our opinion, the Combined Statement of Cash Receipts and Disbursements presents fairly, in all material respects, the respective results of its operations – cash basis of the City of Macon, Mississippi's governmental funds, fiduciary fund, and one proprietary fund, as of September 30, 2007, and its proprietary fund type and nonexpendable trust funds respective results of operations – cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1C.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2008, on our consideration of the City of Macon, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City of Macon, Mississippi, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic Combined Statement of Cash Receipts and Disbursements.

Our audit was conducted for the purpose of forming an opinion on the Combined Statement of Cash Receipts and Disbursements taken as a whole. The accompanying schedule of long-term debt, schedule of investments, and schedule of surety bonds for municipal officials are presented for the purposes of additional analysis and are not a required part of the Combined Statement of Cash Receipts and Disbursements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the Combined Statement of Cash Receipts and Disbursements of the City of Macon, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the Combined Statement of Cash Receipts and Disbursements and, in our opinion, are fairly stated in all material respects in relation to the Combined Statement of Cash Receipts and Disbursements taken as a whole.

Macon, Mississippi
January 14, 2008

Watkins Ward and Stafford PLLC

COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

CITY OF MACON, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
ALL FUNDS EXCLUDING THE ELECTRIC PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	General	Special Revenue	Capital Projects	Debt Service	Proprietary Fund	Fiduciary Fund
Revenues						
General Property Taxes	\$ 656,469					
Penalties and interest on delinquent taxes	50					
Licenses and permits	9,905					
In lieu of taxes/franchise taxes:						
Four-County	7,369					
Mississippi Cable	5,491					
Mississippi Valley Gas	12,892					
Tennessee Valley Authority	42,455					
Macon Electric Department	165,899					
Intergovernmental Revenues:						
Federal Revenue:						
Federal Emergency Management Agency	28,443					
Home Program Grant			129,042			
CDBG Grant			22,374			
FAA Grant			146,473			
ARC Grant					155,210	
Rural Development Grant	2,371		275,499			
Justice Assistance Grant	1,587					
Local Shared Revenues:						
County allocations	63,404					
State Shared Revenues:						
State grants	16,646		3,481			
Sales tax	575,010					
Gasoline Tax	6,767					
Homestead reimbursement	51,682					
General municipal aid	1,283					
Liquor privilege tax	900					
Charges for Services:						
Water Utility					754,593	
Refuse collection	169,737					
Fines and forfeitures	64,073					
Interest	47,864	362	358	507	5,562	6,418
Rents and royalties	76,587					
Perpetual care and sale of lots						3,520
Miscellaneous	5,708				1,319	
Total Receipts	<u>2,012,592</u>	<u>362</u>	<u>577,227</u>	<u>507</u>	<u>916,684</u>	<u>9,938</u>

The accompanying notes are an integral part of this financial statement.

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF MACON, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
ALL FUNDS EXCLUDING THE ELECTRIC PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	General	Special Revenue	Capital Projects	Debt Service	Proprietary Fund	Fiduciary Fund
Other Receipts:						
Bonds Issued	1,664,667				53,250	
Investment of municipality	431,347		40,000	31,718	267,685	
Loans and Transfers	2,096,014		40,000	31,718	320,935	
Total Other Receipts	4,108,606	362	617,227	32,225	1,237,619	9,938
Total Receipts	631,835	14,395	48,941	28,083	761,054	93,755
Cash Balance - Beginning of Year	4,740,441	14,757	666,168	60,308	1,998,673	103,693
Total Amount to Account For	\$					
Operating Disbursements:						
General government	633,477					
Public safety:						
Police	592,411					
Fire	72,363					
Public works	366,143					
Health and welfare	161,927					
Culture and recreation	108,940					
Engineering and professional fees			113,840			
Enterprise:						
Water Utility					359,569	
Interest on Bonds					73,686	
Total Operating Disbursements	1,935,261	0	113,840	0	433,255	-
Other Disbursements:						
Bonds Retired	34,667		523,900		45,390	
Capital Outlay	299,403				366,948	
Loans and Transfers	334,070		523,900		431,263	
Total Other Disbursements	2,269,331	0	637,740	0	843,601	
Total Disbursements	2,471,110	14,757	28,428	60,308	1,276,856	
Cash Balance - End of Year	4,740,441	14,757	666,168	60,308	721,817	103,693
Total Amount Accounted For	\$				1,998,673	103,693

The accompanying notes are an integral part of this financial statement.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The citizens of Macon, Mississippi have elected to operate under a Code Charter as permitted by Mississippi Statue 21-3-3, which prescribes a Mayor and Board of Alderman form of government.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic-but not only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City of Macon, Mississippi's reporting entity.

Not included within the reporting entity:

City of Macon Electric Department. The Electric Department's governing board is the City of Macon, Mississippi's governing body. The rates for user charges and bond issuance authorizations are determined by the government's governing body. The Electric Department has been

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Note 1: Summary of Significant Accounting Policies (Continued)

excluded from the City of Macon's financial statement. The Electric Department prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the provision of the power contract between the Electric Department and the Tennessee Valley Authority, and are consistent with the requirements of the Federal Energy Regulatory Commission's system of accounts which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The fiscal year end for the Electric Department is June 30, and a separate audit report was issued on December 14, 2007.

The following is a summary of the more significant accounting principles:

B. Fund Accounting

The accounts of the City of Macon, Mississippi are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into five generic fund types and three broad fund categories as follows:

Governmental Funds

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

Special Revenue Fund- The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific expenditure purposes. The Special Revenue Fund is the Environmental Protection Agency Fund.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs. The primary revenue source is local property taxes levied specifically for debt service.

Capital Projects Fund – The Capital Projects Fund is used to account for the acquisition of fixed assets or construction of major capital projects not being financed by Proprietary or Nonexpendable Trust Funds.

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Proprietary Funds are the Electric System and the Water and Sewer Department. The Electric System operates under the Tennessee Valley Authority and is accounted for and reported on separately with a fiscal year end of June 30.

Fiduciary Funds

Trust and Agency Fund – The Trust and Agency Fund is used to account for assets held by the City of Macon, Mississippi in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Nonexpendable Trust Funds are used to account for the principal portion of Trust Funds, the part which cannot be expended. They are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. The Trust and Agency Fund is the Cemetery Fund.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The financial statement is prepared on a cash receipts and disbursements basis, as prescribed by the Office of the State Auditor. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

D. Use of Estimates

The preparation of financial statements in conformity with the cash receipts and disbursements basis, as prescribed by the Office of the State Auditor requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Encumbrances

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Accounts

For proprietary funds (including Macon Electric and Water and Sewer) the City of Macon, Mississippi records expense and liability for compensated absences as the benefit is earned. Because the focus of the General Fund is "spendable resources" the expenditure is not recorded until the liability is discharged. However, the obligation is recorded in the Schedule of Long-Term Debt as the benefit is earned by the employees. The City of Macon, Mississippi's policy on annual leave is it must be taken within the year accrued. Except for certain situations, five workdays may be carried over into the next year. The carryover of annual leave is immaterial; therefore it is not recorded in the Schedule of Long-Term Debt.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Note 2: Cash and Other Deposits

The carrying amount of the City's deposits with financial institutions was \$3,400,113 and the bank balance was \$ 3,384,374. The bank balance is categorized as follows:

Amount collateralized with securities held by the pledging financial institutions trust department or agent in the City's name	<u>\$ 3,384,374</u>
Total Bank Balance	<u>\$ 3,384,374</u>

Note 3: Long-Term Debt

The following is a summary of transactions of the City of Macon, Mississippi for the year ended September 30, 2007:

	Bonds Payable at 10/1/2006	Bonds		Bonds Payable at 9/30/2007
		Issued	Retired	
Water and Sewer				
Revenue Bonds	\$ 1,622,063		45,390	1,576,673
GO Street Imp Bonds		1,664,667		1,664,667
Capital Improvements-				
Revolving Loan	43,600		11,303	32,297
Totals	<u>\$ 1,665,663</u>	<u>1,664,667</u>	<u>56,693</u>	<u>3,273,637</u>

All liabilities of the City of Macon, Mississippi except for Revenue Bonds are secured by the full faith and credit of the municipality.

The three outstanding issues of Revenue Bonds are due in annual installments ranging from \$25,380 to \$43,812 each through various dates, the last of which is the year 2033. Interest rates range from 4.50% to 7.13%.

The outstanding issue of General Obligation Bonds is due in annual installments with principal payments due in May of each year and interest payments due in November of each year starting in 2008 and ending in

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Note 3: Long-Term Debt (Continued)

2019. The payment amounts and the interest rate increase slightly each year. The interest rate starts at 3.7% and ends at 4.1%.

The outstanding Capital Improvement Revolving loan is due in monthly installments of \$966 per month, the last of which is September 2010. Interest is 3%.

Revenue Bond debt service requirements, including interest, for the next five years and to the maturity are as follows:

<u>Fiscal Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2008	\$ 69,192
2009	\$ 69,192
2010	\$ 69,192
2011	\$ 69,192
2012	\$ 69,192
Thereafter	\$1,392,195

General Obligation Bond debt service requirements, including interest, for the next five years and to the maturity are as follows:

<u>Fiscal Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2008	\$ 169,155
2009	\$ 175,008
2010	\$ 175,577
2011	\$ 176,170
2012	\$ 176,728
Thereafter	\$1,249,341

Capital Improvements Revolving Loan debt service requirements, including interest for the next three years and to maturity are as follows:

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Note 3: Long-Term Debt (Continued)

<u>Fiscal Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2008	\$ 11,587
2009	\$ 11,587
2010	\$ 11,588

Note 4: Report Classifications

Receipts and disbursements were classified according to requirements for small towns in the State of Mississippi as prescribed by the Office of the State Auditor.

Note 5: Defined Benefit Pension Plan

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

Funding Policy: PERS members are required to contribute 7.25% of their annual covered salary and the City of Macon, Mississippi is required to contribute at an actuarially determined rate. The current rate is 11.85% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Macon, Mississippi's contributions to PERS for the years ending September 30, 2007, 2006 and 2005 were \$83,136, \$71,456 and \$67,965 respectively, equal to the required contributions for each year.

CITY OF MACON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Note 6: Joint Ventures

The City of Macon, Mississippi entered into an agreement on November 8, 1994, with the Golden Triangle Regional Solid Waste Management Authority. This authority was organized under laws of the state of Mississippi (Section 17-17-301 et seq. Ms. Code of 1972 as amended). The authority's purpose is to operate and maintain a landfill facility. The project was permitted by DEQ in December, 1994. The City of Macon, Mississippi's share of expense and liability is based on a pro rata share of waste tonnage. The other members of the Authority are Noxubee County, City of West Point, Clay County, City of Columbus, Lowndes County, City of Starkville, Oktibbeha County, City of Eupora, Webster County, the Town of Ackerman and Choctaw County.

Note 7: Risk Management

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

Note 8: Property Tax

Property taxes attach an enforceable lien on the property as of January 1st. Taxes are levied as of January 1st and are payable on or before February 1st. The City taxes are collected and remitted to the city by the Noxubee County Tax Collector.

The distribution of taxes to funds was made in accordance with prescribed tax levies, and uncollected taxes were properly handled.

Delinquent taxes are not recorded as assets.

SUPPLEMENTAL INFORMATION

CITY OF MACON, MISSISSIPPI
SCHEDULE OF LONG-TERM DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

<u>DEFINITION AND PURPOSE</u>	<u>Balance Outstanding 10-1-2006</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance Outstanding 9-30-2007</u>
General Obligation Bonds:				
G O Bonds - 2007	\$	1,664,667		1,664,667
Revenue Bonds:				
W & S Revenue Bond - 1999	657,124		12,879	644,245
W & S Revenue Bond - 2001	135,274		19,697	115,577
W & S Revenue Bond - 2003	829,665		12,814	816,851
Other Long-term Debt:				
Capital Improvements- Revolving Loan	<u>43,600</u>		<u>11,303</u>	<u>32,297</u>
Totals	<u>\$ 1,665,663</u>	<u>1,664,667</u>	<u>56,693</u>	<u>3,273,637</u>

All liabilities of the City of Macon, Mississippi except for Revenue Bonds are secured by the full faith and credit of the municipality.

CITY OF MACON, MISSISSIPPI
SCHEDULE OF INVESTMENTS - ALL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

OWNERSHIP	TYPE OF INVESTMENT	INTEREST RATE	ACQUISITION DATE	MATURITY DATE	OTHER INFORMATION	INVESTMENT COST/VALUE
Special Revenue Fund	Certificate of Deposit	5.09%	3/21/2007	3/21/2008	Bankfirst Financial Services	\$ 10,000
Enterprise Fund - Water Dept.	Certificate of Deposit	5.21%	12/12/2006	12/12/2007	Bankfirst Financial Services	131,562
TOTAL INVESTMENTS						\$ 141,562

CITY OF MACON, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
SEPTEMBER 30, 2007

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Bond Amount</u>
Pamela P. Norris	City Clerk	Western Surety Co.	\$ 55,000
Robert E. Boykin	Mayor	Western Surety Co.	100,000
Aubrey I. Freshour, Jr.	Chief of Police	Western Surety Co.	50,000
Josefina Harvey	Deputy Clerk	U.S.F. & G.	10,000
Lucious Mason	Deputy Police Chief	Western Surety Co.	25,000
Yolanda Welch	Court Clerk	Western Surety Co.	10,000
Earnestine George	Alderman	Travelers Casualty	35,000
James Watkins	Alderman	Travelers Casualty	35,000
Charles Perkins	Alderman	Travelers Casualty	35,000
Thomas Campbell	Alderman	Travelers Casualty	35,000
Willie Dixon	Alderman	Travelers Casualty	35,000
Twanda R Sanders	Water Dept Clerk	Travelers Casualty	10,000
Peggy Brown	Clerk	Brierfield Insurance	10,000
Latitia Carol Rigdon	Water Dept Office Mgr	St. Paul Travelers	10,000
Janice Binion	Water Dept Cashier	Western Surety Co.	10,000
William E Whitehead	Water Dept Field Superintendent	St Paul Travelers	1,000
Dedrick Stevenson	Water Dept Collector	Brierfield Insurance	5,000
Ernest Jones	Water Dept Collector	Western Surety Co.	5,000
Kevin Mitchener	Water Dept Collector	Western Surety Co.	5,000
Terry Knight	Water Dept Collector	Brierfield Insurance	5,000

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



WATKINS, WARD AND STAFFORD
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
 WITH STATE LAWS AND REGULATIONS**

Honorable Mayor and Board of Alderman
 City of Macon
 Macon, Mississippi

We have audited the Combined Statement of Cash Receipts and Disbursements and supplemental information of the City of Macon, Mississippi, as of and for the year ended September 30, 2007, and have issued our report dated January 14, 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 Combined Statement of Cash Receipts and Disbursements and supplemental information disclosed no material instances of noncompliance with state laws and regulations.

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 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.

Macon, Mississippi
 January 14, 2008

Watkins Ward and Stafford P.C.

**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***



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**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***

The Honorable Mayor and Board of Alderman
City of Macon
Macon, Mississippi

We have audited the Combined Statement of Cash Receipts and Disbursements and supplemental information of the City of Macon, Mississippi as of and for the year ended September 30, 2007, and have issued our report thereon dated January 14, 2008. The City of Macon, Mississippi, prepares its Combined Statement of Cash Receipts and Disbursements on the cash receipts and disbursements basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Except as discussed in the preceding sentence, 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 of Macon, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Combined Statement of Cash Receipts and Disbursements and supplemental information, but not for the purpose of expressing an opinion on the effectiveness of the City of Macon, Mississippi's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Macon, 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 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 City of Macon, Mississippi's ability to initiate, 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 City of Macon, Mississippi's Combined Statement of Cash Receipts and Disbursements and supplemental information that is more than inconsequential will not be prevented or detected by the City of Macon, Mississippi's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs 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 Combined Statement of Cash Receipts and Disbursements and supplemental information will not be prevented or detected by the City of Macon, Mississippi's internal control.

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 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, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Macon, Mississippi's Combined Statement of Cash Receipts and Disbursements and supplemental information 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 Macon, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Macon, Mississippi's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Alderman, State Department of Audit and federal awarding agencies and pass-through

entities and is not intended to be and should not be used by anyone other than these specified parties.

Macon, Mississippi
January 14, 2008

Watkins Ward and Stafford PLLC

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



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

The Honorable Mayor and Board of Alderman
City of Macon
Macon, Mississippi

Compliance

We have audited the compliance of the City of Macon, 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 City of Macon, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Macon, Mississippi's management. Our responsibility is to express an opinion on the City of Macon, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Macon, 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 City of Macon, Mississippi's compliance with those requirements.

In our opinion, the City of Macon, 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 City of Macon, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Macon, Mississippi's internal control over compliance with the 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 City of Macon, 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all 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 management, Board of Alderman, State Department of Audit and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macon, Mississippi
January 14, 2008

Watkins Ward and Stafford PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MACON, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Section 1: Summary of Auditors' Results

1. An unqualified opinion was issued on the Combined Statement of Cash Receipts and Disbursements and supplemental information.
2. The audit of the Combined Statement of Cash Receipts and Disbursements and supplemental information did not disclose any material weaknesses in internal control.
3. The audit did not disclose any reportable conditions of noncompliance which are material to the Combined Statement of Cash Receipts and Disbursements and supplemental information.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510(a) of OMB Circular A-133.
7. The major program was U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities (CFDA #10.760).
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

Section 2: Findings Relating to the Combined Statement of Cash Receipts and Disbursements

- 1.) Finding: There were two instances in the test of disbursements where supporting documentation could not be located.

Recommendation: Supporting documentation needs to be obtained for all disbursements.

Response: The City will obtain supporting documentation for all disbursements in the future.

2.) Finding: There was one instance where a Form I-9 was not obtained and included in an employee's personnel file.

Recommendation: Form I-9s should be obtained from all employees and kept in personnel files.

Response: The City will obtain Form I-9s from all new employees and keep them in personnel files.

3.) Finding: The City utilized the General Fund for the accounting of a major capital project.

Recommendation: The City should account for all major capital projects in the Capital Projects Fund.

Response: The City will account for all major capital projects in the Capital Projects Fund in the future.

Section 3: Findings and Questioned Costs for Federal Awards

None

CITY OF MACON, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

<u>Federal Agency/ Pass-through Entity/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Expenditures Total</u>
<u>U.S. Department of Transportation:</u>		
Airport Improvement Program	20.106	\$ <u>139,237</u>
<u>U.S. Department of Housing and Urban Development:</u>		
Home Investment Partnerships Program	14.239	147,380
Community Development Block Grants / State's Program	14.228	<u>22,374</u>
		<u>169,754</u>
<u>U.S. Department of Agriculture:</u>		
Water & Waste Disposal Systems for Rural Communities	10.760	275,499
Community Facilities Loans and Grants	10.766	<u>12,814</u>
		<u>288,313</u>
<u>U.S. Department of Homeland Security:</u>		
Disaster Grants - Public Assistance	97.036	<u>28,443</u>
<u>U.S. Department of Justice:</u>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	<u>2,294</u>
<u>Appalachian Regional Commission:</u>		
Appalachian Area Development	23.002	<u>267,685</u>
<u>Total of all Federal Awards</u>		<u><u>\$ 895,726</u></u>