

CITY OF STARKVILLE, MISSISSIPPI

AUDIT REPORT

SEPTEMBER 30, 2006

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**CITY OF STARKVILLE, MISSISSIPPI
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Page</u>
Financial Section:	
Independent Auditors' Report	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Fund Net Assets – Proprietary Funds	13
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	14
Statement of Cash Flows – Proprietary Funds	15
Statement of Fiduciary Net Assets – Fiduciary Funds	16
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	17
Notes to the Financial Statements	18

**CITY OF STARKVILLE, MISSISSIPPI
TABLE OF CONTENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Page</u>
Required Supplemental Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Annual Budget and Actual – General Fund	32
Other Supplemental Information:	
General Fund:	
Combining Balance Sheet by Activity	34
Combining Statement of Revenues, Expenditures, and Changes In Fund Balance by Activity	35
Balance Sheet – Non-major Governmental Funds	41
Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds	42
Statement of Net Assets – Non-major Enterprise Funds	43
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Non-major Enterprise Funds	44
Statement of Cash Flows – Non-major Enterprise Funds	45
Schedule of Surety Bonds for Municipal Officials	46
Schedule of Bonded Indebtedness	47
Schedule of Long-Term Notes	48

**CITY OF STARKVILLE, MISSISSIPPI
TABLE OF CONTENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Page</u>
Compliance Section:	
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	54
Independent Auditors' Report on Compliance with State Laws and Regulations	57
Schedule of Findings and Questioned Costs	59
Schedule of Expenditures of Federal Awards	61

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Starkville
Starkville, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Starkville, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Starkville, Mississippi management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In connection with our audit, nothing came to our attention that caused us to believe that the municipality is not in compliance with the requirements of the State Department of Audit, as set forth in the Municipal Compliance Questionnaire.

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, each major fund, and the aggregate remaining fund information of the City of Starkville, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2007, on our consideration of the City of Starkville, Mississippi internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information on page 32 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The City of Starkville, Mississippi, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Starkville, Mississippi, basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Starkville, Mississippi. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Starkville, Mississippi
February 2, 2007

Wathis Ward and Staff PLLC

BASIC FINANCIAL STATEMENTS

The basic financial statements include 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
 - Fiduciary funds

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 2,016,086	5,397,318	7,413,404
Cash - restricted	1,378,944	-	1,378,944
Accounts receivable, net	484,375	5,224,701	5,709,076
Other receivables, net	127,849	302,326	430,175
Notes receivable, net	41,714	-	41,714
Due from other departments	71,486	102,866	174,352
Due from other funds	39,424	-	39,424
Prepaid expense	-	39,605	39,605
Inventory	40,289	537,628	577,917
Capital assets			
Land and construction in progress	943,255	4,640,002	5,583,257
Property and equipment	63,837,694	72,114,424	135,952,118
Less: accumulated depreciation	(44,847,054)	(28,151,381)	(72,998,435)
Other assets	-	700,293	700,293
Total assets	<u>24,134,062</u>	<u>60,907,782</u>	<u>85,041,844</u>
LIABILITIES			
Accounts payable	337,632	3,588,225	3,925,857
Accrued liabilities	218,342	337,830	556,172
Due to other departments	-	1,540,126	1,540,126
Due to other funds	-	39,424	39,424
Customer deposits	-	1,704,001	1,704,001
Other liabilities	-	214,101	214,101
Long-term liabilities:			
Due within one year	603,638	1,081,345	1,684,983
Due in more than one year	2,612,096	15,378,491	17,990,587
Total liabilities	<u>3,771,708</u>	<u>23,883,543</u>	<u>27,655,251</u>
NET ASSETS			
Contributed capital	-	8,967,665	8,967,665
Invested in capital assets, net of related debt	16,718,161	30,153,045	46,871,206
Restricted	1,583,531	-	1,583,531
Unrestricted	2,060,662	(2,096,472)	(35,810)
Total net assets	<u>\$ 20,362,354</u>	<u>37,024,238</u>	<u>57,386,592</u>

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expense / Revenue)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental Activities					
General government	\$ 2,758,200	254,201	439,976	1,908,406	(155,617)
Public safety					
Police	3,644,771	525	88,453	-	(3,555,793)
Fire	3,166,991	166,689	112,188	-	(2,888,114)
Public inspection	167,818	-	-	-	(167,818)
Civil defense	36,887	-	-	-	(36,887)
Highways and streets	1,754,552	-	345,405	-	(1,409,147)
Health and sanitation	527,208	-	-	-	(527,208)
Culture and recreation	1,446,246	87,920	-	-	(1,358,326)
Other	221,209	-	-	-	(221,209)
Interest on long-term debt	642,263	-	-	-	(642,263)
Total governmental activities	<u>14,366,145</u>	<u>509,335</u>	<u>986,022</u>	<u>1,908,406</u>	<u>(10,962,382)</u>
Business-type Activities					
Electric utilities	30,649,333	31,814,378	-	-	1,165,045
Water and sewer utilities	4,408,049	4,479,202	-	-	71,153
Sanitation and waste	1,920,588	1,871,692	-	-	(48,896)
Sanitary landfill	157,926	194,655	-	-	36,729
Total business-type activities	<u>37,135,896</u>	<u>38,359,927</u>	<u>-</u>	<u>-</u>	<u>1,224,031</u>
Total primary government	<u>\$ 51,502,041</u>	<u>38,869,262</u>	<u>986,022</u>	<u>1,908,406</u>	<u>(9,738,351)</u>
			Governmental Activities	Business-type Activities	Total
Changes in Net Assets:					
Net (expense) / revenue			\$ (10,962,382)	1,224,031	(9,738,351)
General revenues					
Taxes					
Property taxes			2,574,420	-	2,574,420
Sales and use taxes			5,285,275	-	5,285,275
Other taxes			1,292,505	-	1,292,505
Investment income			264,347	190,115	454,462
Other			1,772,151	33,121	1,805,272
Transfers			1,167,220	-	1,167,220
Total general revenues and transfers			<u>12,355,918</u>	<u>223,236</u>	<u>12,579,154</u>
Change in net assets			1,393,536	1,447,267	2,840,803
Net assets, October 1, 2005			<u>18,968,818</u>	<u>35,576,971</u>	<u>54,545,789</u>
Net assets, September 30, 2006			<u>\$ 20,362,354</u>	<u>37,024,238</u>	<u>57,386,592</u>

See accompanying notes to basic financial statements.

FUND FINANCIAL STATEMENTS

**CITY OF STARKVILLE, MISSISSIPPI
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,555,259	460,827	2,016,086
Cash - restricted	213,787	1,165,157	1,378,944
Receivables (Net)			
Accounts	484,375	-	484,375
Other	-	81	81
Notes receivable (Net)	-	41,714	41,714
Due from other departments	61,793	-	61,793
Due from other funds	300,547	20,452	320,999
Inventory	19,458	-	19,458
	<u>\$ 2,635,219</u>	<u>1,688,231</u>	<u>4,323,450</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 311,602	-	311,602
Other liabilities	-	206,648	206,648
Due to other funds	-	-	-
	<u>311,602</u>	<u>206,648</u>	<u>518,250</u>
<u>FUND BALANCES</u>			
Fund balances - reserved			
Reserved for fire protection	165,465	-	165,465
Reserved for police protection	65,246	-	65,246
Reserved for airport projects	9,858	-	9,858
Reserved for parks and recreation	42,211	-	42,211
Reserved for inventory	19,458	-	19,458
Reserved for debt service	-	985,406	985,406
Reserved for capital projects	-	-	-
Restricted for police protection	-	3,264	3,264
Restricted for economic development	-	292,623	292,623
Fund balances - unreserved/undesignated	2,021,379	200,290	2,221,669
	<u>2,323,617</u>	<u>1,481,583</u>	<u>3,805,200</u>
Total Liabilities and Fund Balances	<u>\$ 2,635,219</u>	<u>1,688,231</u>	<u>4,323,450</u>

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

Fund Balances - total governmental funds		\$ 3,805,200
Amounts reported for governmental activities in Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	64,621,456	
Less accumulated depreciation	<u>(44,755,587)</u>	19,865,869
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
		(3,215,734)
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are reported with the governmental activities.		
		<u>(92,981)</u>
Net Assets of Governmental Activities		<u>\$ 20,362,354</u>

See accompanying notes to basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
General property taxes	\$ 2,574,420	-	2,574,420
Licenses and permits	212,920	-	212,920
Intergovernmental			
Federal	1,929,843	-	1,929,843
State of Mississippi	6,326,783	995,457	7,322,240
Oktibbeha County and Mississippi State	579,872	-	579,872
Fines and forfeits	781,473	-	781,473
Interest income	209,237	55,110	264,347
Penalties and interest - prior year taxes	105,991	-	105,991
Other revenues	600,414	18,000	618,414
Total Revenues	<u>13,320,953</u>	<u>1,068,567</u>	<u>14,389,520</u>
<u>EXPENDITURES</u>			
Current:			
General government	2,294,548	-	2,294,548
Public safety			
Police	3,060,790	-	3,060,790
Fire	2,583,010	-	2,583,010
Public inspection	140,019	-	140,019
Civil defense	9,088	-	9,088
Highways and streets	1,235,315	-	1,235,315
Health and sanitation	74,247	-	74,247
Culture and recreation	993,285	-	993,285
Other	212,426	8,783	221,209
Capital outlay	3,681,648	-	3,681,648
Debt service:			
Principal	527,405	1,450,000	1,977,405
Interest	80,041	562,222	642,263
Total Expenditures	<u>14,891,822</u>	<u>2,021,005</u>	<u>16,912,827</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,570,869)</u>	<u>(952,438)</u>	<u>(2,523,307)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers in	832,099	-	832,099
Transfers out	(882,099)	-	(882,099)
Proceeds from loans	822,977	-	822,977
Transfers from other departments	819,996	1,379,902	2,199,898
Transfers to other departments	(102,678)	(930,000)	(1,032,678)
Net other financing sources (uses)	<u>1,490,295</u>	<u>449,902</u>	<u>1,940,197</u>
Net change in fund balances	(80,574)	(502,536)	(583,110)
Fund balances, October 1, 2005	2,404,191	1,984,119	4,388,310
Fund balances, September 30, 2006	<u>\$ 2,323,617</u>	<u>1,481,583</u>	<u>3,805,200</u>

See accompanying notes to basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2006

Net change in Fund Balances - total governmental funds \$ (583,110)

Amounts reported for governmental activities in 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 depreciated over their estimated useful lives:

Expenditures for capital assets	2,935,683	
Less current year depreciation	<u>(2,064,648)</u>	871,035

Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of borrowed principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments:

Bond and loan proceeds	(822,977)	
Principal payments	<u>1,977,405</u>	1,154,428

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund:

Change in long-term compensated absence		(23,804)
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Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net income of the Internal Service Fund is reported with the governmental activities.

		<u>(25,013)</u>
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Change in Net Assets of Governmental Funds		<u><u>\$ 1,393,536</u></u>
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See accompanying notes to basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2006

	June 30, 2006	September 30, 2006		Total Enterprise Funds	Internal Service Fund
	Electric Department	Water & Sewer Department	Other Enterprise Funds		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 3,712,013	1,224,647	460,658	5,397,318	-
Accounts receivables, net	4,819,334	249,095	156,272	5,224,701	-
Other receivables, net	83,803	29,637	187,531	300,971	-
Due from other funds	-	-	-	-	-
Due from other departments	77,133	25,733	-	102,866	9,693
Interest receivable	1,355	-	-	1,355	-
Prepaid expense	39,605	-	-	39,605	-
Inventory	453,895	83,733	-	537,628	20,831
Total current assets	9,187,138	1,612,845	804,461	11,604,444	30,524
Restricted assets:					
Cash - restricted	-	-	-	-	-
Total restricted assets	-	-	-	-	-
Non-current assets:					
Other assets	700,293	-	-	700,293	-
Capital assets:					
Fixed assets, net of depreciation	24,109,920	24,296,301	196,824	48,603,045	68,026
Total non-current assets	24,810,213	24,296,301	196,824	49,303,338	68,026
Total Assets	33,997,351	25,909,146	1,001,285	60,907,782	98,550
LIABILITIES					
Current liabilities:					
Accounts payable	3,201,605	267,367	119,253	3,588,225	26,030
Accrued liabilities	120,447	165,318	52,065	337,830	11,694
Due to other departments	1,537,338	2,788	-	1,540,126	-
Due to other funds	-	3,940	35,484	39,424	153,807
Accrued interest - long-term debt	90,451	-	-	90,451	-
General obligation bonds payable, current	840,000	-	-	840,000	-
Notes payable, current	-	241,345	-	241,345	-
Total current liabilities	5,789,841	680,758	206,802	6,677,401	191,531
Non-current liabilities:					
General obligation bonds payable, non-current	8,385,000	-	-	8,385,000	-
Notes payable, non-current	-	6,993,491	-	6,993,491	-
Customer deposits	1,403,291	300,710	-	1,704,001	-
Other liabilities	123,650	-	-	123,650	-
Total non-current liabilities	9,911,941	7,294,201	-	17,206,142	-
Total Liabilities	15,701,782	7,974,959	206,802	23,883,543	191,531
NET ASSETS					
Invested in capital assets, net of related debt	14,884,920	15,071,301	196,824	30,153,045	68,026
Contributed capital	-	8,967,665	-	8,967,665	141,448
Unrestricted	3,410,649	(6,104,780)	597,659	(2,096,472)	(302,455)
Total Net Assets	\$ 18,295,569	17,934,186	794,483	37,024,238	(92,981)

See accompanying notes to basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	June 30, 2006		September 30, 2006		
	Electric Department	Water & Sewer Department	Other Enterprise Funds	Total Enterprise Funds	Internal Service Fund
<u>OPERATING REVENUES</u>					
Charges for services	\$ 31,814,378	4,479,202	2,066,347	38,359,927	396,629
Total operating revenues	<u>31,814,378</u>	<u>4,479,202</u>	<u>2,066,347</u>	<u>38,359,927</u>	<u>396,629</u>
<u>OPERATING EXPENSES</u>					
Purchased power	26,140,784	-	-	26,140,784	-
Operating and maintenance	3,147,634	3,344,156	1,866,056	8,357,846	466,669
Depreciation	897,292	967,532	131,620	1,996,444	4,973
Total operating expenses	<u>30,185,710</u>	<u>4,311,688</u>	<u>1,997,676</u>	<u>36,495,074</u>	<u>471,642</u>
Operating income (loss)	<u>1,628,668</u>	<u>167,514</u>	<u>68,671</u>	<u>1,864,853</u>	<u>(75,013)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>					
Other revenue	-	2,418	30,703	33,121	-
Interest on investments	178,190	11,925	-	190,115	-
Amortization expense	(31,888)	-	-	(31,888)	-
Interest and fiscal charges	(422,023)	(96,361)	-	(518,384)	-
Other expenses	(9,712)	-	(80,838)	(90,550)	-
Total non-operating revenues (expenses)	<u>(285,433)</u>	<u>(82,018)</u>	<u>(50,135)</u>	<u>(417,586)</u>	<u>-</u>
Income (loss) before transfers	<u>1,343,235</u>	<u>85,496</u>	<u>18,536</u>	<u>1,447,267</u>	<u>(75,013)</u>
Transfers in	-	-	-	-	50,000
Change in net assets	1,343,235	85,496	18,536	1,447,267	(25,013)
Total net assets, beginning	<u>16,952,334</u>	<u>17,848,690</u>	<u>775,947</u>	<u>35,576,971</u>	<u>(67,968)</u>
Total net assets, ending	<u>\$ 18,295,569</u>	<u>17,934,186</u>	<u>794,483</u>	<u>37,024,238</u>	<u>(92,981)</u>

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	June 30, 2006		September 30, 2006		
	Electric Department	Water & Sewer Department	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities					
Cash received from customers	\$ 31,407,043	4,504,845	1,994,886	37,906,774	-
Cash received from other funds	-	-	-	-	396,629
Cash paid to employees	(894,244)	(1,420,872)	(621,633)	(2,936,749)	(151,814)
Cash paid to suppliers	(27,639,726)	(1,860,955)	(1,315,135)	(30,815,816)	(304,872)
Other receipts (payments)	163,455	-	-	163,455	-
Net Cash Flows from Operating Activities	3,036,528	1,223,018	58,118	4,317,664	(60,057)
Cash Flows from Noncapital Financing Activities					
Transfers in	-	-	-	-	50,000
Net Cash Flows from Noncapital Financing Activities	-	-	-	-	50,000
Cash Flows from Capital and Related Financing Activities					
Proceeds from issuance of debt	-	964,753	-	964,753	-
Payment of debt	(785,000)	(154,191)	-	(939,191)	-
Payment of interest	(430,819)	(96,361)	-	(527,180)	-
Purchase of capital assets	(2,925,731)	(1,945,621)	(271,766)	(5,143,118)	(18)
Other receipts (payments)	(414,755)	2,418	(50,135)	(462,472)	-
Net Cash Flows from Capital and Related Financing Activities	(4,556,305)	(1,229,002)	(321,901)	(6,107,208)	(18)
Cash Flows from Investing Activities					
Receipt of interest	178,190	11,925	-	190,115	-
Net Cash Flows from Investing Activities	178,190	11,925	-	190,115	-
Net Change in Cash	(1,341,587)	5,941	(263,783)	(1,599,429)	(10,075)
Cash and Cash Equivalents, October 1, 2005	5,053,600	1,218,706	724,441	6,996,747	10,075
Cash and Cash Equivalents, September 30, 2006	\$ 3,712,013	1,224,647	460,658	5,397,318	-
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	\$ 1,628,668	167,514	68,671	1,864,853	(75,013)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	948,332	967,532	131,620	2,047,484	4,973
Amortization	13,455	-	-	13,455	-
Changes in operating assets and liabilities:					
(Increase) decrease in receivables	(379,250)	25,643	(71,293)	(424,900)	-
(Increase) decrease in due from other funds	-	-	-	-	(8,112)
(Increase) decrease in inventory	(28,085)	20,954	-	(7,131)	13,866
(Increase) decrease in restricted assets	-	75,005	-	75,005	-
(Increase) decrease in other assets	(36,337)	-	-	(36,337)	-
Increase (decrease) in payables	746,757	(2,975)	(58,627)	685,155	4,304
Increase (decrease) in due to other funds	-	4,502	(12,085)	(7,583)	(75)
Increase (decrease) in accrued liabilities	-	(35,157)	-	(35,157)	-
Increase (decrease) in customer deposits	152,401	-	-	152,401	-
Increase (decrease) in other liabilities	(9,413)	-	-	(9,413)	-
Total adjustments	1,407,860	1,055,504	(10,385)	2,452,979	14,956
Net cash provided (used) by operating activities	\$ 3,036,528	1,223,018	58,286	4,317,832	(60,057)

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Employee Benefit Trust Fund
ADDITIONS	
Investment earnings	
Interest	\$ 1,882
Total investment earnings	1,882
Total Additions	1,882
DEDUCTIONS	
Transfers out	-
Total Deductions	-
Change in Net Assets	1,882
Net Assets, October 1, 2005	55,195
Net Assets, September 30, 2006	\$ 57,077

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
SEPTEMBER 30, 2006**

	Employee Benefit Trust Fund	Agency Funds
<u>ASSETS</u>		
Cash and cash equivalents	\$ -	790,426
Cash - restricted	57,077	
Due from other funds	-	12,603
Total Assets	57,077	803,029
<u>LIABILITIES</u>		
Due to other funds	-	140,371
Due to outside entities	-	477,641
Other liabilities	-	189,305
Total Liabilities	-	807,317
<u>NET ASSETS</u>		
Held in trust for unemployment benefits	\$ 57,077	-

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Starkville, Mississippi's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 - Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to implement the general provisions of the Statement in the current year and plans to retroactively report infrastructure in the fiscal year ending September 30, 2007.

A. REPORTING ENTITY

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

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Included within the reporting entity:

City of Starkville Parks and Recreation Department. The Parks and Recreation Department's governing board is appointed by the City's governing body. It benefits from a two mill tax levy on all Starkville real estate and automobiles. Its operations are included in the General Fund of the financial statements.

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

Excluded from the reporting entity:

Starkville Public Schools. The Starkville Public Schools' governing board is appointed primarily by the City's governing body (four of the five members). The City does not hold title to any of the school's assets, nor does it have any right to the school's surpluses. The City does not have the ability to exercise influence over the daily operations or approve budgets.

Starkville Public Library. The Starkville Public Library's governing board is appointed jointly by various entities. The City's governing body appoints five of the ten members but does not have the ability to exercise influence over the daily operations or approve budgets. Additionally, the City does not hold title to any of the library's assets, nor does it have any right to the library's surpluses.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks and recreation, public works, and general administrative services are classified as governmental activities. The City's electric, water and sewer, sanitation, and landfill services are classified as business-type activities.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, fire, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or use taxes, intergovernmental revenues, interest income, etc.).

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

1. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- a. **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund includes General Activities, Parks and Recreation Activities, Multi-Unit Drug Task Force Operations, Airport Activities, Restricted Police Activities, and Restricted Fire Activities.

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- b. **Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds are the CDBG Rehabilitation Loan Program Fund, the CDBG Henderson Street Area Redevelopment Project Fund, the TVA Ivy Guest House Loan Fund, TVA Hewlett Wood Products, Inc. Loan Fund, Law Enforcement Grants Fund, and the Home Project Fund.
- c. **Debt Service Funds** are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs. The Debt Service Funds are the City Bond and Interest Fund, the School Bond and Interest Fund, and the Special School Note Fund.
- d. **Capital Projects Funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Capital Projects Fund is the Service Zone Fund.

2. Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

- a. **Enterprise Funds** are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Funds are the Electric Department Fund, the Water and Sewer Department Fund, the Sanitation Fund, and the Sanitary Landfill Fund.
- b. **Internal Service Funds** are used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. The Internal Service Fund is the City Vehicle Maintenance Shop Fund.

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The City's fiduciary funds are presented in the fiduciary fund financial statement by type (employee benefit and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

For purposes of the statement of cash flows for the proprietary funds, the City defines cash equivalents as short-term, highly liquid investments with original maturity dates of three months or less.

2. Inventory:

Inventory is valued at the lower of cost (first-in, first-out) or market.

3. Capital Assets:

Capital assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 – 50 years
Water and sewer system	30 – 50 years
Machinery and equipment	5 – 10 years
Improvements	10 – 20 years
Other infrastructure	10 – 50 years

4. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Expenditures:

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

6. Compensated Absences:

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

7. Interfund Activity:

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

8. Basis of Budgeting

The City prepares its governmental fund type budgets in accordance with state statutes, which require the cash basis of accounting for revenues. Expenditures are budgeted and reported on the modified accrual basis of accounting. For purposes of budgetary comparisons in the financial statements, the City has elected to compare GAAP basis revenue to budget. This presentation provides a reasonable basis of comparison because the difference in beginning and ending receivables is immaterial.

9. Fund Reserves:

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the City:

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- a. **Reserved for fire protection** - An account that represents the portion of the fund balance which is legally restricted for the payment of fire protection projects.
- b. **Reserved for police protection** - An account that represents the portion of the fund balance which is legally restricted for the payment of police protection projects.
- c. **Reserved for airport projects** - An account that represents the portion of the fund balance which is legally restricted for the payment of airport projects.
- d. **Reserved for parks and recreation** - An account that represents the portion of the fund balance which is legally restricted for the payment of parks and recreation projects.
- e. **Reserved for unemployment benefits** - An account that represents the fund balance of the unemployment compensation revolving fund which is legally restricted for the payment of unemployment benefits.
- f. **Reserved for capital projects** - An account that represents the portion of the fund balance that is legally restricted for capital projects.
- g. **Reserved for inventory** - An account that represents the portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.
- h. **Reserved for debt service** - An account that represents the fund balance for the debt service fund resources which are legally restricted for the payment of general long-term debt principal and interest amounts maturing in future years.

10. Use of Estimates

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 2: CASH, OTHER DEPOSITS, AND INVESTMENTS

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.

The carrying amount of the City's deposits with financial institutions was \$5,870,761 on September 30, 2006, and the bank balance was \$5,377,451.

The balances do not reflect cash or other deposits held in the name of Starkville Electric Department which are separately secured.

NOTE 3: INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at September 30, 2006, are:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental Funds:		
General Fund	\$ 512,714	212,167
Debt Service	20,452	
Proprietary Funds:		
Water and Sewer		3,940
Landfill		35,484
Internal Service		153,807
Fiduciary Funds:		
Payroll Clearing Fund	12,603	
Tax Collector Fund		140,371
	<u>\$ 545,769</u>	<u>545,769</u>

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 4: CAPITAL ASSETS

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

	Balance September 30, 2005	Increases	Decreases	Balance September 30, 2006
Governmental Activities				
Non-depreciable: Land	\$ 943,255			943,255
Depreciable:				
Buildings	3,483,721			3,483,721
Building Improvements	98,988			98,988
Improvements other than buildings	51,615,742	1,888,783		53,504,525
Vehicles	2,924,107	871,478		3,795,585
Machinery and equipment	2,619,960	175,422		2,795,382
Total	60,742,518	2,935,683		63,678,201
Less accumulated depreciation				
Buildings	(1,203,363)	(81,471)		(1,284,834)
Building Improvements	(24,946)	(2,475)		(27,421)
Improvements other than buildings	(37,825,261)	(1,480,346)		(39,305,607)
Vehicles	(1,949,215)	(225,815)		(2,175,030)
Machinery and equipment	(1,688,154)	(274,541)		(1,962,695)
Total	(42,690,939)	(2,064,648)		(44,755,587)
Net book value	18,051,579	871,035		18,922,614
Internal Service Fund				
Total depreciable assets	159,475	18		159,493
Less accumulated depreciation	(86,493)	(4,974)		(91,467)
Internal Service Fund, net	72,982	(4,956)		68,026
Governmental Activities Capital Assets, net	\$ 19,067,816	866,079		19,933,895
Business-type Activities				
Non-depreciable				
Land - Starkville Electric	\$ 341,242	3,236	-	344,478
Land - Landfill	11,121	-	-	11,121
Land - Water	102,738	-	-	102,738
Construction in progress - Stk Elec	2,662,033	1,519,632	-	4,181,665
Total	3,117,134	1,522,868	-	4,640,002
Depreciable				
Starkville Electric Property & equipment	26,892,313	1,380,066	(403,312)	27,869,067
Sanitation property & equipment	1,497,525	270,521	-	1,768,046
Landfill property & equipment	27,290	1,245	-	28,535
Water property & equipment	40,504,781	1,943,990	-	42,448,771
Total	68,921,909	3,595,822	(403,312)	72,114,419
Less accumulated depreciation				
Starkville Electric Property & Equipment	(7,758,022)	(991,633)	464,365	(8,285,290)
Sanitation property & equipment	(1,463,731)	(129,192)	-	(1,592,923)
Landfill property & equipment	(15,526)	(2,426)	-	(17,952)
Water property & equipment	(17,287,679)	(967,532)	-	(18,255,211)
Total	(26,524,958)	(2,090,783)	464,365	(28,151,376)
Net book value	42,396,951	1,505,039	61,053	43,963,043
Business-type Activities Capital Assets, net	\$ 45,514,085	3,027,907	61,053	48,603,045

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 4: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 309,697
Public safety - Police	412,930
Public safety - Fire	412,930
Highways and streets	309,697
Health and sanitation	309,697
Culture and recreation	<u>309,697</u>
 Total governmental activities depreciation expense	 <u><u>\$ 2,064,648</u></u>
Business-type activities:	
Electric	\$ 991,633
Water and sewer	976,532
Sanitation	129,192
Landfill	<u>2,426</u>
 Total business-type activities depreciation expense	 <u><u>\$ 2,099,783</u></u>

NOTE 5: LONG-TERM LIABILITIES

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

	<u>Balance</u> <u>October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September 30, 2006</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
Governmental Activities					
General obligation bonds					
Research Park 1987	\$ 405,000		135,000	270,000	135,000
Public Improvements Bonds, 1996	1,020,000		1,020,000	-	-
Starkville School, 2/1/86	90,000		90,000	-	-
Starkville Separate School, 2/1/86	340,000		340,000	-	-
Notes payable					
Capital Improvements Revolving Loan	401,294		31,214	370,080	29,317
Capital Improvements Revolving Loan	388,146		28,399	359,747	29,734
Capital Improvements - Fire Station	121,033		40,856	80,177	43,012
Public Improvement Note 8/11/2004	1,215,712		291,936	923,776	299,789
Capital Improvements - Fire Truck	-	822,977		822,977	66,786
Compensated absences	365,173	23,804		388,977	-
Total	<u>\$ 4,346,358</u>	<u>846,781</u>	<u>1,977,405</u>	<u>3,215,734</u>	<u>603,638</u>

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

	Balance			Balance		Amount Due
	October 1, 2005	Additions	Reductions	September 30, 2006	Within One Year	
Business-type Activities						
Bonds and notes payable						
Electric Dept '96 G.O. Bond	\$ 2,055,000		300,000	1,755,000		315,000
Electric System Refunding Bonds, Series 2001	1,425,000		210,000	1,215,000		220,000
Electric System Bonds, Series 2001	3,530,000		135,000	3,395,000		160,000
Electric System Revenue Bonds, Series 2004	3,000,000		140,000	2,860,000		155,000
Drinking Water Improvements Revolving Loan	564,044		23,499	540,545		26,382
Drinking Water Improvements Revolving Loan	1,310,112		50,336	1,259,776		52,126
Drinking Water Improvements Revolving Loan	653,520	212,393		865,913		-
Drinking Water Improvements Revolving Loan	635,320	257,850		893,170		-
Water Pollution Control Revolving Loan	3,261,278	494,510	80,356	3,675,432		162,837
Compensated absences	236,772	9,656		246,428		-
Total	<u>\$ 16,671,046</u>	<u>974,409</u>	<u>939,191</u>	<u>16,706,264</u>		<u>1,091,345</u>

All liabilities of The City of Starkville are secured by the full faith and credit of the municipality.

The five outstanding issues of General Obligation Bonds are due in annual installments ranging from \$135,000 to \$365,000 each through various dates, the last of which is the year 2021. Interest rates range from 5.2% to 7.3%.

The two outstanding issues of school bonds are due in annual installments ranging from \$60,000 to \$340,000 each through various dates, the last of which is the year 2006. Interest rates range from 7.0% to 7.4%.

NOTE 6: UNEMPLOYMENT COMPENSATION FUND

The City has elected to establish a revolving fund for unemployment compensation which is to be maintained in the amount of 2% of the first \$6,000 of employee wages paid in the preceding calendar year. The Unemployment Compensation Fund is fully funded at September 30, 2006.

NOTE 7: DEFINED BENEFIT PENSION PLAN

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2006, 2005, and 2004 were \$736,938, \$640,206, and \$588,659, respectively, which equaled the required contributions for each year.

NOTE 8: JOINT VENTURES

The City of Starkville entered into an agreement with the Golden Triangle Solid Waste Management Authority. This Authority was organized under laws of the State of Mississippi (Section 17-17-301 et seq. Miss. Code of 1972 as amended). The Authority's purpose is to operate and maintain a landfill facility. The project was permitted by DEQ in December, 1994. The City of Starkville's share of expense and liability is based on a pro rata share of waste tonnage. The members, in addition to the City of Starkville, are Noxubee County, City of West Point, Clay County, City of Columbus, Lowndes County, City of Macon, Oktibbeha County, Webster County, City of Eupora, Choctaw County, and the Town of Ackerman. Because of the nature of the Authority's operations there is no determinable equity interest of the City of Starkville. The Authority is designed to generate revenues from its members in an amount adequate only to cover its operating costs. The Authority is audited separately and financial statements are available upon request.

NOTE 9: RISK MANAGEMENT

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

NOTE 10: PROPERTY TAX

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

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

Delinquent taxes are not recorded as assets.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
REVENUES					
General property taxes	\$ 2,493,705	-	\$ 2,493,705	2,574,420	80,715
Licenses and permits	245,400	-	245,400	212,920	(32,480)
Intergovernmental					
Federal	98,709	94,709	193,418	1,929,843	1,736,425
State of Mississippi	5,898,285	847,925	6,746,210	6,326,783	(419,427)
Oktibbeha County and Mississippi State	608,291	117,300	725,591	579,872	(145,719)
Fines and forfeits	678,600	-	678,600	781,473	102,873
Interest income	100,000	77,425	177,425	209,237	31,812
Penalties and interest - prior year taxes	83,440	-	83,440	105,991	22,551
Other revenues	583,453	9,693	593,146	600,414	7,268
Total Revenues before Prior Year Fund Balance	10,789,883	1,147,052	11,936,935	13,320,953	1,384,018
Prior year fund balance:					
Appropriated for current year budget	2,212,035	1,006,921	2,212,035	-	(2,212,035)
Total Revenues and Prior Year Fund Balance	13,001,918	2,153,973	14,148,970	13,320,953	(828,017)
EXPENDITURES					
Current:					
General government	2,633,211	219,164	2,852,375	2,294,548	557,827
Public safety					
Police	3,275,866	83,279	3,359,145	3,060,790	298,355
Fire	2,856,101	95,392	2,951,493	2,583,010	368,483
Public inspection	142,747	2,746	145,493	140,019	5,474
Civil defense	18,276	11,951	30,227	9,088	21,139
Highways and streets	1,359,681	73,154	1,432,835	1,235,315	197,520
Health and sanitation	173,324	30,530	203,854	74,247	129,607
Culture and recreation	1,050,496	-	1,050,496	993,285	57,211
Other	-	-	-	212,426	(212,426)
Capital outlay	721,223	618,381	1,339,604	2,858,671	(1,519,067)
Debt service:					
Principal	581,838	6,200	588,038	560,107	27,931
Interest	45,000	-	45,000	47,339	(2,339)
Total Expenditures	12,857,763	1,140,797	13,998,560	14,068,845	(70,285)
Excess (deficiency) of revenues over (under) expenditures	144,155	1,013,176	150,410	(747,892)	(898,302)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	832,099	832,099
Transfers out	(602,919)	(242,416)	(845,335)	(882,099)	(36,764)
Sale of land	-	-	-	-	-
Loan proceeds	-	-	-	-	-
Transfers from other departments	820,000	-	820,000	819,996	(4)
Transfers to other departments	-	-	-	(102,678)	(102,678)
Net other financing sources (uses)	217,081	(242,416)	(25,335)	667,318	692,653
Excess of revenues and other sources over expenditures and other uses	361,236	770,760	125,075	(80,574)	(205,649)
Fund balances, October 1, 2005 (Non-GAAP budgetary basis)	942,343	(581,302)	361,041	2,404,191	2,043,150
Less budgeted fund balance	500,000	250,340	750,340	-	(750,340)
Fund balances, September 30, 2006 (Non-GAAP budgetary basis)	\$ 1,803,579	439,798	1,236,456	2,323,617	1,087,161

OTHER SUPPLEMENTAL INFORMATION

CITY OF STARKVILLE, MISSISSIPPI
COMBINING BALANCE SHEET BY ACTIVITY
GENERAL FUND
SEPTEMBER 30, 2006

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Airport Activities	Multi-Unit Task Force Operations	Subtotal	Eliminating Entries	Total General Fund
Assets									
Cash and cash equivalents	\$ 1,287,608			75,747	169,765	22,139	1,555,259		1,555,259
Cash - restricted		48,322	165,465				213,787		213,787
Receivables (Net)									
Accounts	483,557			742	76		484,375		484,375
Other									
Due from other departments	61,793						61,793		61,793
Due from other funds	512,714			457			513,171	(212,624)	300,547
Inventory	19,458						19,458		19,458
Total Assets	\$ 2,365,130	48,322	165,465	76,946	169,841	22,139	2,847,843	(212,624)	2,635,219
Liabilities									
Accounts payable	\$ 269,556	3,756		34,735	3,555		311,602		311,602
Due to other funds	54,737				156,428	1,459	212,624	(212,624)	-
	324,293	3,756	-	34,735	159,983	1,459	524,226	(212,624)	311,602
Fund Equity									
Fund balances - reserved									
Reserved for fire protection			165,465				165,465		165,465
Reserved for police protection		44,566				20,680	65,246		65,246
Reserved for airport projects					9,858		9,858		9,858
Reserved for parks and recreation				42,211			42,211		42,211
Reserved for inventory	6,180						6,180		6,180
Fund balances - unreserved/undesignated	2,034,657						2,034,657		2,034,657
Total Fund Equity	2,040,837	44,566	165,465	42,211	9,858	20,680	2,323,617	-	2,323,617
Total Liabilities and Fund Equity	\$ 2,365,130	48,322	165,465	76,946	169,841	22,139	2,847,843	(212,624)	2,635,219

CITY OF STARKVILLE, MISSISSIPPI
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Revenues							
Taxes	\$ 2,574,420						2,574,420
General property taxes							
Licenses and permits	32,928						32,928
Privilege license	116,665						116,665
Permits and inspections	63,327						63,327
Franchise fees							
Intergovernmental							
Federal	16,270					1,908,406	1,924,676
CDBG							
FAA	5,167						5,167
FEMA							
State of Mississippi	4,959,366						4,959,366
General sales tax	52,650						52,650
Liquor licenses	18,078						18,078
Municipal aid - gas tax	73,900						73,900
City utilities tax	94,080						94,080
Law enforcement assistance grants			111,213				111,213
Fire protection grants						5,576	5,576
MDOT	11,399						11,399
Municipal Aid	109,564						109,564
Homestead	342,667						342,667
Tennessee Valley Authority	27,876						27,876
Housing Authority	456,696			63,718			520,414
Miscellaneous							
Okitbba County and Mississippi State	345,404						345,404
Road maintenance						69,177	69,177
Airport support	165,291						165,291
Fire control	781,473						781,473
Fines and forfeits	206,972		2,207				209,179
Interest income	105,991				58		106,049
Penalties and interest - prior year taxes							

CITY OF STARKVILLE, MISSISSIPPI
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Miscellaneous							
Electric department administration	97,992						97,992
Mississippi Valley Gas	98,550						98,550
Rents				61,301			61,301
Housing Authority-policing funds	24,000						24,000
Other	199,222	13,998		89,395	15,836	120	318,571
Total Revenues	10,979,948	13,998	113,420	153,113	15,894	2,044,580	13,320,953
Expenditures							
General government:							
Legislative							
Personal services	118,603						118,603
Total Legislative	118,603						118,603
Judicial							
Personal services	251,262						251,262
Supplies	10,380						10,380
Other services and charges	18,160						18,160
Capital outlay	3,196						3,196
Total Judicial	282,998						282,998
Executive							
Personal services	140,694						140,694
Other services and charges	1,441						1,441
Total Executive	142,135						142,135
Election							
Personal services	56						56
Other services and charges	6,409						6,409
Total Election	6,465						6,465

CITY OF STARKVILLE, MISSISSIPPI
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
City Clerk and Tax Collector							
Personal services	243,106						243,106
Supplies	18,392						18,392
Other services and charges	141,516						141,516
Capital Outlay	31,845						31,845
Total City Clerk and Tax Collector	434,859						434,859
Legal							
Personal services	98,556						98,556
Other services and charges	80,007						80,007
Total Legal	178,563						178,563
City Planner							
Personal services	65,350						65,350
Other services and charges	30,633						30,633
Capital outlay							
Total City Planner	95,983						95,983
Other Administrative							
Personal services	172,152						172,152
Capital outlay	7,550						7,550
Other services and charges	100,919						100,919
Total Other Administrative	280,621						280,621
City Hall							
Personal services	28,871						28,871
Supplies	1,613						1,613
Other services and charges	54,376						54,376
Total City Hall	84,860						84,860
Other Miscellaneous							
Personal services	34,581					32,979	67,560
Supplies	1,768					6,346	8,114
Other services and charges	606,843					29,535	636,378
Capital outlay	5,497					1,890,039	1,895,536
Total Other Miscellaneous	648,689					1,958,899	2,607,588
Total General Government	2,273,776					1,958,899	4,232,675

CITY OF STARKVILLE, MISSISSIPPI
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Public Safety							
Public Safety - Police and E911					18,025		
Personal services	2,340,111						2,358,136
Supplies	213,235	6,179					219,414
Other services and charges	483,240						483,240
Capital outlay	182,036	106					182,142
Transfer to other departments							
Total Public Safety - Police and E911	3,218,622	6,285			18,025		3,242,932
Public Safety - Fire							
Personal services	2,267,404						2,267,404
Supplies	102,900		3,736				106,636
Other services and charges	207,800		1,170				208,970
Capital outlay	49,981		827,844				877,825
Total Public Safety - Fire	2,628,085		832,750				3,460,835
Public Safety - Public Inspection							
Personal services	114,080						114,080
Supplies	7,189						7,189
Other services and charges	18,750						18,750
Capital outlay	603						603
Total Public Safety - Public Inspection	140,622						140,622
Public Safety - Civil Defense							
Personal services	2,575						2,575
Supplies	369						369
Other services and charges	6,144						6,144
Capital outlay	39,235						39,235
Total Public Safety - Civil Defense	48,323						48,323
Total Public Safety	6,035,652	6,285	832,750		18,025		6,892,712
Highways and Streets							
Public Works Administration							
Personal services	4,973						4,973
Total Public Works Administration	4,973						4,973

CITY OF STARKVILLE, MISSISSIPPI
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
City Streets							
Personal services	363,483						363,483
Supplies	146,460						146,460
Other services and charges	85,495						85,495
Capital outlay	25,328						25,328
Total City Streets	620,766						620,766
Street Lights							
Other services and charges	379,238						379,238
Total Street Lights	379,238						379,238
Landscaping							
Personal services	189,514						189,514
Supplies	31,546						31,546
Other services and charges	34,606						34,606
Capital outlay	858						858
Total Landscaping	256,524						256,524
Total Highways and Streets Health and Sanitation	1,261,501						1,261,501
Health and welfare - animals							
Personal services	33,992						33,992
Supplies	3,465						3,465
Other services and charges	13,944						13,944
Capital outlay	77,413						77,413
Transfer to Humane Society	22,846						22,846
Total Health and Welfare - Animals	151,660						151,660
Total Health and Sanitation	151,660						151,660
Culture and Recreation							
Parks and Recreation				493,229			493,229
Personal services				42,055			42,055
Supplies				458,001			458,001
Other services and charges				80,894			80,894
Capital outlay				1,074,179			1,074,179
Total Parks and Recreation				1,074,179			1,074,179
Total Culture and Recreation				1,074,179			1,074,179

CITY OF STARKVILLE, MISSISSIPPI
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Debt Service							
Principal	486,549		40,856				527,405
Interest	76,286		3,755				80,041
Total Debt Service	562,835		44,611				607,446
Total Debt Service	562,835		44,611				607,446
Miscellaneous							
Appropriations to other entities	212,426						212,426
Capital outlay - street improvements	201,453						201,453
Capital outlay - other	257,770						257,770
Other miscellaneous							
Total Miscellaneous	671,649						671,649
Total Expenditures	10,957,073	6,285	877,361	1,074,179	18,025	1,958,899	14,891,822
Excess (Deficiency) of Revenues Over (Under) Expenditures	22,875	7,713	(763,941)	(921,066)	(2,131)	85,681	(1,570,869)
Other Financing Sources (Uses)							
Operating transfers in				832,099			832,099
Transfers from other departments	819,996						819,996
Loan proceeds			822,977				822,977
Transfers to other departments	(102,678)						(102,678)
Operating transfers out	(882,099)						(882,099)
Total Other Financing Sources (Uses)	(164,781)		822,977	832,099			1,490,295
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(141,906)	7,713	59,036	(88,967)	(2,131)	85,681	(80,574)
Fund Balances							
October 1, 2005	2,182,743	36,853	106,429	131,178	22,811	(75,823)	2,404,191
September 30, 2006	\$ 2,040,837	44,566	165,465	42,211	20,680	9,858	2,323,617

CITY OF STARKVILLE, MISSISSIPPI
BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 460,827	-	-	460,827
Cash - restricted	-	1,165,157	-	1,165,157
Receivables (Net)	-	-	-	-
Accounts	-	-	-	-
Other	81	-	-	81
Notes receivable (Net)	41,713	-	-	41,713
Due from other departments	-	-	-	-
Due from other funds	-	20,452	-	20,452
Inventory	-	-	-	-
 Total Assets	 <u>\$ 502,621</u>	 <u>1,185,609</u>	 <u>-</u>	 <u>1,688,230</u>
<u>LIABILITIES</u>				
Accounts payable	\$ -	-	-	-
Other liabilities	6,444	200,204	-	206,648
Due to other funds	-	-	-	-
 Total Liabilities	 <u>6,444</u>	 <u>200,204</u>	 <u>-</u>	 <u>206,648</u>
<u>FUND BALANCES</u>				
Fund balances - reserved				
Reserved for fire protection	-	-	-	-
Reserved for police protection	3,264	-	-	3,264
Reserved for airport projects	-	-	-	-
Reserved for parks and recreation	-	-	-	-
Reserved for inventory	-	-	-	-
Reserved for debt service	-	985,406	-	985,406
Reserved for capital projects	-	-	-	-
Restricted for police protection	-	-	-	-
Restricted for economic development	292,623	-	-	292,623
Fund balances - unreserved/undesignated	200,290	-	-	200,290
 Total Fund Balances	 <u>496,177</u>	 <u>985,406</u>	 <u>-</u>	 <u>1,481,583</u>
 Total Liabilities and Fund Balances	 <u>\$ 502,621</u>	 <u>1,185,610</u>	 <u>-</u>	 <u>1,688,231</u>

CITY OF STARKVILLE, MISSISSIPPI
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues				
Intergovernmental:				
State of Mississippi	\$ -	580,419		580,419
Special 2% Tax		415,038		415,038
Interest income	3,301	51,809		55,110
Miscellaneous income	18,000			18,000
Total Revenues	<u>21,301</u>	<u>1,047,266</u>	<u>-</u>	<u>1,068,567</u>
Expenditures				
Public Safety - Police				
Personal services				-
Debt Service:				
Principal		1,450,000		1,450,000
Interest		562,222		562,222
Capital outlay				
Miscellaneous	8,783			-
Total Expenditures	<u>8,783</u>	<u>2,012,222</u>	<u>-</u>	<u>2,021,005</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	<u>12,518</u>	<u>(964,956)</u>	<u>-</u>	<u>(952,438)</u>
Other Financing Sources (Uses)				
Transfers from other departments				
Principal		1,379,902		1,379,902
Transfers to other departments		(930,000)		(930,000)
Operating transfers in				
Operating transfers out				-
Total Other Financing Sources (Uses)	<u>-</u>	<u>449,902</u>	<u>-</u>	<u>449,902</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	<u>12,518</u>	<u>(515,054)</u>	<u>-</u>	<u>(502,536)</u>
Fund Balances				
October 1, 2005	<u>483,659</u>	<u>1,500,460</u>	<u>-</u>	<u>1,984,119</u>
September 30, 2006	<u>\$ 496,177</u>	<u>985,406</u>	<u>-</u>	<u>1,481,583</u>

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF NET ASSETS – NON-MAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2006**

	<u>Sanitation and Waste Fund</u>	<u>Sanitary Landfill Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 460,658		460,658
Accounts receivables, net	155,556	716	156,272
Other receivables, net		187,531	187,531
Total current assets	<u>616,214</u>	<u>188,247</u>	<u>804,461</u>
Non-current assets:			
Capital assets:			
Fixed assets, net of depreciation	175,122	21,702	196,824
Total non-current assets	<u>175,122</u>	<u>21,702</u>	<u>196,824</u>
Total Assets	<u>791,336</u>	<u>209,949</u>	<u>1,001,285</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	95,680	23,573	119,253
Accrued liabilities	45,974	6,091	52,065
Due to other funds		35,484	35,484
Total current liabilities	<u>141,654</u>	<u>65,148</u>	<u>206,802</u>
Total Liabilities	<u>141,654</u>	<u>65,148</u>	<u>206,802</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	175,122	21,702	196,824
Contributed capital			
Unrestricted	<u>474,560</u>	<u>123,099</u>	<u>597,659</u>
Total net assets	<u>\$ 649,682</u>	<u>144,801</u>	<u>794,483</u>

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS –
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Sanitation and Waste Fund</u>	<u>Sanitary Landfill Fund</u>	<u>Total</u>
<u>OPERATING REVENUES</u>			
Charges for services	\$ 1,871,692	194,655	2,066,347
Total operating revenues	<u>1,871,692</u>	<u>194,655</u>	<u>2,066,347</u>
<u>OPERATING EXPENSES</u>			
Purchased power			
Operating and maintenance	1,710,557	155,499	1,866,056
Depreciation	129,193	2,427	131,620
Total operating expenses	<u>1,839,750</u>	<u>157,926</u>	<u>1,997,676</u>
Operating income (loss)	<u>31,942</u>	<u>36,729</u>	<u>68,671</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Other revenue	30,703		30,703
Interest on investments			-
Miscellaneous	(80,838)		(80,838)
Total non-operating revenues (expenses)	<u>(50,135)</u>		<u>(50,135)</u>
Income (loss) before transfers	<u>(18,193)</u>	<u>36,729</u>	<u>18,536</u>
Transfers out			-
Change in net assets	(18,193)	36,729	18,536
Total net assets, beginning	<u>667,875</u>	<u>108,072</u>	<u>775,947</u>
Total net assets, ending	<u>\$ 649,682</u>	<u>144,801</u>	<u>794,483</u>

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CASH FLOWS – NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Sanitation and Waste Fund	Sanitary Landfill Fund	Total
<u>Cash Flows From Operating Activities</u>			
Cash received from customers	\$ 1,871,692	123,194	1,994,886
Cash paid to employees	(530,025)	(91,608)	(621,633)
Cash paid to suppliers	(1,274,138)	(40,997)	(1,315,135)
Net cash flows from operating activities	<u>67,529</u>	<u>(9,411)</u>	<u>58,118</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers out			-
Net cash flows from noncapital financing activities		-	-
<u>Cash Flows from Capital and Related Financing Activities</u>			
Purchase of capital assets	(270,521)	(1,245)	(271,766)
Other receipts (expenses)	(50,135)		(50,135)
Net cash flows from capital and related financing activities	<u>(320,656)</u>	<u>(1,245)</u>	<u>(321,901)</u>
<u>Cash Flows from Investing Activities</u>			
Receipt of interest	-	-	-
Net cash flows from investing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash	(253,127)	(10,656)	(263,783)
Cash and cash equivalents, October 1, 2005	713,785	10,656	724,441
Cash and cash equivalents, September 30, 2006	<u>\$ 460,658</u>	<u>-</u>	<u>460,658</u>
<u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u>			
Operating income (loss)	\$ 31,942	36,729	68,671
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	129,193	2,427	131,620
Changes in operating assets and liabilities:			
(Increase) decrease in receivables		(71,293)	(71,293)
(Increase) decrease in due from other funds			-
Increase (decrease) in payables	(81,437)	22,810	(58,627)
Increase (decrease) in due to other funds	(12,169)	84	(12,085)
Increase (decrease) in accrued liabilities			-
Total adjustments	<u>35,587</u>	<u>(45,972)</u>	<u>(10,385)</u>
Net cash provided (used) by operating activities	<u>\$ 67,529</u>	<u>(9,243)</u>	<u>58,286</u>

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
SEPTEMBER 30, 2006**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Dan Camp	Mayor	Western Surety Co.	\$ 50,000
Richard Corey, II	Alderman	Ohio Casualty	\$ 100,000
Matt Cox	Alderman	Ohio Casualty	\$ 100,000
Sumner D. Davis, III	Alderman	Ohio Casualty	\$ 100,000
P. C. McLaurin, Jr.	Alderman	Ohio Casualty	\$ 100,000
James A. Mills	Alderman	Ohio Casualty	\$ 100,000
Roy A. Perkins	Alderman	Ohio Casualty	\$ 100,000
Janet L. Self	Alderman	Ohio Casualty	\$ 100,000
Markeeta Outlaw	City Clerk	United States Fidelity and Guaranty Company	\$300,000
Debbie L. Clark	City Accountant	United States Fidelity and Guaranty Company	\$ 50,000
David B. Lindley	Chief of Police	Ohio Casualty	\$ 50,000

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF BONDED INDEBTEDNESS
SEPTEMBER 30, 2006**

Name and Date	Maturity Date	Interest Percent	Balance 10/1/05	Transactions		Balance 9/30/06
				Issued	Redeemed	
General Obligation Bonds						
Governmental Activities:						
Research Park 1987	12/1/2005	0.00	\$ 135,000		135,000	-
	12/1/2006	0.00	135,000			135,000
	12/1/2007	0.00	135,000			135,000
Total			<u>405,000</u>	<u>-</u>	<u>135,000</u>	<u>270,000</u>
Public Improvement Bonds, 1996	7/1/2006	5.20	150,000		150,000	-
	7/1/2007	5.25	160,000		160,000	-
	7/1/2008	5.30	165,000		165,000	-
	7/1/2009	5.40	175,000		175,000	-
	7/1/2010	5.50	185,000		185,000	-
	Thereafter	5.20	185,000		185,000	-
Total			<u>1,020,000</u>	<u>-</u>	<u>1,020,000</u>	<u>-</u>
Starkville Separate School, 2/1/86	2/1/2006	7.25	90,000		90,000	-
Starkville Separate School 2/1/86	2/1/2006	7.25	340,000		340,000	-
Total General Obligation Bond Liability, Governmental Activities			<u>\$ 1,855,000</u>	<u>-</u>	<u>1,585,000</u>	<u>270,000</u>
Business-type Activities:						
System Improvements Bonds, 4/1/96	4/1/2006		\$ 300,000		300,000	-
	4/1/2007		315,000			315,000
	4/1/2008		330,000			330,000
	4/1/2009		350,000			350,000
	4/1/2010		370,000			370,000
	4/1/2011		390,000			390,000
Total			<u>2,055,000</u>	<u>-</u>	<u>300,000</u>	<u>1,755,000</u>
Electric System Refunding Bonds, Series 2001	4/1/2006	4.00	210,000		210,000	-
	4/1/2007	4.00	220,000			220,000
	4/1/2008	4.00	230,000			230,000
	4/1/2009	4.00	240,000			240,000
	4/1/2010	4.00	255,000			255,000
	4/1/2011	4.00	270,000			270,000
Total			<u>1,425,000</u>	<u>-</u>	<u>210,000</u>	<u>1,215,000</u>
Electric System Bonds, Series 2001	4/1/2006	6.00	135,000		135,000	-
	4/1/2007	6.00	160,000			160,000
	4/1/2008	5.80	160,000			160,000
	4/1/2009	4.20	165,000			165,000
	4/1/2010	4.20	175,000			175,000
	4/1/2011	4.20	185,000			185,000
Total	Thereafter		<u>2,550,000</u>	<u>-</u>	<u>135,000</u>	<u>2,550,000</u>
			<u>3,530,000</u>	<u>-</u>	<u>135,000</u>	<u>3,395,000</u>
Electric System Revenue Bonds, Series 2004	11/1/2005	4.75	140,000		140,000	-
	11/1/2006	3.50	145,000			145,000
	11/1/2007	3.50	155,000			155,000
	11/1/2008	3.50	160,000			160,000
	11/1/2009	3.50	170,000			170,000
	11/1/2010	3.50	175,000			175,000
	Thereafter		2,055,000			2,055,000
Total			<u>3,000,000</u>	<u>-</u>	<u>140,000</u>	<u>2,860,000</u>
Total General Obligation Bond Liability, Business-type Activities			<u>\$ 7,010,000</u>	<u>-</u>	<u>785,000</u>	<u>9,225,000</u>
Total General Obligation Bond Liability			<u>\$ 8,865,000</u>	<u>-</u>	<u>2,370,000</u>	<u>9,495,000</u>

CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF LONG-TERM NOTES
SEPTEMBER 30, 2006

Payee	Maturity Date	Interest Percent	Balance 10/1/2005	Transactions		Balance 9/30/2006
				Issued	Redeemed	
Notes Payable						
Governmental Activities:						
Capital Improvements - Fire Truck and Building						
	FY06		\$ 40,856		40,856	-
	FY07		43,012			43,012
	FY08		37,165			37,165
Total			<u>121,033</u>	<u>-</u>	<u>40,856</u>	<u>80,177</u>
Capital Improvements - Fire Truck						
	FY07	4.47%		66,786		66,786
	FY08	4.47%		69,832		69,832
	FY09	4.47%		73,016		73,016
	FY10	4.47%		76,345		76,345
	FY11	4.47%		79,827		79,827
	Thereafter	4.47%		457,171		457,171
Total			<u>-</u>	<u>822,977</u>	<u>-</u>	<u>822,977</u>
Capital Improvements Revolving Loan						
	FY06	5.66%	27,708		27,708	-
	FY07	5.66%	29,317			29,317
	FY08	5.66%	31,020			31,020
	FY09	5.66%	32,822			32,822
	FY10	5.66%	34,719			34,719
	FY11	5.66%	36,747			36,747
	Thereafter	5.66%	208,961		3,506	205,455
Total			<u>401,294</u>	<u>-</u>	<u>31,214</u>	<u>370,080</u>
Capital Improvements Revolving Loan						
	FY06	5.66%	28,102		28,102	-
	FY07	5.66%	29,734			29,734
	FY08	5.66%	31,461			31,461
	FY09	5.66%	33,289			33,289
	FY10	5.66%	35,224			35,224
	FY11	5.66%	39,434			39,434
	Thereafter	5.66%	190,902		297	190,605
Total			<u>388,146</u>	<u>-</u>	<u>28,399</u>	<u>359,747</u>
Capital Improvements Revolving Loan						
	FY06	2.69	291,936		291,936	-
	FY07	2.69	299,789			299,789
	FY08	2.69	307,853			307,853
	FY09	2.69	316,134			316,134
Total			<u>1,215,712</u>	<u>-</u>	<u>291,936</u>	<u>923,776</u>
Total Notes Payable, Governmental Activities			<u>\$ 2,126,185</u>	<u>822,977</u>	<u>392,405</u>	<u>2,556,757</u>

CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF LONG-TERM NOTES (CONTINUED)
SEPTEMBER 30, 2005

Payee	Maturity Date	Interest Percent	Balance 9/30/2005	Transactions		Balance 9/30/2006
				Issued	Redeemed	
Notes Payable (Continued)						
Business-type activities:						
Drinking Water Systems Improvements Revolving Loan	FY06	3.00%	\$ 23,499		23,499	-
	FY07	3.00%	26,382			26,382
	FY08	3.00%	27,185			27,185
	FY09	3.00%	28,011			28,011
	FY10	3.00%	28,862			28,862
	FY11	3.00%	29,741			29,741
	Thereafter	3.00%	400,364			400,364
Total			<u>564,044</u>	<u>-</u>	<u>23,499</u>	<u>540,545</u>
Drinking Water Systems Improvements Revolving Loan	FY06	3.50%	50,336		50,336	-
	FY07	3.50%	52,126			52,126
	FY08	3.50%	53,980			53,980
	FY09	3.50%	55,901			55,901
	FY10	3.50%	57,888			57,888
	FY11	3.50%	59,948			59,948
	Thereafter	3.50%	979,933			979,933
Total			<u>1,310,112</u>	<u>-</u>	<u>50,336</u>	<u>1,259,776</u>
Water Pollution Control Revolving Loan	FY06	1.75%	80,356		80,356	-
	FY07	1.75%	162,837			162,837
	FY08	1.75%	165,711			165,711
	FY09	1.75%	168,632			168,632
	FY10	1.75%	171,608			171,608
	FY11	1.75%	174,636			174,636
	Thereafter	1.75%	2,337,498	494,510		2,832,008
Total			<u>3,261,278</u>	<u>494,510</u>	<u>80,356</u>	<u>3,675,432</u>
Drinking Water Systems Improvements Revolving Loan	FY06	4.00%	653,520	212,393		865,913
Total			<u>653,520</u>	<u>212,393</u>	<u>-</u>	<u>865,913</u>
Drinking Water Systems Improvements Revolving Loan	FY06	4.00%	635,140	258,030		893,170
Total			<u>635,140</u>	<u>258,030</u>	<u>-</u>	<u>893,170</u>
Total Notes Payable, Business-type Activities			<u>\$ 6,424,094</u>	<u>964,933</u>	<u>154,191</u>	<u>7,234,836</u>
Total Notes Payable			<u>\$ 8,550,279</u>	<u>1,787,910</u>	<u>546,596</u>	<u>9,791,593</u>

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



WATKINS, WARD and STAFFORD

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

The Honorable Mayor and Board of Aldermen
The City of Starkville
Starkville, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Starkville, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City of Starkville, Mississippi's basic financial statements and have issued our report thereon dated February 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Starkville, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Starkville, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting

that, in our judgment, could adversely affect the City of Starkville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Board, 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.

Starkville, Mississippi
February 2, 2007

Wath's Ward and Stafford

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



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

The Honorable Mayor and Board of Aldermen
The City of Starkville
Starkville, Mississippi

Compliance

We have audited the compliance of the City of Starkville, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. City of Starkville, Mississippi's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Starkville, Mississippi's management. Our responsibility is to express an opinion on the City of Starkville, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Starkville, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Starkville, Mississippi's compliance with those requirements.

In our opinion, City of Starkville, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of City of Starkville, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Starkville, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Board, 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.

Starkville, Mississippi
February 2, 2007

Wath's Ward and Stafford Acc

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



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

The Honorable Mayor and Board of Aldermen
The City of Starkville
Starkville, Mississippi

We have audited the financial statements of the City of Starkville, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 2, 2007. We conducted our audit in accordance with generally accepted auditing standards.

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

The results of those procedures and our audit of the general purpose financial statements disclosed no instances of noncompliance with state laws and regulations.

This report is intended for the information of the City's management. However, this report is a matter of public record and its distribution is not limited.

Starkville, Mississippi
February 2, 2007

Watkins, Ward and Stafford

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Section 1: Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Starkville, Mississippi.
2. The audit of the financial statements did not disclose any material weaknesses in internal control.
3. No instances of noncompliance material to the financial statements of City of Starkville, Mississippi were disclosed during the audit.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. The auditors' report on compliance for the major federal award programs for City of Starkville, Mississippi expresses an unqualified opinion on all major federal programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510(a) of OMB Circular A-133.
7. The programs tested as major programs included: the Child Care and Development Block Grant, CFDA #93.575, the CDBG Small Cities Program, CFDA # 14.219, and the Drinking Water Systems Improvements Revolving Loan Project.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Starkville, Mississippi was determined to be a low-risk auditee.

Section 2: Findings Relating to the Financial Statements

No matters regarding noncompliance relative to the financial statements were reported.

REPORTABLE CONDITIONS:

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Section 2: Findings Relating to the Financial Statements (Continued)

None

Section 3: Findings and Questioned Costs for Major Federal Award Programs

None

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

<u>Federal Agency/ Pass-through Entity/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U. S. Federal Bureau of Justice Assistance:</u>		
Direct Programs:		
Homeland Security Overtime Grant	97.067	9,584
Total U.S. Federal Bureau of Justice Assistance		<u>9,584</u>
<u>U.S. Department of Homeland Security</u>		
Passed-through Federal-State Programs:		
Homeland Security Grant Program	97.067	63,315
Disaster Assistance Projects	97.088	35,870
State Domestic Preparedness Equipment Support Program	97.004	12,000
Total U.S. Department of Health and Human Services		<u>111,185</u>
<u>U.S. Department of Health and Human Services:</u>		
Passed-through Federal-State Programs:		
Child Care and Development Block Grant ID 467Q661	93.575	354,741
Total U.S. Department of Health and Human Services		<u>354,741</u>
<u>U. S. Department of Housing and Urban Development:</u>		
Passed-through Federal -State Programs:		
CDBG Small Cities Program	14.219	16,270
Total U.S. Department of Housing and Urban Development		<u>16,270</u>
<u>U.S. Department of Agriculture:</u>		
Direct Programs:		
Wood in Transportation Program	10.673	14,881
Total USDA		<u>14,881</u>
<u>Federal Aviation Administration</u>		
Direct Programs:		
Airport Improvement Program	20.106	1,908,406
Total Federal Emergency Management Agency		<u>1,908,406</u>
<u>U. S. Environmental Protection Agency:</u>		
Passed-through Federal-State Programs:		
Drinking Water Systems Improvements Revolving Loan Project	66.468	894,829
Total U. S. Environmental Protection Agency		<u>894,829</u>
<u>Total Expenditures of Federal Awards</u>		<u>\$ 3,309,896</u>

Notes to Schedule

- (1) This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the general purpose financial statements.
- (2) The revenue and expenditure amounts include transfers in and out, respectively.