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CITY OF KOSCIUSKO

**Audited Financial Statements
And
Special Reports
For the Year Ended September 30, 2009**

CITY OF KOSCIUSKO

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

Honorable Mayor and
Members of the Board of Aldermen
City of Kosciusko, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of City of Kosciusko, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

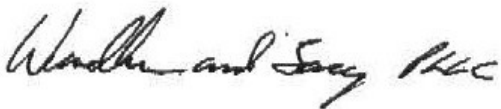
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information for the City of Kosciusko, Mississippi, as of September 30, 2009, 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 March 10, 2010, on our consideration of City of Kosciusko, 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 and the Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 City of Kosciusko, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds for Municipal Officials is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Windham and Lacey, PLLC
March 10, 2010

CITY OF KOSCIUSKO

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Kosciusko

Management's Discussion and Analysis For the Year Ended September 30, 2009

INTRODUCTION

The discussion and analysis of the City of Kosciusko's financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2009. 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.

FINANCIAL HIGHLIGHTS

Total net assets (governmental and business-type activities) increased \$388,634. The City's ending cash and investments balance increased by \$435,670, which represents a 12.6% increase from the prior fiscal year. Total cash for Kosciusko Water and Light increased by \$241,101 which represents a 4.1% increase.

The City had \$4,399,405 in total revenues in its governmental funds. Property tax revenues account for \$1,354,224 or 30.8% of total revenues. State and local revenues in the form of reimbursements, shared revenue or grants, account for \$2,157,701 or 49.0% of total revenues. Federal source revenues account for \$184,174 or 4.2% of total revenues.

The City had \$4,606,495 in total expenses in its governmental funds, which represents a decrease of \$4,187,626 or 47.6% from the prior fiscal year. Most of this decrease was due to expenditures for major capital projects in the prior year. General revenues were adequate to provide for the remainder of the expenses.

Of the major governmental funds, the General Fund had \$3,619,622 in revenues and \$3,339,454 in expenditures. Additionally, the net amount of monies transferred in and out of the General Fund to other funds was \$3,853. As a result, the General Fund's fund balance increased \$284,021 over the prior year.

The other major governmental fund, Debt Service Fund, had revenues of \$223,380 and \$499,459 in expenses. The difference was made up by transfers from other funds.

Among proprietary funds, the Waste Water Fund had \$594,812 in total revenues and \$650,964 in expenditures including \$33,500 transfers to governmental funds. The Waste Water Fund decreased by \$56,152 over the prior year. The Solid Waste Fund, had \$662,632 in total revenues and \$596,623 in total expenses including \$6,000 transfers to governmental funds.

The City's component unit, Kosciusko Water and Light had \$7,760,420 in revenues and \$7,558,413 in expenses including \$347,400 transfers to the General Fund.

City of Kosciusko

Management's Discussion and Analysis For the Year Ended September 30, 2009

Capital assets of governmental activities, net of accumulated depreciation, decreased by \$149,830 due to excess of depreciation charges over new asset acquisitions. Capital assets of business type activities, net of accumulated depreciation, decreased by \$244,265 due to excess of depreciation charges over new asset acquisitions.

Kosciusko Water and Light increased its capital assets over the prior year by \$159,796.

Long-term debt decreased in governmental activities by \$350,491 which represents principal payments made during the year. In the proprietary funds, long-term debt decreased by \$45,316. No new debt was issued in the current year.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of City finances, in a manner similar to private-sector businesses.

The **statement of net assets** presents information on all City 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 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 result in cash flows in future fiscal periods.

Both of these government-wide financial statement distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; public works (streets and bridges); health and welfare; culture and recreation; urban and economic development; and interest on long-term debt.

Business-type activities of the City include waste water and solid waste services. Through its component unit, Kosciusko Water and Light (a business-type activity) the City provides water and electric services.

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 finance-related legal compliance. All the funds of the City can be divided into two categories: governmental funds and proprietary funds.

City of Kosciusko

Management's Discussion and Analysis For the Year Ended September 30, 2009

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. Governmental funds include the general, special revenue, debt service and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Balance Sheet Governmental Funds" and the "Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains individual governmental funds in accordance with the *Mississippi Municipal Financial Accounting Manual* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental funds balance sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

Proprietary funds are used to account for resources used to operate the City's waste water and solid waste.

Notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents **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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets - Net assets may serve over time as a useful indicator of government's financial position (governmental activities and business-type activities). In the case of the City of Kosciusko, assets exceeded liabilities by \$13,368,863 as of September 30, 2009.

City of Kosciusko

Management's Discussion and Analysis For the Year Ended September 30, 2009

By far, the largest portion of the City's net assets (66.8%) reflects its investment in capital assets, (e.g. streets, bridges, land, buildings, waste water infrastructure, mobile equipment, furniture & equipment) less related outstanding debt used to acquire such assets. The City uses these capital assets to provide services to its citizens. Kosciusko Water and Light's investment in capital assets and the amount designated to replace plant and equipment, net of related debt, is 94.5% of its net assets.

The City's financial position is a product of several financial transactions including the net results 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, 2009.

SUMMARY OF NET ASSETS

September 30, 2009

(With Comparative Totals as of September 30, 2008)

	Governmental Activities	Business-type Activities	Total	(Memorandum Only 2008)	Component Unit Kosciusko Light and Water Plant	(Memorandum Only 2008)
Current assets	\$ 3,998,093	1,597,377	5,595,470	4,019,452	1,710,443	1,956,565
Restricted cash and investments					5,681,937	5,637,864
Note receivable	309,856		309,856	307,050		
Capital assets, net	<u>7,545,152</u>	<u>6,344,026</u>	<u>13,889,178</u>	<u>14,283,273</u>	<u>7,033,153</u>	<u>6,873,357</u>
Total assets	<u>\$ 11,853,101</u>	<u>7,941,403</u>	<u>19,794,504</u>	<u>18,609,775</u>	<u>14,425,533</u>	<u>14,467,786</u>
Current liabilities	\$ 1,661,148	188,770	1,849,918	819,387	562,882	841,461
Non-current liabilities	<u>3,665,530</u>	<u>910,193</u>	<u>4,575,723</u>	<u>4,970,567</u>	<u>414,185</u>	<u>379,866</u>
Total liabilities	<u>\$ 5,326,678</u>	<u>1,098,963</u>	<u>6,425,641</u>	<u>5,789,954</u>	<u>977,067</u>	<u>1,221,327</u>
Net assets						
Invested in capital assets, net of related debt	\$ 3,537,100	5,391,642	8,928,742	8,880,531	7,033,153	6,873,357
Restricted	1,267,915		1,267,915	307,050	5,681,937	5,637,864
Unrestricted	<u>1,721,408</u>	<u>1,450,798</u>	<u>3,172,206</u>	<u>3,632,240</u>	<u>733,376</u>	<u>735,238</u>
Total net assets	<u>\$ 6,526,423</u>	<u>6,842,440</u>	<u>13,368,863</u>	<u>12,819,821</u>	<u>13,448,466</u>	<u>13,246,459</u>

Changes in Net Assets - The City of Kosciusko's total revenues for the fiscal year ended September 30, 2009 (governmental activities and business-type activities) was \$5,997,415 including transfers from Kosciusko Water and Light of \$347,400. The total cost for all services provided was \$5,608,781. The increase in net assets was \$388,634. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2009.

City of Kosciusko

Management's Discussion and Analysis
For the Year Ended September 30, 2009

Kosciusko Water and Light's total revenues for the fiscal year ended September 30, 2009 was \$7,760,420. The total cost of services provided was \$7,558,413 including transfers to General Fund of \$347,400. The increase in net assets was \$202,007.

Changes in Net Assets
September 30, 2009
(With Comparative Totals as of September 30, 2008)

	Governmental Activities	Business-type Activities	Total	(Memorandum Only 2008)	Component Unit Kosciusko Light and Water Plant	(Memorandum Only 2008)
Revenues:						
Program revenues						
Charges for services, fines and fees	\$ 411,429	1,105,681	1,517,110	1,375,239	7,385,396	7,128,121
Operating grants and contributions	137,661		137,661	322,259		
Capital grants and contributions	236,295		236,295	985,026	204,736	406,898
General revenues						
Property taxes	1,346,154	134,249	1,480,403	1,248,974		
Sales taxes	2,006,897		2,006,897	2,021,568		
Franchise taxes	122,595		122,595	133,688		
Unrestricted grants and contributions	28,953		28,953	79,462		
Interest	28,531	17,513	46,044	105,713	161,438	245,603
Other	74,057		74,057	489,105	8,850	28,627
Total Revenues	<u>4,392,572</u>	<u>1,257,443</u>	<u>5,650,015</u>	<u>6,761,034</u>	<u>7,760,420</u>	<u>7,809,249</u>
Expenses:						
General government	580,882		580,882	594,774		
Public safety	2,120,323		2,120,323	1,844,329		
Public works	763,453		763,453	686,173		
Health and welfare	304,355		304,355	419,228		
Culture and recreation	414,375		414,375			
Economic Development and Assistance	69,760		69,760			
Interest on long-term debt	147,546		147,546	87,240		
Miscellaneous				1,140,225		
Waste water		617,464	617,464	599,488		
Solid waste		590,623	590,623	635,080		
Kosciusko Water and Light Plant					7,211,013	7,010,377
Total Expenses	<u>4,400,694</u>	<u>1,208,087</u>	<u>5,608,781</u>	<u>6,006,537</u>	<u>7,211,013</u>	<u>7,010,377</u>
Increase (decrease) in net assets	(8,122)	49,356	\$ 41,234	754,497	549,407	798,872
Transfers	386,900	(39,500)	\$ 347,400	337,400	(347,400)	(337,400)
Prior period adjustment						
Change in Net Assets	<u>\$ 378,778</u>	<u>9,856</u>	<u>\$ 388,634</u>	<u>1,091,897</u>	<u>202,007</u>	<u>461,472</u>

City of Kosciusko

Management's Discussion and Analysis
For the Year Ended September 30, 2009

Governmental Activities -The following table presents the cost of major functional activities of the City: General Government, Public Safety, Public Works, Health and Welfare, Culture and Recreation, Economic Development, interest on long-term debt, Waste Water, Solid Waste and Kosciusko Water and Light.

Cost of Major Functional Activities
September 30, 2009
(With Comparative Totals as of September 30, 2008)

	2009		Memorandum Only 2008	
	Total Costs	Net Costs	Total Costs	Net Costs
General government	\$ 580,882	\$ (580,882)	\$ 594,774	\$ 665,671
Public safety	2,120,323	(1,682,547)	1,844,329	(1,542,284)
Public works	763,453	(676,464)	686,173	(686,173)
Health and welfare	304,355	(153,778)	419,228	(419,228)
Culture and recreation	414,375	(304,332)		
Economic development	69,760	(69,760)		
Miscellaneous			1,140,225	(1,140,225)
Interest on long-term debt	147,546	(147,546)	87,240	(87,240)
Waste Water	617,464	(3,779)	599,488	(11,960)
Solid Waste	590,623	(64,607)	635,080	(102,664)
Kosciusko Water and Light	7,211,013	379,119	7,010,377	524,642

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds - At the close of the fiscal year, Kosciusko's governmental funds reported a combined fund balance of \$3,037,462, an increase of \$179,810.

The General Fund is the principal operating fund of the City. The increase in the fund balance of the General Fund for the fiscal year was \$284,021.

Proprietary funds - At the close of the fiscal year, Kosciusko's proprietary funds reported a combined fund balance of \$6,842,442, an increase of \$9,858.

Component Unit - At the close of the fiscal year, Kosciusko Water and Light reported a fund balance of \$13,448,466, an increase of \$202,007.

City of Kosciusko

Management's Discussion and Analysis
For the Year Ended September 30, 2009

BUDGETARY HIGHLIGHTS (of General Fund Major Funds only)

Over the course of the year, the City revised its annual operating budget on several occasions. Budget amendments are explained as follows:

- Changes were made to reflect increases and decreases in revenues and expenditures.

Even with these adjustments, actual disbursements were below original budget amounts by \$294,876.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - As of September 30, 2009, the City of Kosciusko's total capital assets (governmental activities and business-type activities) were \$20,322,004. This includes infrastructure, land, buildings, mobile equipment, furniture and equipment, and waste water infrastructure.

Total accumulated depreciation as of September 30, 2009, was \$6,432,826, including \$680,722 of depreciation expense for the year. The balance in total net capital assets was \$13,889,178 at year-end.

Kosciusko Water and Light had total capital assets of \$14,835,814 and total accumulated depreciation of \$7,802,661 at September 30, 2009, including \$343,399 of depreciation expense for the year. The balance in total net capital assets was \$7,033,153 at year-end.

Additional information on the City's capital assets can be found in "Notes to Financial Statements" of this report.

Debt Administration - On September 30, 2009, the City of Kosciusko had \$4,008,052 long-term debt outstanding in its governmental activities. Of this debt, \$342,522 is due within one year.

The business-type activities had \$952,385 long-term debt outstanding on September 30, 2009. Of this debt \$42,191 is due within one year.

The State of Mississippi limits the amount of debt a City can issue to generally 15% of the total assessed value. Debt issued to fund water and sewer projects is exempted from these limits. As a result, the City has excess legal debt capacity of \$3,182,653.

City of Kosciusko

Management's Discussion and Analysis For the Year Ended September 30, 2009

Additional information on Kosciusko's long-term debt can be found in "Notes to Financial Statements" of this report.

CURRENT/FUTURE ITEMS OF IMPACT

The City of Kosciusko has and will continue to seek funding to update infrastructure as the funds allow. Over the past several years the City has been able to accomplish several long-term goals.

The city has also continued to make improvements to parks. During 2007, the City began work on a new soccer complex. That work was completed in 2009.

The City will continue to aggressively seek funding to maintain the needed level of services and infrastructure at the most economical cost.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at 222 E. Washington Street, Kosciusko, Mississippi 39090.

CITY OF KOSCIUSKO

BASIC FINANCIAL STATEMENTS

The basic financial statements included integrated sets of financial statements as required by the GASB. The sets of statements include:

Government-wide financial statements

Fund financial statements:

Governmental funds

Proprietary (enterprise) fund

In addition, the notes to the financial statements are included to provide information that is essential to user's understanding of the basic financial statements

City of Kosciusko
Statement of Net Assets
September 30, 2009

Exhibit 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit Kosciusko Light and Water Plant</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 1,970,033	407,461	2,377,494	397,004
Investments	494,999	1,025,000	1,519,999	
Property tax receivable	1,125,000	117,700	1,242,700	
Accounts receivable, net				983,022
Interest receivable	1,825	5,211	7,036	3,956
Intergovernmental receivables	357,792	42,005	399,797	
Other receivables	48,444		48,444	
Inventory, at cost				306,255
Prepaid expenses				20,206
Total current assets	<u>3,998,093</u>	<u>1,597,377</u>	<u>5,595,470</u>	<u>1,710,443</u>
Noncurrent Assets:				
Note receivable	309,856		309,856	
Designated Cash:				
Customer deposits				181,563
Property, plant, equipment replacement				348,553
Designated investments:				
Customer deposits				232,622
Property, plant, equipment replacement				4,919,199
Capital assets, net	<u>7,545,152</u>	<u>6,344,026</u>	<u>13,889,178</u>	<u>7,033,153</u>
Total noncurrent assets	<u>7,855,008</u>	<u>6,344,026</u>	<u>14,199,034</u>	<u>12,715,090</u>
Total Assets	<u>\$ 11,853,101</u>	<u>7,941,403</u>	<u>19,794,504</u>	<u>14,425,533</u>
LIABILITIES				
Current Liabilities:				
Claims payable	\$ 70,733	15,010	85,743	461,019
Accrued payroll	74,666	9,838	84,504	21,486
Deferred revenue	1,125,000	117,700	1,242,700	
Intergovernmental payable				42,044
Compensated absences payable	48,227	4,031	52,258	38,333
Current portion of long-term debt	<u>342,522</u>	<u>42,191</u>	<u>384,713</u>	
Total current liabilities	<u>1,661,148</u>	<u>188,770</u>	<u>1,849,918</u>	<u>562,882</u>
Noncurrent Liabilities:				
Customer deposits				414,185
Long-term liabilities	<u>3,665,530</u>	<u>910,193</u>	<u>4,575,723</u>	
Total noncurrent liabilities	<u>3,665,530</u>	<u>910,193</u>	<u>4,575,723</u>	<u>414,185</u>
Total Liabilities	<u>5,326,678</u>	<u>1,098,963</u>	<u>6,425,641</u>	<u>977,067</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,537,100	5,391,642	8,928,742	7,033,153
Restricted for:				
Property, plant and equipment replacement				5,267,752
Customer deposits				414,185
Public safety	181,562		181,562	
Public works	737,777		737,777	
Capital projects	348,576		348,576	
Unrestricted	<u>1,721,408</u>	<u>1,450,798</u>	<u>3,172,206</u>	<u>733,376</u>
Total Net Assets	<u>\$ 6,526,423</u>	<u>6,842,440</u>	<u>13,368,863</u>	<u>13,448,466</u>

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

City of Kosciusko
Statement of Activities
For the Year Ended September 30, 2009

Exhibit 2

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>			<u>Component Unit</u>
		<u>Fees, Fines, Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Kosciusko Light and Water Plant</u>
Functions/Programs								
Primary Government:								
Governmental Activities:								
General government	\$ 580,882				(580,882)		(580,882)	
Public safety	2,120,323	351,692	47,313	38,771	(1,682,547)		(1,682,547)	
Public works	763,453	300	20,505	66,184	(676,464)		(676,464)	
Health and welfare	304,355	41,052	69,843	39,682	(153,778)		(153,778)	
Culture and recreation	414,375	18,385		91,658	(304,332)		(304,332)	
Economic Development and Assistance	69,760				(69,760)		(69,760)	
Interest on long-term debt	147,546				(147,546)		(147,546)	
Total Governmental Activities	<u>4,400,694</u>	<u>411,429</u>	<u>137,661</u>	<u>236,295</u>	<u>(3,615,309)</u>	<u>0</u>	<u>(3,615,309)</u>	
Business-type activities:								
Waste Water	617,464	579,665				(37,799)	(37,799)	
Solid Waste	590,623	526,016				(64,607)	(64,607)	
Total Business-type Activities	<u>1,208,087</u>	<u>1,105,681</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(102,406)</u>	<u>(102,406)</u>	
Total Primary Government	\$ <u>5,608,781</u>	<u>1,517,110</u>	<u>137,661</u>	<u>236,295</u>	<u>(3,615,309)</u>	<u>(102,406)</u>	<u>(3,717,715)</u>	
Component Unit:								
Kosciusko Light and Water Plant	\$ <u>7,211,013</u>	<u>7,385,396</u>		<u>204,736</u>				<u>379,119</u>
Total Component Unit	\$ <u>7,211,013</u>	<u>7,385,396</u>	<u>0</u>	<u>204,736</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>379,119</u>

City of Kosciusko
Statement of Activities
For the Year Ended September 30, 2009

Exhibit 2 (Continued)

	<u>Net (Expense) Revenue and Changes in Net Assets</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Kosciusko Light and Water Plant</u>
General Revenues				
Taxes:				
Property taxes	\$ 1,346,154	134,249	1,480,403	
Sales tax	2,006,897		2,006,897	
Franchise taxes	122,595		122,595	
Grants and contributions not otherwise restricted	28,953		28,953	
Unrestricted investment income	28,531	17,513	46,044	161,438
Miscellaneous	74,057		74,057	8,850
Transfers	386,900	(39,500)	347,400	(347,400)
Total General Revenues	<u>3,994,087</u>	<u>112,262</u>	<u>4,106,349</u>	<u>(177,112)</u>
Change in net assets	<u>378,778</u>	<u>9,856</u>	<u>388,634</u>	<u>202,007</u>
Net Assets - Beginning	5,987,293	6,832,584	12,819,877	13,246,459
Prior Period Adjustment	160,352		160,352	
Net Assets - Restated	<u>6,147,645</u>	<u>6,832,584</u>	<u>12,980,229</u>	<u>13,246,459</u>
Net Assets - Ending	<u>\$ 6,526,423</u>	<u>6,842,440</u>	<u>13,368,863</u>	<u>13,448,466</u>

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

**City of Kosciusko
Balance Sheet
Governmental Funds
September 30, 2009**

Exhibit 3

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund		
ASSETS				
Cash and cash equivalents	\$ 1,213,224	8,224	748,585	1,970,033
Investments	270,000		224,999	494,999
Property tax receivable	906,800	218,200		1,125,000
Intergovernmental receivables	309,277	2,416	46,099	357,792
Interest receivable	1,113		712	1,825
Note receivable			309,856	309,856
Due from other funds	31,088			31,088
Other receivables	48,356			48,356
Total Assets	<u>\$ 2,779,858</u>	<u>228,840</u>	<u>1,330,251</u>	<u>4,338,949</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Claims payable	\$ 52,050		18,683	70,733
Due to other funds			31,088	31,088
Other current liabilities	62,071		12,595	74,666
Deferred revenue	906,800	218,200		1,125,000
Total Liabilities	<u>1,020,921</u>	<u>218,200</u>	<u>62,366</u>	<u>1,301,487</u>
Fund Balances:				
Reserved for note receivable			309,856	309,856
Reserved for debt service		10,640		10,640
Unreserved:				
General fund	1,758,937			1,758,937
Capital projects funds			348,576	348,576
Special revenue funds			609,453	609,453
Total Fund Balances	<u>1,758,937</u>	<u>10,640</u>	<u>1,267,885</u>	<u>3,037,462</u>
Total Liabilities and Fund Balances	<u>\$ 2,779,858</u>	<u>228,840</u>	<u>1,330,251</u>	<u>4,338,949</u>

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

City of Kosciusko
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2009

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds (Exhibit 3)	\$ 3,037,462
Amounts reported for governmental services in the Statement of Net Assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	7,545,152
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Long-term liabilities	(4,008,052)
Compensated absences	(48,227)
Accrued interest on debt	
Other	<u>88</u>
Total net assets - Governmental Activities (Exhibit 1)	\$ <u><u>6,526,423</u></u>

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

City of Kosciusko
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended September 30, 2009

Exhibit 4

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund		
REVENUES				
Property taxes	\$ 1,131,025	223,199		1,354,224
Franchise fees	122,595			122,595
Licenses and permits	30,807			30,807
Fines and forfeitures	178,073			178,073
Intergovernmental revenues	2,031,034		310,841	2,341,875
Charges for services	58,067		181,045	239,112
Interest income	11,892	181	16,458	28,531
Miscellaneous	56,129		48,059	104,188
Total Revenues	3,619,622	223,380	556,403	4,399,405
EXPENDITURES				
Current:				
General government	553,033			553,033
Public safety	1,639,698		315,224	1,954,922
Public works	495,239		331,232	826,471
Health and welfare	228,513		76,190	304,703
Culture and recreation	353,211		44,936	398,147
Urban and economic development	69,760			69,760
Debt service:				
Principal retirement		350,491		350,491
Interest and fiscal charges		148,968		148,968
Total Expenditures	3,339,454	499,459	767,582	4,606,495
Excess (Deficiency) of Revenues Over (Under) Expenditures	280,168	(276,079)	(211,179)	(207,090)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt				
Transfers in	355,900	280,591	185,766	822,257
Transfers out	(352,047)		(83,310)	(435,357)
Total Other Financing Sources and Uses	3,853	280,591	102,456	386,900
Net Change in Fund Balances	284,021	4,512	(108,723)	179,810
Fund Balances - Beginning	1,314,616	6,128	1,376,608	2,697,352
Prior period adjustment	160,300			160,300
Fund Balances - Restated	1,474,916	6,128	1,376,608	2,857,652
Fund Balances - Ending	\$ 1,758,937	10,640	1,267,885	5,895,114

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

City of Kosciusko

Exhibit 4-1

**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, 2009**

	<u>Amount</u>
Net changes in Fund Balances - Governmental Funds (Exhibit 4)	\$ 179,810
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 depreciation of \$425,698 exceeded capital outlays of \$282,693 in the current period.	(143,005)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the basis of assets sold.	(6,825)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$350,491 exceeded debt proceeds of \$-0-.	350,491
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:	
Change in compensated absences	<u>(1,693)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	\$ <u><u>378,778</u></u>

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

City of Kosciusko
Statement of Net Assets
Proprietary Funds and Discretely Presented Component Unit
September 30, 2009

Exhibit 5

				Component Unit
	Waste Water	Solid Waste	Total	Kosciusko Light and Water Plant
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 246,508	160,953	407,461	397,004
Investments	917,000	108,000	1,025,000	
Property tax receivable		117,700	117,700	
Accounts receivable, net				983,022
Interest receivable	4,642	569	5,211	3,956
Intergovernmental receivable	18,610	23,395	42,005	
Inventory, at cost				306,255
Prepaid expenses				20,206
Total current assets	<u>1,186,760</u>	<u>410,617</u>	<u>1,597,377</u>	<u>1,710,443</u>
Noncurrent assets:				
Designated Cash:				
Customer deposits				181,563
Property, plant, equipment replacement				348,553
Designated investments:				
Customer deposits				232,622
Property, plant, equipment replacement				4,919,199
Capital assets, net	<u>6,303,068</u>	<u>40,958</u>	<u>6,344,026</u>	<u>7,033,153</u>
Total noncurrent assets	<u>6,303,068</u>	<u>40,958</u>	<u>6,344,026</u>	<u>12,715,090</u>
Total Assets	<u>\$ 7,489,828</u>	<u>451,575</u>	<u>7,941,403</u>	<u>14,425,533</u>
LIABILITIES				
Current Liabilities:				
Claims payable	\$ 11,558	3,452	15,010	461,019
Accrued payroll	5,596	4,242	9,838	21,486
Deferred revenue		117,700	117,700	
Intergovernmental payable				42,044
Compensated absences payable	3,382	649	4,031	38,333
Current portion of long-term debt	<u>42,191</u>		<u>42,191</u>	
Total current liabilities	<u>62,727</u>	<u>126,043</u>	<u>188,770</u>	<u>562,882</u>
Noncurrent Liabilities:				
Customer deposits				414,185
Long-term liabilities	<u>910,193</u>		<u>910,193</u>	
Total noncurrent liabilities	<u>910,193</u>	<u>0</u>	<u>910,193</u>	<u>414,185</u>
Total Liabilities	<u>972,920</u>	<u>126,043</u>	<u>1,098,963</u>	<u>977,067</u>
NET ASSETS				
Invested in capital assets net of related debt	5,350,684	40,958	5,391,642	7,033,153
Restricted for:				
Property, plant and equipment replacement				5,267,752
Customer deposits				414,185
Unrestricted	<u>1,166,224</u>	<u>284,574</u>	<u>1,450,798</u>	<u>733,376</u>
Total Net Assets	<u>\$ 6,516,908</u>	<u>325,532</u>	<u>6,842,440</u>	<u>13,448,466</u>

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

City of Kosciusko
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds and Discretely Presented Component Unit
For the Year Ended September 30, 2009

Exhibit 6

	<u>Waste Water</u>	<u>Solid Waste</u>	<u>Total</u>	<u>Component Unit Kosciusko Light and Water Plant</u>
OPERATING REVENUES				
Water sales	\$			\$ 853,443
Electric sales				6,474,712
Sewer charges	578,615		578,615	
Other charges for services		526,016	526,016	57,241
Total Operating Revenues	<u>578,615</u>	<u>526,016</u>	<u>1,104,631</u>	<u>7,385,396</u>
COST OF PRODUCTION				
Water				512,287
Electric				5,416,167
Garbage collection fees		400,008	400,008	
Total cost of production	<u>0</u>	<u>400,008</u>	<u>400,008</u>	<u>5,928,454</u>
OPERATING EXPENSES				
Salaries and wages	150,405	102,033	252,438	390,112
Employee benefits	34,818	31,021	65,839	272,740
Supplies		3,432	3,432	18,512
General and administration	98,890	30,588	129,478	194,205
Depreciation expense	236,223	18,801	255,024	343,399
Maintenance and repairs	72,758	4,740	77,498	63,591
Total Operating Expenses	<u>593,094</u>	<u>190,615</u>	<u>783,709</u>	<u>1,282,559</u>
Operating Income (Loss)	<u>(14,479)</u>	<u>(64,607)</u>	<u>(79,086)</u>	<u>174,383</u>
NONOPERATING REVENUES (EXPENSES)				
Federal and state grants				204,736
Tap fees	1,050		1,050	8,850
Interest income	15,147	2,367	17,514	161,438
Interest expense and fiscal fees	(24,369)		(24,369)	
Property taxes		134,249	134,249	
Transfers in (out)	(33,500)	(6,000)	(39,500)	(347,400)
Total Nonoperating Revenue (Expenses)	<u>(41,672)</u>	<u>130,616</u>	<u>88,944</u>	<u>27,624</u>
Change in Net Assets	(56,151)	66,009	9,858	202,007
Total Net Assets - Beginning	<u>6,573,062</u>	<u>259,522</u>	<u>6,832,584</u>	<u>13,246,459</u>
Total Net Assets - Ending	<u>\$ 6,516,911</u>	<u>325,531</u>	<u>6,842,442</u>	<u>13,448,466</u>

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

City of Kosciusko
Statement of Cash Flows
Proprietary Funds and Discretely Presented Component Unit
For the Year Ended September 30, 2009

Exhibit 7

	Waste Water	Solid Waste	Total	Component Unit Kosciusko Light and Water Plant
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 578,615	526,016	1,104,631	7,821,417
Payments to suppliers	(200,624)	(466,798)	(667,422)	(6,788,076)
Payments to employees	(150,145)	(103,275)	(253,420)	(381,262)
Net Cash Provided (Used) by Operating Activities	<u>227,846</u>	<u>(44,057)</u>	<u>183,789</u>	<u>652,079</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in/out	(33,500)	(6,000)	(39,500)	(347,400)
Property tax receipts		134,249	134,249	
Federal and state grants				204,736
Other receipts	1,050	164	1,214	8,850
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(32,450)</u>	<u>128,413</u>	<u>95,963</u>	<u>(133,814)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(7,726)	(3,200)	(10,926)	(503,195)
Principal paid on long-term debt	(45,316)		(45,316)	
Interest expense paid	(24,369)		(24,369)	
Net Cash Provided (Used) by Capital Financing Activities	<u>(77,411)</u>	<u>(3,200)</u>	<u>(80,611)</u>	<u>(503,195)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(387,000)	(53,000)	(440,000)	(198,631)
Interest on investments	15,427	2,603	18,030	191,712
Net Cash Provided From Investing Activities	<u>(371,573)</u>	<u>(50,397)</u>	<u>(421,970)</u>	<u>(6,919)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(253,588)</u>	<u>30,759</u>	<u>(222,829)</u>	<u>8,151</u>
Restricted - customer deposits				147,243
Restricted - equipment replacement				537,430
Unrestricted	500,096	130,194	630,290	199,976
Cash and Cash Equivalents - Beginning of Year	<u>500,096</u>	<u>130,194</u>	<u>630,290</u>	<u>884,649</u>
Restricted - customer deposits				181,563
Restricted - equipment replacement				348,553
Unrestricted	246,508	160,953	407,461	397,004
Cash and Cash Equivalents - End of Year	<u>\$ 246,508</u>	<u>160,953</u>	<u>407,461</u>	<u>927,120</u>

City of Kosciusko
Statement of Cash Flows
Proprietary Funds and Discretely Presented Component Unit
For the Year Ended September 30, 2009

Exhibit 7 (Continued)

	<u>Waste Water</u>	<u>Solid Waste</u>	<u>Total</u>	<u>Component Unit Kosciusko Light and Water Plant</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (14,479)	(64,607)	(79,086)	174,383
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation	236,223	18,801	255,024	343,399
Change in assets and liabilities:				
(Increase) decrease in accounts receivable				224,121
(Increase) decrease in intergovernmental receivables				211,900
(Increase) decrease in inventory				(16,845)
(Increase) decrease in prepaid expenses				(6,300)
Increase (decrease) in claims payable	5,842	2,991	8,833	(265,822)
Increase (decrease) in intergovernmental payable				(852)
Increase (decrease) in compensated absences payable	(678)	(2,597)	(3,275)	2,466
Increase (decrease) in accrued payroll	938	1,355	2,293	6,384
Increase (decrease) in other liabilities				(20,755)
Total adjustments	<u>242,325</u>	<u>20,550</u>	<u>262,875</u>	<u>477,696</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 227,846</u>	<u>(44,057)</u>	<u>183,789</u>	<u>652,079</u>

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

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Kosciusko (City) was incorporated in 1834 under the laws of the State of Mississippi (State) and is located within the central region of the State. The City operates under a Board of Aldermen-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets and sanitation, recreation, education, public improvements, planning and zoning, and general administrative services.

The financial statements of City of Kosciusko, Mississippi, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. Based on these criteria, the following entities should be combined with the financial statements of the City:

Blended Component Units

The Kosciusko/Attala County Airport was established by an inter-local agreement between Attala County, Mississippi and the City of Kosciusko, Mississippi. Although the airport is a legally separate entity, the City of Kosciusko is responsible for the operation of the Airport, which is thus included as a blended component unit. The E-911 Fund is also a blended component unit.

Discretely Presented Component Unit

Kosciusko Light and Water Plant – The utility operates under a municipal public utility commission established under Section 21-27-13 of the Mississippi Code. The commission is composed of five members appointed by the City's Board of Aldermen. The authority of the commission is defined in Section 21-27-17 of the Mississippi Code. The utility provides services to the citizens of the City.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

B. Government-wide and Fund Financial Statements.

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

Fund Financial Statements

The accounts of the City are organized on the basis of funds, 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.

1. Governmental Fund Types:

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

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

Capital Projects Funds – are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds, and Trust Funds).

2. Proprietary Fund Types:

Proprietary Funds are used to account for the City’s ongoing activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following is the City’s Proprietary Fund Type:

Enterprise Funds – are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenue and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or related services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

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

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

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

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

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

The City reports the following major governmental funds:

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

The *debt service fund* accounts for financial resources to be used for debt service.

The City reports the following major proprietary funds:

The *waste water fund* accounts for the activities of the waste water system.

The *solid waste fund* accounts for the activities of the solid waste system.

The City's Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

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

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

D. Assets, Liabilities and Net Assets or Equity.

1. Deposits.

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

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

2. Receivables.

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

3. 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." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between governmental funds have been eliminated.

4. *Restricted Assets.*

Assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

5. *Inventory.*

Inventory is valued at cost. The inventory in the Light and Water Enterprise Fund of \$306,255 consists of expendable supplies held for consumption. Governmental fund types, which had no material inventory at September 30, 2009, use the purchase method which expenses inventory when purchased.

6. *Capital Assets.*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. The City of Kosciusko meets this criteria and has so elected. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. 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 and estimated useful lives:

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	1,000	5-10 years
Furniture and equipment	1,000	3-7 years

In the fund financial statements, capital assets are recorded as expenditures in the governmental type funds upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in government-wide statements.

7. *Compensated Absences.*

Employees receive vacation days annually on their anniversary dates of hire. The vacation days must be used before their next anniversary date or they are lost.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours and compensatory hours are multiplied by the employee's hourly rate at September 30, 2009.

8. *Long-term Obligations.*

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

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

9. *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, construction 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 and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net 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. Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

10. *Estimates.*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

11. Property Tax Revenues.

Statutes exist under which the Board of Aldermen may levy property taxes. 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 vehicles and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

Attala County collects the City's taxes and remits them to the City.

12. 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.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

2. Detailed Notes on all Funds.

A. Cash and Investments

At year-end, the City's carrying amount of cash and investments was \$3,897,493 and the bank balance was \$3,966,239. For the discretely-presented component unit, Kosciusko Light and Water Plant, the carrying amount of cash and investments at year-end was \$6,078,941 and the bank balance was \$6,083,706. 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.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

At September 30, 2009, all funds held as investments were in certificates of deposit with various financial institutions. The total of the certificates of deposit were \$7,521,760 at September 30, 2009. All of the certificates of deposits had a maturity of less than one year. Certificates of deposit with maturities of 30 days or less are reported as cash in the financial statements. Certificates of deposit with maturities greater than 30 days are presented as investments. The City does not have a written policy in regard to investments.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

B. Receivables.

Receivables as of year-end for the City's individual major funds, proprietary funds and component units, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds			Proprietary Funds	Component Unit
	General	Debt Service	Total		Kosciusko Light and Water Plant
Receivables:					
Property taxes	\$ 906,800	218,200	1,125,000	117,700	
Accounts					992,189
Sales tax	307,667		307,667		
Other governmental receivables	1,610	2,416	4,026	42,005	
Other receivables	49,469		49,469	5,211	3,956
Due from other funds	<u>56,088</u>		<u>56,088</u>		
Gross receivables	1,321,634	220,616	1,542,250	164,916	996,145
Less: allowance for uncollectibles					<u>(9,167)</u>
Net total receivables	<u>\$ 1,321,634</u>	<u>220,616</u>	<u>1,542,250</u>	<u>164,916</u>	<u>986,978</u>

Governmental funds and proprietary funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds and proprietary funds are as follows:

	Unavailable
Property taxes receivable:	
Governmental funds:	
General fund	\$ 906,800
Debt service fund	218,200
Total deferred revenue for governmental funds	<u>\$ 1,125,000</u>
Proprietary funds:	
Solid waste fund	\$ 117,700
Total deferred revenue for proprietary funds	<u>\$ 117,700</u>

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

C. Capital Assets.

Capital asset activity for the year ended September 30, 2009, are as follows:

Primary Government

Governmental activities:

	Beginning Balance	Adjustments	Increases	Decreases	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 1,313,702				1,313,702
Construction in progress	105,528	(105,528)			0
Total capital assets, not being depreciated	<u>1,419,230</u>	<u>(105,528)</u>	<u>0</u>	<u>0</u>	<u>1,313,702</u>
Capital assets, being depreciated:					
Buildings	2,805,707		6,168		2,811,875
Improvements other than buildings	3,673,380	105,528	226,050		4,004,958
Machinery and equipment	2,523,377	308,863	50,475	(41,311)	2,841,404
Equipment under capital lease	563,945	(308,863)			255,082
Total capital assets being depreciated	<u>9,566,409</u>	<u>105,528</u>	<u>282,693</u>	<u>(41,311)</u>	<u>9,913,319</u>
Less: Accumulated depreciation for:	<u>3,290,657</u>	<u>0</u>	<u>425,698</u>	<u>(34,486)</u>	<u>3,681,869</u>
Total capital assets, being depreciated, net	<u>6,275,752</u>	<u>105,528</u>	<u>(143,005)</u>	<u>(6,825)</u>	<u>6,231,450</u>
Governmental activities capital assets, net	<u>\$ 7,694,982</u>	<u>0</u>	<u>(143,005)</u>	<u>(6,825)</u>	<u>7,545,152</u>

Adjustments are made for equipment transferred when capital lease obligations have been satisfied and when construction projects are completed.

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 618,928	8,000		626,928
Total capital assets, not being depreciated	<u>618,928</u>	<u>8,000</u>	<u>0</u>	<u>626,928</u>
Capital assets, being depreciated:				
Buildings	146,181			146,181
Machinery & equipment	1,218,909	3,200	(5,359)	1,216,750
Wastewater system	7,095,177			7,095,177
Improvements other than buildings	9,947			9,947
Total capital assets, being depreciated	<u>8,470,214</u>	<u>3,200</u>	<u>(5,359)</u>	<u>8,468,055</u>
Less: Accumulated depreciation	<u>2,500,849</u>	<u>255,024</u>	<u>(4,916)</u>	<u>2,750,957</u>
Total capital assets, being depreciated, net	<u>5,969,365</u>	<u>(251,824)</u>	<u>(443)</u>	<u>5,717,098</u>
Business-type activities capital assets, net	<u>\$ 6,588,293</u>	<u>(243,824)</u>	<u>(443)</u>	<u>6,344,026</u>

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

Discretely-presented component unit:

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Discretely-presented component unit:					
Capital assets, not being depreciated:					
Land	\$ 46,470				46,470
Construction in progress	<u>1,021,176</u>	<u>(1,233,057)</u>	<u>218,909</u>		<u>7,028</u>
Total capital assets, not being depreciated	<u>1,067,646</u>	<u>(1,233,057)</u>	<u>218,909</u>	<u>0</u>	<u>53,498</u>
Capital assets, being depreciated:					
Buildings	702,058		3,550		705,608
Machinery and equipment	1,214,834		217,020	(17,220)	1,414,634
Water and electric system	<u>11,364,816</u>	<u>1,233,057</u>	<u>64,201</u>		<u>12,662,074</u>
Total capital assets, being depreciated	<u>13,281,708</u>	<u>1,233,057</u>	<u>284,771</u>	<u>(17,220)</u>	<u>14,782,316</u>
Less: Accumulated depreciation	<u>7,475,997</u>		<u>343,399</u>	<u>(16,735)</u>	<u>7,802,661</u>
Total capital assets, being depreciated, net	<u>5,805,711</u>	<u>1,233,057</u>	<u>(58,628)</u>	<u>(485)</u>	<u>6,979,655</u>
Business-type activities capital assets, net	<u>\$ 6,873,357</u>	<u>0</u>	<u>160,281</u>	<u>(485)</u>	<u>7,033,153</u>

Adjustments are made for equipment transferred when construction projects are completed.

Depreciation expense was charged to the following functions:

Governmental activities:	
General government	\$ 25,627
Public safety	209,490
Public works	159,899
Health and welfare	248
Culture and recreation	<u>30,434</u>
Total depreciation expense - governmental activities	<u>\$ 425,698</u>
Business-type activities:	
Waste water	\$ 236,223
Solid waste	<u>18,801</u>
Total depreciation expense - business-type activities	<u>\$ 255,024</u>
Discretely-presented component unit:	
Water and electric system	<u>\$ 343,399</u>
Total depreciation expense - business-type activities	<u>\$ 343,399</u>

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

D. Notes Receivable.

The City received a HOME grant that was approved as a loan to Kosciusko Apartments, LP, for construction of 12 three-bedroom apartments. A promissory note in the amount of \$307,050 has been signed by the entity. Interest will accrue at the rate of 1 percent per annum on the principal amount outstanding from November 1, 2008, until paid in full on or before November 30, 2046. Promisor shall make equal annual installments on the amount commencing October 31, 2008, equal to the lesser of one-half the net cash flow, after payment of expenses and senior indebtedness or the amount necessary to amortize principal over the remaining term of the promissory note in equal annual installments together with an unpaid installments. The City will use repaid HOME funds for future housing projects. The City did not receive payments on this loan for the year ended September 30, 2009, because Kosciusko Apartments, LP had negative cash flow for the year ended September 30, 2009. The note receivable balance at September 30, 2009, including accrued interest, is \$309,856.

E. Interfund Transactions

The following schedule as of September 30, 2009, represents interfund receivables and payables:

The composition of interfund transfers as of September 30, 2009, is as follows

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ <u>31,088</u>
Total		\$ <u><u>31,088</u></u>

Interfund payables are primarily related to grant activity.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

F. Leases.

Capital Leases

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

Description	Original Amount	Issue Date	Effective Interest Rate	Outstanding Present Value
Governmental Activities:				
E-911 PSAP equipment	\$ 77,957	2/27/2007	4.19%	\$ 29,087
Cemetery excavator	33,680	12/15/2006	4.23%	13,421
Street end loader	<u>143,445</u>	12/15/2007	3.29%	<u>10,313</u>
Total Governmental Activities	<u>\$ 255,082</u>			<u>\$ 52,821</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, are as follows:

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>
2010	\$ 40,739
2011	<u>13,412</u>
Total minimum lease payments	54,151
Less: amount representing interest	<u>(1,330)</u>
Present value of minimum lease payments	<u>\$ 52,821</u>

G. Long-term Debt.

General Obligation Bonds

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

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities:		
\$2,500,000 bonds due in annual installments ranging from \$120,000 to \$220,000 through May 1, 2023, plus interest ranging from 3.25 percent to 4.50 percent, payable on May 1 and November 1 of each year, beginning May 1, 2009.	3.25% - 4.50%	\$ 2,380,000
\$1,348,000 bonds due in annual installments ranging from \$43,000 to \$199,000 through June, 2025, plus interest of 4.25 percent, payable in June of each year, beginning June, 2008.	4.25%	<u>1,164,000</u>
		<u>\$ 3,544,000</u>

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

<u>Year Ending September 30</u>	<u>Governmental activities:</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 181,000	137,356
2011	188,000	129,339
2012	196,000	121,178
2013	203,000	112,848
2014	211,000	104,221
2015-2019	1,205,000	393,815
2020-2024	1,261,000	151,920
2025	<u>99,000</u>	<u>4,208</u>
Total	<u>\$ 3,544,000</u>	<u>1,154,885</u>

Loans Payable

The City has received several loans to finance various projects including building acquisition and waste water system improvements. Two of these loans are made under state programs. The loan from Mississippi Department of Environmental Quality has federal participation. There were no new loans made during the current year. Loans currently outstanding are as follows:

<u>Loan Type</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities		
Strand theater loan - Ivester	0.00%	\$ 20,000
Negotiable note	4.03%	145,802
State of Mississippi Capital Improvement (CAP)	2.0%	<u>245,429</u>
Total Governmental activities		<u>\$ 411,231</u>

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

<u>Loan Type</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities		
State of Mississippi Department of Environmental Quality revolving loan	2.50	\$ <u>952,385</u>
Total Business-type activities		\$ <u><u>952,385</u></u>

Loan debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 121,986	14,755
2011	130,064	6,677
2012	46,646	2,758
2013	47,587	1,817
2014	48,548	856
2015	<u>16,400</u>	<u>41</u>
Total	\$ <u><u>411,231</u></u>	<u><u>26,904</u></u>

<u>Year Ending September 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 42,191	23,328
2011	43,258	22,261
2012	44,351	21,168
2013	45,474	20,045
2014	46,623	18,896
2015-2019	251,409	76,186
2020-2024	284,847	42,748
2025-2028	<u>194,232</u>	<u>7,785</u>
Total	\$ <u><u>952,385</u></u>	<u><u>232,417</u></u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2009, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable	\$ 3,713,000		(169,000)	3,544,000	181,000
Loans payable	534,521		(123,290)	411,231	121,986
Capital leases payable	<u>111,022</u>		<u>(58,201)</u>	<u>52,821</u>	<u>39,536</u>
Governmental activity long-term liabilities	\$ <u><u>4,358,543</u></u>	<u><u>0</u></u>	<u><u>(350,491)</u></u>	<u><u>4,008,052</u></u>	<u><u>342,522</u></u>

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:					
Loans payable	\$ 997,701		(45,316)	952,385	42,191
Business-type activity long-term liabilities	\$ 997,701	0	(45,316)	952,385	42,191

H. Deficit Fund Balance.

Waste Tire Grant, Forfeiture Fund, Historic Preservation Grant and MDOT – Community Service Officer had deficit fund balances of \$35, \$188, \$1,233 and \$1,612, respectively at September 30, 2009. The deficit will be eliminated in the fiscal year ending September 30, 2010 as grant revenue is received.

3. Other Information.

A. Contingencies.

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

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

The City of Kosciusko has entered into joint and several relationships with other public entities in the Mississippi Municipal Worker's Compensation Group. Each member shares responsibility for premium contribution based on payroll and their own loss experiences as well as assessments needed for fund inadequacies. They also share the benefit of fund surplus in the form of dividends when applicable. The City was subject to assessment for the year ended September 30, 2009. No assessment was made or is probable for the year ended September 30, 2009.

During the year ended September 30, 2009, the Municipal Energy Agency of Mississippi (MEAM) entered into a power purchase agreement with Plum Point Energy Associates. The City's discretely presented component unit, Kosciusko Light and Water Plant, is one of six members of MEAM. This agreement will not have a direct impact on the financial operations of the Kosciusko Light and Water Plant until 2010. The current cost of energy is approximately \$70/MWh. Under the Plum Point Energy agreement, the Kosciusko Light and Water Plant anticipates paying approximately \$45/MWh beginning in 2010.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

B. Pension Plan.

Plan Description. The City of Kosciusko 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 (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 Kosciusko is required to contribute at an actuarially determined rate. The rate at September 30, 2009 was 12.00% 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 Kosciusko's contributions (employer share only) to PERS for the years ending September 30, 2009, 2008 and 2007 were \$384,164, \$377,687 and \$318,798, respectively, equal to the required contributions for each year.

C. Risk Management.

The City classifies risks of loss in the following categories: torts; theft of damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk of loss resulting from any of the above is mitigated through the purchase of commercial insurance.

The City is insured for health benefits for its employees for claims over \$5,000 per employee. For claims under \$5,000, the City is self-insured. The City accounts for its self-insurance related to its employees' health benefits in a medical benefits account. All claims handling procedures are performed by an independent claims administrator. Amounts are periodically paid into the fund and claims are disbursed from the fund. As of September 30, 2009, the account had a balance of \$118,374 as well as investments totaling \$50,000. Also, at September 30, 2009, the City had unpaid insurance claims totaling \$3,699. There were no amounts due to the City by the re-insurance company.

There has been no significant reduction in insurance coverage from coverage in the prior year.

D. Prior Period Adjustment.

A prior period adjustment of \$160,300 is required to adjust beginning net assets in the Statement of Activities and the beginning fund balance in the Balance Sheet Governmental Funds. In the prior year, the amount reported as sales tax receivable was understated resulting in understatement of revenue.

Additionally, in the prior year ending net assets in the Statement of Activities were understated by \$52.

City of Kosciusko
Notes to the Financial Statements
For the Year Ended September 30, 2009

E. Subsequent Events.

In February, 2009, the City received a letter from the United States Department of Transportation Federal Aviation Administration advising the City that the Federal Aviation Administration, for and on behalf of the United States, had approved the City's application for a grant for the airport not to exceed \$136,401. As of the date of this report, the City had expended most of the funds related to this project.

In March, 2009, the City was notified by the Mississippi Department of Transportation that the City will receive \$264,550 in additional funds from the American Recovery and Reinvestment Act. The City plans to use these funds to resurface Love Road. As of the date of this report, the City had completed this project.

In June, 2009, the City received a letter from the United States Department of Transportation Federal Aviation Administration advising the City that the Federal Aviation Administration, for and on behalf of the United States, had approved the city's application for a grant for the airport in the amount of \$185,532. As of the date of this report, the City had expended approximately one-half of the funds related to this project.

CITY OF KOSCIUSKO

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Budgetary Comparison Schedule

Notes to the Required Supplementary Information

City of Kosciusko
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,102,811	1,102,811	1,131,025	28,214
Franchise fees	125,000	125,000	122,595	(2,405)
Licenses and permits	29,000	29,000	30,807	1,807
Fines and forfeitures	140,500	140,500	186,498	45,998
Intergovernmental revenues	1,932,350	1,932,350	2,037,130	104,780
Charges for services	52,000	52,000	58,067	6,067
Interest earned	25,000	25,000	15,088	(9,912)
Miscellaneous revenues	18,850	18,850	56,114	37,264
Total Revenues	<u>3,425,511</u>	<u>3,425,511</u>	<u>3,637,324</u>	<u>211,813</u>
EXPENDITURES				
General government	519,865	599,083	551,863	47,220
Public safety	1,725,680	1,786,452	1,634,455	151,997
Public works	578,100	592,566	491,079	101,487
Health and welfare	199,730	204,861	228,070	(23,209)
Culture and recreation	211,580	382,365	354,245	28,120
Urban and economic development	389,393	82,391	69,760	12,631
Total Expenditures	<u>3,624,348</u>	<u>3,647,718</u>	<u>3,329,472</u>	<u>318,246</u>
Excess of Revenues over (under) Expenditures	<u>(198,837)</u>	<u>(222,207)</u>	<u>307,852</u>	<u>530,059</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	357,400	357,400	355,900	(1,500)
Transfers out	(362,000)	(362,000)	(352,047)	(9,953)
Total Other Financing Sources and Uses	<u>(4,600)</u>	<u>(4,600)</u>	<u>3,853</u>	<u>8,453</u>
Net Change in Fund Balance	(203,437)	(226,807)	311,705	538,512
Fund Balances - Beginning	<u>951,929</u>	<u>951,929</u>	<u>1,161,583</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 748,492</u>	<u>725,122</u>	<u>1,473,288</u>	<u>538,512</u>

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

City of Kosciusko
Notes to the Required Supplementary Information
For the Year Ended September 30, 2009

A. Budgetary Information.

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

The City's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year-end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

City of Kosciusko
Notes to the Required Supplementary Information
For the Year Ended September 30, 2009

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund:

		<u>General Fund</u>
Net Change in Fund Balance - Budget (Cash Basis)	\$	311,705
Increase (decrease):		
Net adjustments for revenue accruals		(17,702)
Net adjustments for expenditure accruals		<u>(9,982)</u>
Net Change in Fund Balance GAAP Basis	\$	<u><u>284,021</u></u>

CITY OF KOSCIUSKO

SUPPLEMENTAL INFORMATION

**City of Kosciusko
Schedule of Surety Bonds For Municipal Officials
For the Year Ended September 30, 2009**

<u>Position</u>	<u>Dates of Coverage</u>		<u>Surety Agency</u>	<u>Bond Amount</u>
	<u>From</u>	<u>To</u>		
City Clerk	9/5/2009	9/5/2010	Tyler, King & Ryder/St Paul Travelers	\$ 50,000
Deputy City Clerks	7/1/2009	8/22/2010	Tyler, King & Ryder/St Paul Travelers	50,000 each
Mayor	7/1/2009	7/1/2013	Tyler, King & Ryder/St Paul Travelers	100,000
Aldermen	7/1/2009	7/1/2013	Tyler, King & Ryder/St Paul Travelers	100,000 each
Court Clerks	7/1/2009	10/20/2009	Tyler, King & Ryder/St Paul Travelers	50,000 each
Chief of Police	6/5/2009	9/27/2010	Tyler, King & Ryder/Western Surety	75,000
Policemen	6/5/2009	Indefinite	Tyler, King & Ryder/Western Surety	50,000 each
E-911 Dispatchers	7/1/2009	10/16/2009	Tyler, King & Ryder/St Paul Travelers	50,000 each
Building Inspector	6/16/2009	Indefinite	Tyler, King & Ryder/St Paul Travelers	50,000
Discretely-Presented Component Unit:				
Kosciusko Water and Light Plant				
Commissioners	7/21/2009	Indefinite	Tyler, King & Ryder/St. Paul Travelers	\$ 50,000 each
Managers	8/24/2009	Indefinite	Tyler, King & Ryder/St. Paul Travelers	50,000 each
Accountant	8/24/2009	Indefinite	Tyler, King & Ryder/St. Paul Travelers	50,000
Clerks	10/1/2008	10/1/2011	Tyler, King & Ryder/St. Paul Travelers	50,000 each

CITY OF KOSCIUSKO

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
(601)939-8676

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

Honorable Mayor and
Members of the Board of Aldermen
City of Kosciusko, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of City of Kosciusko, Mississippi, as of and for the year ended September 30, 2009 which collectively comprise City of Kosciusko, Mississippi's basic financial statements and have issued our report thereon dated March 10, 2010. 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 City of Kosciusko, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Kosciusko'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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 county'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 county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. However, of the deficiencies described in the accompanying Schedule of Findings and Responses, we consider item 09-1 to be a significant deficiency in internal control over financial reporting.

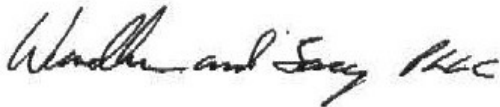
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

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 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, we consider item 09-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kosciusko, Mississippi'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*.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Windham and Lacey, PLLC
March 10, 2010

Windham and Lacey, PLLC

Certified Public Accountants

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

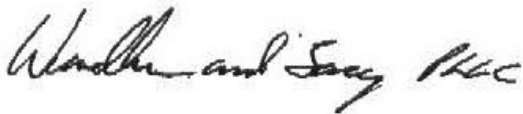
Honorable Mayor and
Members of the Board of Aldermen
City of Kosciusko, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of City of Kosciusko, Mississippi, as of and for the year ended September 30, 2009, and have issued our report thereon dated March 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures and our audit of the primary government financial statements disclosed no instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of 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.



Windham and Lacey, PLLC
March 10, 2010

CITY OF KOSCIUSKO

SCHEDULE OF FINDINGS AND RESPONSES

City of Kosciusko

Schedule of Findings and Responses
For the Year Ended September 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements:

Governmental activities	Unqualified
Business-type activities	Unqualified
Discretely presented component unit	Unqualified
General Fund	Unqualified
Debt Service Fund	Unqualified
Aggregate remaining fund information	Unqualified

2. Internal control over financial reporting:
 - a. Material weaknesses identified? Yes

 - b. Significant deficiencies identified that are not considered to be material weaknesses? No

3. Noncompliance material to the financial statements? No

Section 2: Financial Statement Findings

Board of Aldermen

Significant Deficiency/Material Weakness

09-1. Finding

Governmental accounting standards require revenue from fines to be recognized when the City has an enforceable legal claim to the revenue. This means that the City must accrue revenue from fines in the period when it becomes legally collectable and measurable. Failure to record fines in the proper period could result in the material misstatement of revenues and assets (fines receivable).

City of Kosciusko

Schedule of Findings and Responses
For the Year Ended September 30, 2009

Recommendation

The Board of Aldermen should take steps to improve the accounting and computer systems utilized by the court clerk to record fines and fines receivable.

Response

According to the City Clerk, the City has made several efforts to correct this problem through changes in court accounting software with little success. The City will continue with its efforts to resolve this problem.