

**CITY OF STARKVILLE, MISSISSIPPI**

**AUDIT REPORT**

**SEPTEMBER 30, 2005**

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**FINANCIAL SECTION**



**WATKINS, WARD AND STAFFORD**  
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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, 2005, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2006, 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 31 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 compromise 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  
January 24, 2006

A handwritten signature in black ink that reads "Watkins, Ward and Stafford, PLLC". The signature is written in a cursive, flowing style.

## **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 ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense / Revenue)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government</b>					
<b>Governmental Activities</b>					
General government	\$ 2,517,345	232,903	433,509	50,000	(1,800,933)
Public safety					
Police	3,423,296	817	93,449		(3,329,030)
Fire	2,947,999	113,653	120,882	-	(2,713,464)
Public inspection	149,326	-	-	-	(149,326)
Civil defense	148,066	-	-	-	(148,066)
Highways and streets	1,490,891	-	310,805	2,500	(1,177,586)
Health and sanitation	425,119	-	-	-	(425,119)
Culture and recreation	1,385,105	89,890	-	-	(1,295,215)
Other	231,868	-	-	-	(231,868)
Interest on long-term debt	606,853	-	-	-	(606,853)
Total governmental activities	<u>13,325,868</u>	<u>437,263</u>	<u>958,645</u>	<u>52,500</u>	<u>(11,877,460)</u>
<b>Business-type Activities</b>					
Electric utilities	23,579,844	24,838,105	-	-	1,258,261
Water and sewer utilities	3,930,280	4,365,929	-	-	435,649
Sanitation and waste	1,716,435	1,868,556	-	-	152,121
Sanitary landfill	126,923	172,400	-	-	45,477
Total business-type activities	<u>29,353,482</u>	<u>31,244,990</u>	<u>-</u>	<u>-</u>	<u>1,891,508</u>
Total primary government	<u>\$ 42,679,350</u>	<u>31,682,253</u>	<u>958,645</u>	<u>52,500</u>	<u>(9,985,952)</u>
			<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Changes in Net Assets:</b>					
Net (expense) / revenue			<u>\$ (11,877,460)</u>	<u>1,891,508</u>	<u>(9,985,952)</u>
<b>General revenues</b>					
Taxes					
Property taxes			2,186,129	-	2,186,129
Sales and use taxes			4,910,600	-	4,910,600
Other taxes			1,269,155	-	1,269,155
Investment income			84,285	74,760	159,045
Other			2,248,052	4,899	2,252,951
Transfers			1,130,480	-	1,130,480
Total general revenues and transfers			<u>11,828,701</u>	<u>79,659</u>	<u>11,908,360</u>
Change in net assets			(48,759)	1,971,167	1,922,408
Net assets, October 1, 2004			<u>19,017,577</u>	<u>33,605,804</u>	<u>52,623,381</u>
Net assets, September 30, 2005			<u>\$ 18,968,818</u>	<u>35,576,971</u>	<u>54,545,789</u>

See accompanying notes to basic financial statements.

**FUND FINANCIAL STATEMENTS**

**CITY OF STARKVILLE, MISSISSIPPI  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2005**

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 1,833,864	448,309	2,282,173
Cash - restricted	151,479	1,489,841	1,641,320
Receivables (Net)			
Accounts	428,724	-	428,724
Other	-	113	113
Notes receivable (Net)	-	41,713	41,713
Due from other departments	26,249	-	26,249
Due from other funds	331,529	10,619	342,148
Inventory	20,647	-	20,647
	<u>2,792,492</u>	<u>1,990,595</u>	<u>4,783,087</u>
Total Assets	<u>\$ 2,792,492</u>	<u>1,990,595</u>	<u>4,783,087</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 317,757	-	317,757
Other liabilities	-	6,476	6,476
Due to other funds	70,544	-	70,544
	<u>388,301</u>	<u>6,476</u>	<u>394,777</u>
Total Liabilities	<u>388,301</u>	<u>6,476</u>	<u>394,777</u>
<b><u>FUND BALANCES</u></b>			
Fund balances - reserved			
Reserved for fire protection	106,429	-	106,429
Reserved for police protection	59,664	-	59,664
Reserved for airport projects	(75,823)	-	(75,823)
Reserved for parks and recreation	131,178	-	131,178
Reserved for inventory	20,647	-	20,647
Reserved for debt service	-	1,500,460	1,500,460
Reserved for capital projects	-	-	-
Restricted for police protection	-	3,264	3,264
Restricted for economic development	-	301,406	301,406
Fund balances - unreserved/undesignated	2,162,096	178,989	2,341,085
	<u>2,404,191</u>	<u>1,984,119</u>	<u>4,388,310</u>
Total Fund Balances	<u>2,404,191</u>	<u>1,984,119</u>	<u>4,388,310</u>
Total Liabilities and Fund Balances	<u>\$ 2,792,492</u>	<u>1,990,595</u>	<u>4,783,087</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, 2005**

Fund Balances - total governmental funds		\$ 4,388,310
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	61,685,773	
Less accumulated depreciation	<u>(42,690,939)</u>	18,994,834
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
		(4,346,358)
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>(67,968)</u>
Net Assets of Governmental Activities		<u>\$ 18,968,818</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, 2005**

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>			
General property taxes	\$ 2,186,129	-	2,186,129
Licenses and permits	253,342	-	253,342
Intergovernmental			
Federal	143,922	-	143,922
State of Mississippi	6,476,913	572,264	7,049,177
Oktibbeha County and Mississippi State	488,445	-	488,445
Fines and forfeits	564,327	-	564,327
Interest income	59,597	24,678	84,275
Penalties and interest - prior year taxes	92,508	-	92,508
Other revenues	448,112	650,072	1,098,184
Total Revenues	<u>10,713,295</u>	<u>1,247,014</u>	<u>11,960,309</u>
<b><u>EXPENDITURES</u></b>			
Current:			
General government	2,227,379	-	2,227,379
Public safety			
Police	2,978,339	5,857	2,984,196
Fire	2,508,899	-	2,508,899
Public inspection	121,327	-	121,327
Civil defense	120,067	-	120,067
Highways and streets	1,144,921	-	1,144,921
Health and sanitation	108,664	-	108,664
Culture and recreation	1,068,650	-	1,068,650
Other	231,868	-	231,868
Capital outlay	1,967,782	2,863	1,970,645
Debt service:			
Principal	506,897	520,000	1,026,897
Interest	96,421	510,432	606,853
Total Expenditures	<u>13,081,214</u>	<u>1,039,152</u>	<u>14,120,366</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,367,919)</u>	<u>207,862</u>	<u>(2,160,057)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Transfers in	1,053,253	-	1,053,253
Transfers out	(915,833)	(172,420)	(1,088,253)
Proceeds from loans	-	-	-
Transfers from other departments	819,996	1,009,805	1,829,801
Transfers to other departments	(23,946)	(675,375)	(699,321)
Net other financing sources (uses)	<u>933,470</u>	<u>162,010</u>	<u>1,095,480</u>
Net change in fund balances	(1,434,449)	369,872	(1,064,577)
<b>Fund balances, October 1, 2004</b>	<u>3,838,640</u>	<u>1,614,247</u>	<u>5,452,887</u>
<b>Fund balances, September 30, 2005</b>	<u>\$ 2,404,191</u>	<u>1,984,119</u>	<u>4,388,310</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, 2005**

Net change in Fund Balances - total governmental funds \$ (1,064,577)

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	1,997,598	
Less current year depreciation	<u>(1,892,814)</u>	104,784

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	-	
Principal payments	<u>1,026,891</u>	1,026,891

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		(57,172)
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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 Funds is reported with the governmental activities.

		<u>(58,685)</u>
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Change in Net Assets of Governmental Funds		<u>\$ (48,759)</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, 2005**

	<u>June 30, 2005</u>	<u>September 30, 2005</u>			<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
	<u>Electric Department</u>	<u>Water &amp; Sewer Department</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>		
<b><u>ASSETS</u></b>						
Current assets:						
Cash and cash equivalents	\$ 5,053,600	1,218,706	724,441	6,996,747	10,075	
Accounts receivables, net	4,296,068	223,452	155,556	4,675,076	-	
Other receivables, net	206,334	29,637	116,954	352,925	-	
Due from other funds	-	-	-	-	-	
Due from other departments	75,133	25,733	-	100,866	1,581	
Interest receivable	24,840	-	-	24,840	-	
Prepaid expense	3,268	-	-	3,268	-	
Inventory	425,810	62,779	-	488,589	34,697	
Total current assets	<u>10,085,053</u>	<u>1,560,307</u>	<u>996,951</u>	<u>12,642,311</u>	<u>46,353</u>	
Restricted assets:						
Cash - restricted	-	75,005	-	75,005	-	
Total restricted assets	<u>-</u>	<u>75,005</u>	<u>-</u>	<u>75,005</u>	<u>-</u>	
Non-current assets:						
Other assets	311,243	-	-	311,243	-	
Capital assets:						
Fixed assets, net of depreciation	22,137,566	23,319,840	56,678	45,514,084	72,982	
Total non-current assets	<u>22,448,809</u>	<u>23,319,840</u>	<u>56,678</u>	<u>45,825,327</u>	<u>72,982</u>	
Total Assets	<u>32,533,862</u>	<u>24,955,152</u>	<u>1,053,629</u>	<u>58,542,643</u>	<u>119,335</u>	
<b><u>LIABILITIES</u></b>						
Current liabilities:						
Accounts payable	2,586,552	264,392	177,880	3,028,824	21,726	
Accrued liabilities	154,116	130,161	52,065	336,342	11,694	
Due to other departments	1,415,018	2,788	-	1,417,806	-	
Due to other funds	-	8,442	47,737	56,179	153,883	
Accrued interest - long-term debt	99,247	-	-	99,247	-	
General obligation bonds payable, current	785,000	-	-	785,000	-	
Notes payable, current	-	73,835	-	73,835	-	
Total current liabilities	<u>5,039,933</u>	<u>479,618</u>	<u>277,682</u>	<u>5,797,233</u>	<u>187,303</u>	
Non-current liabilities:						
General obligation bonds payable, non-current	9,225,000	-	-	9,225,000	-	
Notes payable, non-current	-	6,350,258	-	6,350,258	-	
Customer deposits	1,250,890	276,586	-	1,527,476	-	
Other liabilities	65,705	-	-	65,705	-	
Total non-current liabilities	<u>10,541,595</u>	<u>6,626,844</u>	<u>-</u>	<u>17,168,439</u>	<u>-</u>	
Total Liabilities	<u>15,581,528</u>	<u>7,106,462</u>	<u>277,682</u>	<u>22,965,672</u>	<u>187,303</u>	
<b><u>NET ASSETS</u></b>						
Invested in capital assets, net of related debt	12,127,566	13,234,835	56,678	25,419,079	72,982	
Contributed capital	-	8,967,665	-	8,967,665	141,448	
Unrestricted	4,824,768	(4,353,810)	719,269	1,190,227	(282,398)	
Total Net Assets	<u>\$ 16,952,334</u>	<u>17,848,690</u>	<u>775,947</u>	<u>35,576,971</u>	<u>(67,968)</u>	

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, 2005**

	<u>September 30, 2005</u>				
	<u>June 30, 2005</u>	<u>Water &amp; Sewer Department</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
<b><u>OPERATING REVENUES</u></b>					
Charges for services	\$ 24,838,105	4,365,929	2,040,956	31,244,990	325,529
Total operating revenues	<u>24,838,105</u>	<u>4,365,929</u>	<u>2,040,956</u>	<u>31,244,990</u>	<u>325,529</u>
<b><u>OPERATING EXPENSES</u></b>					
Purchased power	19,514,521	-	-	19,514,521	-
Operating and maintenance	2,750,907	2,934,807	1,683,742	7,369,456	409,592
Depreciation	879,664	933,850	96,944	1,910,458	9,632
Total operating expenses	<u>23,145,092</u>	<u>3,868,657</u>	<u>1,780,686</u>	<u>28,794,435</u>	<u>419,224</u>
Operating income (loss)	<u>1,693,013</u>	<u>497,272</u>	<u>260,270</u>	<u>2,450,555</u>	<u>(93,695)</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>					
Other revenue	-	4,149	750	4,899	-
Interest on investments	69,527	4,194	1,039	74,760	10
Amortization expense	(17,477)	-	-	(17,477)	-
Interest and fiscal charges	(409,784)	(61,622)	-	(471,406)	-
Other expenses	(7,491)	-	(62,673)	(70,164)	-
Total non-operating revenues (expenses)	<u>(365,225)</u>	<u>(53,279)</u>	<u>(60,884)</u>	<u>(479,388)</u>	<u>10</u>
Income (loss) before transfers	<u>1,327,788</u>	<u>443,993</u>	<u>199,386</u>	<u>1,971,167</u>	<u>(93,685)</u>
Transfers in	-	-	-	-	35,000
Change in net assets	<u>1,327,788</u>	<u>443,993</u>	<u>199,386</u>	<u>1,971,167</u>	<u>(58,685)</u>
Total net assets, beginning	<u>15,624,546</u>	<u>17,404,697</u>	<u>576,561</u>	<u>33,605,804</u>	<u>(9,283)</u>
Total net assets, ending	<u>\$ 16,952,334</u>	<u>17,848,690</u>	<u>775,947</u>	<u>35,576,971</u>	<u>(67,968)</u>

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	June 30, 2005		September 30, 2005		
	Electric Department	Water & Sewer Department	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Fund
<b><u>Cash Flows From Operating Activities</u></b>					
Cash received from customers	\$ 24,688,423	4,287,113	1,961,606	30,937,142	-
Cash received from other funds	-	-	-	-	382,882
Cash paid to employees	(809,899)	(1,393,022)	(682,021)	(2,884,942)	(143,655)
Cash paid to suppliers	(21,713,954)	(1,379,196)	(947,791)	(24,040,941)	(260,695)
Other receipts (payments)	146,540	-	-	146,540	-
<b>Net Cash Flows from Operating Activities</b>	<b>2,311,110</b>	<b>1,514,895</b>	<b>331,794</b>	<b>4,157,799</b>	<b>(21,468)</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>					
Transfers in	-	-	-	-	35,000
<b>Net Cash Flows from Noncapital Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,000</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>					
Proceeds from issuance of debt	3,000,000	2,768,506	-	5,768,506	-
Payment of debt	(610,000)	(71,573)	-	(681,573)	-
Payment of interest	(398,464)	(61,622)	-	(460,086)	-
Purchase of capital assets	(1,822,628)	(3,170,959)	(39,758)	(5,033,345)	(3,467)
Other receipts (payments)	466,084	4,149	750	470,983	-
<b>Net Cash Flows from Capital and Related Financing Activities</b>	<b>634,992</b>	<b>(531,499)</b>	<b>(39,008)</b>	<b>64,485</b>	<b>(3,467)</b>
<b><u>Cash Flows from Investing Activities</u></b>					
Receipt of interest	69,527	4,194	1,039	74,760	10
<b>Net Cash Flows from Investing Activities</b>	<b>69,527</b>	<b>4,194</b>	<b>1,039</b>	<b>74,760</b>	<b>10</b>
<b>Net Change in Cash</b>	<b>3,015,629</b>	<b>987,590</b>	<b>293,825</b>	<b>4,297,044</b>	<b>10,075</b>
<b>Cash and Cash Equivalents, October 1, 2004</b>	<b>2,037,971</b>	<b>231,116</b>	<b>430,616</b>	<b>2,699,703</b>	<b>-</b>
<b>Cash and Cash Equivalents, September 30, 2005</b>	<b>\$ 5,053,600</b>	<b>1,218,706</b>	<b>724,441</b>	<b>6,996,747</b>	<b>10,075</b>
<b><u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u></b>					
Operating Income (Loss)	\$ 1,693,013	497,272	260,271	2,450,556	(93,695)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	929,602	933,850	96,944	1,960,396	9,632
Amortization	12,381	-	-	12,381	-
Non-operating revenues (expenses)	-	-	(62,673)	(62,673)	-
Changes in operating assets and liabilities:					
(Increase) decrease in receivables	(6,373)	(68,816)	(79,350)	(154,539)	-
(Increase) decrease in due from other funds	-	-	-	-	821
(Increase) decrease in inventory	3,231	1,107	-	4,338	(4,307)
(Increase) decrease in restricted assets	-	(563)	-	(563)	-
(Increase) decrease in other assets	12,681	-	-	12,681	2,648
Increase (decrease) in payables	(314,314)	108,062	90,307	(115,945)	9,549
Increase (decrease) in due to other funds	-	396	26,295	26,691	53,884
Increase (decrease) in accrued liabilities	-	43,587	-	43,587	-
Increase (decrease) in customer deposits	(23,673)	-	-	(23,673)	-
Increase (decrease) in other liabilities	4,562	-	-	4,562	-
Total adjustments	618,097	1,017,623	71,523	1,707,243	72,227
<b>Net cash provided (used) by operating activities</b>	<b>\$ 2,311,110</b>	<b>1,514,895</b>	<b>331,794</b>	<b>4,157,799</b>	<b>(21,468)</b>

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, 2005**

	<u>Employee Benefit Trust Fund</u>
<b>ADDITIONS</b>	
Investment earnings	
Interest	\$ 1,515
Total investment earnings	<u>1,515</u>
<b>Total Additions</b>	<u>1,515</u>
<b>DEDUCTIONS</b>	
Transfers out	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Assets	1,515
Net Assets, October 1, 2004	<u>53,680</u>
Net Assets, September 30, 2005	<u>\$ 55,195</u>

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI  
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS  
SEPTEMBER 30, 2005**

	<b>Employee Benefit Trust Fund</b>	<b>Agency Funds</b>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ -	572,837
Cash - restricted	55,195	
Receivables (net)	-	70,860
	55,195	643,697
<b><u>LIABILITIES</u></b>		
Due to other funds	-	132,402
Due to outside entities	-	256,490
Other liabilities	-	255,041
	-	643,933
<b><u>NET ASSETS</u></b>		
Held in trust for unemployment benefits	\$ 55,195	-

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**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 component units is the scope

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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, 2005**

**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, 2005**

**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.

**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.

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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.

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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:

- 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.

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- 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.

**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 \$11,767,769 on September 30, 2005, and the bank balance was \$11,343,264.

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 3: INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivables and payables at September 30, 2005, are:

	<b>Due From Other Funds</b>	<b>Due To Other Funds</b>
<b>Governmental Funds:</b>		
General Fund	\$ 331,529	70,544
Debt Service	10,619	
<b>Proprietary Funds:</b>		
Water and Sewer		8,442
Sanitation		12,169
Landfill		35,568
Internal Service		153,883
<b>Fiduciary Funds:</b>		
Payroll Clearing Fund	70,860	59,176
Tax Collector Fund		73,226
	\$ 413,008	413,008

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2005, was as follows:

	Primary Government			Balance 9/30/05
	Balance 9/30/04	Increases	Decreases	
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 943,255	-	-	943,255
Other capital assets:				
Buildings	3,483,721	-	-	3,483,721
Building Improvements	98,988	-	-	98,988
Improvements other than buildings	49,970,444	1,645,298	-	51,615,742
Vehicles	2,890,771	33,336	-	2,924,107
Machinery and equipment	2,300,996	318,964	-	2,619,960
Total other capital assets - historical cost	58,744,920	1,997,598	-	60,742,518
Less accumulated depreciation for:				
Buildings	(1,121,622)	(81,741)	-	(1,203,363)
Building Improvements	(23,809)	(1,137)	-	(24,946)
Improvements other than buildings	(36,450,528)	(1,374,733)	-	(37,825,261)
Vehicles	(1,784,577)	(164,638)	-	(1,949,215)
Machinery and equipment	(1,417,589)	(270,565)	-	(1,688,154)
Total accumulated depreciation	(40,798,125)	(1,892,814)	-	(42,690,939)
Other capital assets, net	17,946,795	104,784	-	18,051,579
Internal Service Fund				
Capital assets	156,008	3,467	-	159,475
Less accumulated depreciation	(76,860)	(9,633)	-	(86,493)
Internal Service Fund, net	79,148	(6,166)	-	72,982
Governmental Activities Capital Assets, net	\$ 18,969,198	98,618	-	19,067,816
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 455,101	-	-	455,101
Construction in progress	1,924,328	737,705	-	2,662,033
Total	2,379,429	737,705	-	3,117,134
Other capital assets				
Buildings, property, and equipment	64,999,508	4,295,641	373,241	68,921,908
Total other capital assets - historical costs	64,999,508	4,295,641	373,241	68,921,908
Less accumulated depreciation for:				
Buildings, property, and equipment	(24,920,128)	(2,036,173)	(431,343)	(26,524,958)
Total accumulated depreciation	(24,920,128)	(2,036,173)	(431,343)	(26,524,958)
Other capital assets, net	40,079,380	2,259,468	(58,102)	42,396,950
Business-type Activities Capital Assets, net	\$ 42,458,809	2,997,173	(58,102)	45,514,084

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 4: CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 283,922
Public safety - Police	378,563
Public safety - Fire	378,563
Highways and streets	283,922
Health and sanitation	283,922
Culture and recreation	283,922
	\$ 1,892,814
Total governmental activities depreciation expense	
	\$ 1,892,814
Business-type activities:	
Electric	\$ 879,664
Water and sewer	933,850
Sanitation	94,579
Landfill	2,365
	\$ 1,910,458
Total business-type activities depreciation expense	
	\$ 1,910,458

**NOTE 5: LONG-TERM LIABILITIES**

Long-term liability activity for the year ended September 30, 2005, was as follows:

	Balance 9/30/04	Additions	Reductions	Balance 9/30/05	Amount Due Within One Year
Governmental Activities					
General obligation bonds					
Research Park 1987	\$ 540,000	-	135,000	405,000	135,000
Public Improvements Bonds, 1996	1,160,000	-	140,000	1,020,000	150,000
Starkville School, 2/1/86	170,000	-	80,000	90,000	90,000
Starkville Separate School, 2/1/86	640,000	-	300,000	340,000	340,000
Notes payable					
Capital Improvements Revolving Loan	424,211	-	22,917	401,294	27,708
Capital Improvements Revolving Loan	412,516	-	24,370	388,146	28,102
Capital Improvements - Fire Station	161,355	-	40,322	121,033	41,529
Public Improvement Note 8/11/2004	1,500,000		284,288	1,215,712	291,936
Compensated absences	307,995	57,178		365,173	-
Total	\$ 5,316,077	57,178	1,026,897	4,346,358	1,104,275

**CITY OF STARKVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 5: LONG-TERM LIABILITIES (CONTINUED)**

	Balance 9/30/04	Additions	Reductions	Balance 9/30/05	Amount Due Within One Year
Business-type Activities					
Bonds and notes payable					
Electric Dept '96 G.O. Bond	\$ 2,340,000		285,000	2,055,000	300,000
Electric System Refunding Bonds, Series 2001	1,625,000		200,000	1,425,000	210,000
Electric System Bonds, Series 2001	3,655,000		125,000	3,530,000	135,000
Electric System Revenue Bonds, Series 2004	-	3,000,000		3,000,000	140,000
Drinking Water Improvements Revolving Loan	590,996		26,952	564,044	23,499
Drinking Water Improvements Revolving Loan	1,354,733		44,621	1,310,112	50,336
Drinking Water Improvements Revolving Loan	103,974	549,546		653,520	
Drinking Water Improvements Revolving Loan	61,900	573,240		635,140	
Water Pollution Control Revolving Loan	1,615,557	1,645,721		3,261,278	
Compensated absences	258,845		22,074	236,771	
Total	\$ 11,606,005	5,768,507	703,647	16,670,865	858,835

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

The six outstanding issues of General Obligation Bonds are due in annual installments ranging from \$90,000 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, 2005.

**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, 2005**

**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 9.75% 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, 2005, 2004, and 2003 were \$640,206, \$588,659, and \$585,625, 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 1<sup>st</sup>. Taxes are levied as of January 1<sup>st</sup> and payable on or before February 1<sup>st</sup>. The City taxes are collected and remitted to the city by the Oktibbeha County Tax Collector.

The distribution of taxes to funds were 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, 2005**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>					
General property taxes	\$ 2,127,348	70,652	2,198,000	2,186,129	(11,871)
Licenses and permits	247,800	-	247,800	253,342	5,542
Intergovernmental					
Federal	189,432	13,068	202,500	143,922	(58,578)
State of Mississippi	4,969,576	1,333,820	6,303,396	6,476,913	173,517
Oktibbeha County and Mississippi State	477,751	-	477,751	488,445	10,694
Fines and forfeits	629,068	-	629,068	564,327	(64,741)
Interest income	30,319	-	30,319	59,597	29,278
Penalties and interest - prior year taxes	54,500	-	54,500	92,508	38,008
Other revenues	358,984	16,849	375,833	444,112	68,279
	<u>9,084,778</u>	<u>1,434,389</u>	<u>10,519,167</u>	<u>10,709,295</u>	<u>190,128</u>
Total Revenues before Prior Year Fund Balance					
Prior year fund balance:					
Appropriated for current year budget	<u>2,212,035</u>	<u>1,006,921</u>	<u>3,218,956</u>	-	<u>(3,218,956)</u>
Total Revenues and Prior Year Fund Balance	<u>11,296,813</u>	<u>2,441,310</u>	<u>13,738,123</u>	<u>10,709,295</u>	<u>(3,028,828)</u>
<b><u>EXPENDITURES</u></b>					
Current:					
General government	2,890,400	154,619	3,045,019	2,227,379	817,640
Public safety					
Police	3,418,826	(48,696)	3,370,130	2,978,339	391,791
Fire	2,808,523	21,612	2,830,135	2,508,899	321,236
Public inspection	130,748	-	130,748	121,327	9,421
Civil defense	12,711	-	12,711	120,067	(107,356)
Highways and streets	1,397,888	(100,000)	1,297,888	1,144,921	152,967
Health and sanitation	123,336	3,500	126,836	108,664	18,172
Culture and recreation	2,197,545	-	2,197,545	1,068,650	1,128,895
Other	30,000	-	30,000	231,868	(201,868)
Capital outlay	208,962	2,469,361	2,678,323	1,967,782	710,541
Debt service:					
Principal	520,638	-	520,638	506,897	13,741
Interest	100,000	-	100,000	96,421	3,579
	<u>13,839,577</u>	<u>2,500,396</u>	<u>16,339,973</u>	<u>13,081,214</u>	<u>3,258,759</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,542,764)</u>	<u>(59,086)</u>	<u>(2,601,850)</u>	<u>(2,371,919)</u>	<u>229,931</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Transfers in	-	140,000	140,000	1,053,253	913,253
Transfers out	(46,928)	(340,525)	(387,453)	(915,833)	(528,380)
Sale of land	-	-	-	4,000	4,000
Loan proceeds	-	-	-	-	-
Transfers from other departments	820,000	-	820,000	819,996	(4)
Transfers to other departments	-	-	-	(23,946)	(23,946)
	<u>773,072</u>	<u>(200,525)</u>	<u>572,547</u>	<u>937,470</u>	<u>364,923</u>
Excess of revenues and other sources over expenditures and other uses	<u>(1,769,692)</u>	<u>(259,611)</u>	<u>(2,029,303)</u>	<u>(1,434,449)</u>	<u>594,854</u>
Fund balances, October 1, 2004 (Non-GAAP budgetary basis)	500,000	(138,959)	361,041	3,838,640	3,477,599
Less budgeted fund balance	<u>2,212,035</u>	<u>(1,073,904)</u>	<u>2,212,035</u>	-	<u>(2,212,035)</u>
Fund balances, September 30, 2005 (Non-GAAP budgetary basis)	<u>\$ 942,343</u>	<u>(1,472,474)</u>	<u>543,773</u>	<u>2,404,191</u>	<u>1,860,418</u>

**OTHER SUPPLEMENTAL INFORMATION**

**CITY OF STARKVILLE, MISSISSIPPI**  
**COMBINING BALANCE SHEET BY ACTIVITY**  
**GENERAL FUND**  
**SEPTEMBER 30, 2005**

	<b>General Activities</b>	<b>Restricted Police Activities</b>	<b>Restricted Fire Activities</b>	<b>Parks and Recreation Activities</b>	<b>Airport Activities</b>	<b>Multi-Unit Task Force Operations</b>	<b>Subtotal</b>	<b>Eliminating Entries</b>	<b>Total General Fund</b>
<b>Assets</b>									
Cash and cash equivalents	\$ 1,589,189			139,030	82,834	22,811	1,833,864		1,833,864
Cash - restricted		40,610	110,869				151,479		151,479
Receivables (Net)									
Accounts	428,172			474	78		428,724		428,724
Other									
Due from other departments	26,249						26,249		26,249
Due from other funds	486,402			3,186			489,588	(158,059)	331,529
Inventory	20,647						20,647		20,647
<b>Total Assets</b>	<b>\$ 2,550,659</b>	<b>40,610</b>	<b>110,869</b>	<b>142,690</b>	<b>82,912</b>	<b>22,811</b>	<b>2,950,551</b>	<b>(158,059)</b>	<b>2,792,492</b>
<b>Liabilities</b>									
Accounts payable	\$ 297,372	3,757	4,440	9,881	2,307		317,757		317,757
Due to other funds	70,544			1,631	156,428		228,603	(158,059)	70,544
	367,916	3,757	4,440	11,512	158,735	-	546,360	(158,059)	388,301
<b>Fund Equity</b>									
Fund balances - reserved			106,429				106,429		106,429
Reserved for fire protection						22,811	22,811		22,811
Reserved for police protection		36,853			(75,823)		59,664		59,664
Reserved for airport projects							(75,823)		(75,823)
Reserved for parks and recreation				131,178			131,178		131,178
Reserved for inventory	20,647						20,647		20,647
Fund balances - unreserved/undesignated	2,162,096						2,162,096		2,162,096
<b>Total Fund Equity</b>	<b>2,182,743</b>	<b>36,853</b>	<b>106,429</b>	<b>131,178</b>	<b>(75,823)</b>	<b>22,811</b>	<b>2,404,191</b>	<b>-</b>	<b>2,404,191</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 2,550,659</b>	<b>40,610</b>	<b>110,869</b>	<b>142,690</b>	<b>82,912</b>	<b>22,811</b>	<b>2,950,551</b>	<b>(158,059)</b>	<b>2,792,492</b>

**CITY OF STARKVILLE, MISSISSIPPI**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
<b>Revenues</b>							
Taxes							
General property taxes	\$ 2,186,129						2,186,129
Licenses and permits							
Privilege license	37,099						37,099
Permits and inspections	155,879						155,879
Franchise fees	60,364						60,364
Intergovernmental							
Federal							
CDBG	2,500						2,500
FAA						91,422	91,422
FEMA	50,000						50,000
State of Mississippi							
General sales tax	4,296,711						4,296,711
Liquor licenses	41,625						41,625
Municipal aid - gas tax	18,078						18,078
City utilities tax	73,793						73,793
Law enforcement assistance grants	103,162						103,162
Fire protection grants			103,020				103,020
MDOT	934,965						934,965
Municipal Aid	11,399						11,399
Homestead	96,970						96,970
Tennessee Valley Authority	332,696						332,696
Housing Authority	29,430						29,430
Miscellaneous	430,656			4,408			435,064
Oktibbeha County and Mississippi State							
Road maintenance	310,805						310,805
Airport support						65,340	65,340
Fire control	112,300						112,300
Fines and forfeits	564,327						564,327
Interest income	58,298		815				59,597
Penalties and interest - prior year taxes	92,508			352	45	87	92,508

**CITY OF STARKVILLE, MISSISSIPPI**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	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	42,729						42,729
Mississippi Valley Gas	86,844						86,844
Rents						58,635	58,635
Housing Authority-policing funds	24,000						24,000
Other	125,676	13,952		92,276			231,904
Total Revenues	10,278,943	13,952	103,835	97,036	45	215,484	10,709,295
<b>Expenditures</b>							
General government:							
Legislative							
Personal services	96,386						96,386
Total Legislative	96,386						96,386
Judicial							
Personal services	219,356						219,356
Supplies	5,092						5,092
Other services and charges	15,655						15,655
Capital outlay	2,405						2,405
Total Judicial	242,508						242,508
Executive							
Personal services	93,911						93,911
Other services and charges	947						947
Total Executive	94,858						94,858
Election							
Personal services	378						378
Other services and charges	29,077						29,077
Total Election	29,455						29,455

**CITY OF STARKVILLE, MISSISSIPPI**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	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	231,306						231,306
Supplies	25,404						25,404
Other services and charges	143,210						143,210
Capital Outlay	7,933						7,933
Total City Clerk and Tax Collector	407,853						407,853
Legal							
Personal services	43,977						43,977
Other services and charges	111,627						111,627
Total Legal	155,604						155,604
City Planner							
Personal services	34,259						34,259
Other services and charges	24,359						24,359
Capital outlay	1,996						1,996
Total City Planner	60,614						60,614
Other Administrative							
Personal services	70,293						70,293
Capital outlay	2,549						2,549
Other services and charges	95,123						95,123
Total Other Administrative	167,965						167,965
City Hall							
Personal services	29,221						29,221
Supplies	2,882						2,882
Other services and charges	20,254						20,254
Total City Hall	52,357						52,357
Other Miscellaneous							
Personal services	52,146					32,333	84,479
Supplies	1,932					2,536	4,468
Other services and charges	478,010					21,444	499,454
Capital outlay	-					331,378	331,378
Total Other Miscellaneous	532,088					387,691	919,779
Total General Government	1,839,688					387,691	2,227,379

**CITY OF STARKVILLE, MISSISSIPPI**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	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							
Personal services	2,188,982						2,188,982
Supplies	217,602	6,881					224,483
Other services and charges	397,682						397,682
Capital outlay	166,940	252					167,192
Transfer to other departments							-
Total Public Safety - Police and E911	2,971,206	7,133					2,978,339
Public Safety - Fire							
Personal services	2,119,145						2,119,145
Supplies	86,724		10,083				96,807
Other services and charges	211,598		15,927				227,525
Capital outlay	61,611		3,811				65,422
Total Public Safety - Fire	2,479,078		29,821				2,508,899
Public Safety - Public Inspection							
Personal services	102,511						102,511
Supplies	7,001						7,001
Other services and charges	10,140						10,140
Capital outlay	1,675						1,675
Total Public Safety - Public Inspection	121,327						121,327
Public Safety - Civil Defense							
Personal services	2,189						2,189
Supplies	436						436
Other services and charges							-
Capital outlay	117,442						117,442
Total Public Safety - Civil Defense	120,067						120,067
Total Public Safety	5,691,678	7,133	29,821				5,728,632
Highways and Streets							
Public Works Administration							
Personal services	4,804						4,804
Total Public Works Administration	4,804						4,804

**CITY OF STARKVILLE, MISSISSIPPI**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	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	338,848						338,848
Supplies	166,877						166,877
Other services and charges	58,040						58,040
Capital outlay	23,391						23,391
Total City Streets	587,156						587,156
Street Lights							
Other services and charges	291,014						291,014
Total Street Lights	291,014						291,014
Landscaping							
Personal services	177,480						177,480
Supplies	26,062						26,062
Other services and charges	38,116						38,116
Capital outlay	20,289						20,289
Total Landscaping	261,947						261,947
Total Highways and Streets	1,144,921						1,144,921
Health and Sanitation							
Health and welfare - animals							
Personal services	37,042						37,042
Supplies	5,692						5,692
Other services and charges	5,469						5,469
Capital outlay	188						188
Transfer to Humane Society	60,273						60,273
Total Health and Welfare - Animals	108,664						108,664
Total Health and Sanitation	108,664						108,664
Culture and Recreation							
Parks and Recreation							
Personal services				460,379			460,379
Supplies				39,820			39,820
Other services and charges				431,337			431,337
Capital outlay				137,114			137,114
Total Parks and Recreation				1,068,650			1,068,650
Total Culture and Recreation				1,068,650			1,068,650

**CITY OF STARKVILLE, MISSISSIPPI**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Debt Service							
Principal	466,575		40,322				506,897
Interest	92,132		4,289				96,421
Total Debt Service	558,707		44,611				603,318
Total Debt Service	558,707		44,611				603,318
Miscellaneous							
Appropriations to other entities	201,868						201,868
Capital outlay - street improvements	1,645,298						1,645,298
Capital outlay - other	322,484						322,484
Other miscellaneous	30,000						30,000
Total Miscellaneous	2,199,650						2,199,650
Total Expenditures	11,543,308	7,133	74,432	1,068,650		387,691	13,081,214
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,264,365)	6,819	29,403	(971,614)	45	(172,207)	(2,371,919)
<b>Other Financing Sources (Uses)</b>							
Operating transfers in	140,000			913,253			1,053,253
Transfers from other departments	819,996						819,996
Sale of land	4,000						4,000
Loan proceeds	-						-
Transfers to other departments	(23,946)						(23,946)
Operating transfers out	(915,833)						(915,833)
Total Other Financing Sources (Uses)	24,217			913,253		-	937,470
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,240,148)	6,819	29,403	(58,361)	45	(172,207)	(1,434,449)
<b>Fund Balances</b>							
October 1, 2004	3,422,891	30,034	77,026	189,539	22,766	96,384	3,838,640
September 30, 2005	2,182,743	36,853	106,429	131,178	22,811	(75,823)	2,404,191

**CITY OF STARKVILLE, MISSISSIPPI  
BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2005**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 448,309		-	448,309
Cash - restricted		1,489,841		1,489,841
Receivables (Net)				
Accounts				-
Other	113			113
Notes receivable (Net)	41,713			41,713
Due from other departments				-
Due from other funds		10,619		10,619
Inventory				-
	<u>490,135</u>	<u>1,500,460</u>	<u>-</u>	<u>1,990,595</u>
Total Assets	<u>\$ 490,135</u>	<u>1,500,460</u>	<u>-</u>	<u>1,990,595</u>
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ -			-
Other liabilities	6,476			6,476
Due to other funds			-	-
	<u>6,476</u>	<u>-</u>	<u>-</u>	<u>6,476</u>
Total Liabilities	<u>6,476</u>	<u>-</u>	<u>-</u>	<u>6,476</u>
<b><u>FUND BALANCES</u></b>				
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		1,500,460		1,500,460
Reserved for capital projects			-	-
Restricted for police protection				-
Restricted for economic development	301,406			301,406
Fund balances - unreserved/undesignated	178,989			178,989
	<u>483,659</u>	<u>1,500,460</u>	<u>-</u>	<u>1,984,119</u>
Total Fund Balances	<u>483,659</u>	<u>1,500,460</u>	<u>-</u>	<u>1,984,119</u>
Total Liabilities and Fund Balances	<u>\$ 490,135</u>	<u>1,500,460</u>	<u>-</u>	<u>1,990,595</u>

**CITY OF STARKVILLE, MISSISSIPPI  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b><u>Revenues</u></b>				
Intergovernmental:				
Federal				-
State of Mississippi		375,654		375,654
City of Starkville	196,610			196,610
Interest income	2,645	22,033		24,678
Miscellaneous income	18,000	632,072		650,072
Total Revenues	<u>217,255</u>	<u>1,029,759</u>	<u>-</u>	<u>1,247,014</u>
<b><u>Expenditures</u></b>				
Public Safety - Police				
Personal services	5,857			5,857
Debt Service:				
Principal		520,000		520,000
Interest		510,432		510,432
Capital outlay				
Miscellaneous	2,863			2,863
Total Expenditures	<u>8,720</u>	<u>1,030,432</u>	<u>-</u>	<u>1,039,152</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>208,535</u>	<u>(673)</u>	<u>-</u>	<u>207,862</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers from other departments		1,009,805		1,009,805
Transfers to other departments	(65,375)	(610,000)		(675,375)
Operating transfers in				-
Operating transfers out	(140,000)	(32,420)		(172,420)
Total Other Financing Sources (Uses)	<u>(205,375)</u>	<u>367,385</u>	<u>-</u>	<u>162,010</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>3,160</u>	<u>366,712</u>	<u>-</u>	<u>369,872</u>
<b><u>Fund Balances</u></b>				
October 1, 2004	<u>480,499</u>	<u>1,133,748</u>	<u>-</u>	<u>1,614,247</u>
September 30, 2005	<u>\$ 483,659</u>	<u>1,500,460</u>	<u>-</u>	<u>1,984,119</u>

**CITY OF STARKVILLE, MISSISSIPPI**  
**STATEMENT OF NET ASSETS – NON-MAJOR ENTERPRISE FUNDS**  
**SEPTEMBER 30, 2005**

	<b>Sanitation and Waste Fund</b>	<b>Sanitary Landfill Fund</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 713,785	10,656	724,441
Accounts receivables, net	155,556		155,556
Other receivables, net		116,954	116,954
Total current assets	<u>869,341</u>	<u>127,610</u>	<u>996,951</u>
Non-current assets:			
Capital assets:			
Fixed assets, net of depreciation	33,794	22,884	56,678
Total non-current assets	<u>33,794</u>	<u>22,884</u>	<u>56,678</u>
Total Assets	<u>903,135</u>	<u>150,494</u>	<u>1,053,629</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	177,117	763	177,880
Accrued liabilities	45,974	6,091	52,065
Due to other funds	12,169	35,568	47,737
Total current liabilities	<u>235,260</u>	<u>42,422</u>	<u>277,682</u>
Total Liabilities	<u>235,260</u>	<u>42,422</u>	<u>277,682</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	33,794	22,884	56,678
Contributed capital			
Unrestricted	<u>634,081</u>	<u>85,188</u>	<u>719,269</u>
Total net assets	<u>\$ 667,875</u>	<u>108,072</u>	<u>775,947</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, 2005**

	<b>Sanitation and Waste Fund</b>	<b>Sanitary Landfill Fund</b>	<b>Total</b>
<b><u>OPERATING REVENUES</u></b>			
Charges for services	\$ 1,868,556	172,400	2,040,956
Total operating revenues	<u>1,868,556</u>	<u>172,400</u>	<u>2,040,956</u>
<b><u>OPERATING EXPENSES</u></b>			
Purchased power			
Operating and maintenance	1,559,183	124,558	1,683,741
Depreciation	94,579	2,365	96,944
Total operating expenses	<u>1,653,762</u>	<u>126,923</u>	<u>1,780,685</u>
Operating income (loss)	<u>214,794</u>	<u>45,477</u>	<u>260,271</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>			
Other revenue	750		750
Interest on investments	1,039		1,039
Miscellaneous	(62,673)		(62,673)
Total non-operating revenues (expenses)	<u>(60,884)</u>		<u>(60,884)</u>
Income (loss) before transfers	<u>153,910</u>	<u>45,477</u>	<u>199,387</u>
Transfers out			-
Change in net assets	153,910	45,477	199,387
Total net assets, beginning	<u>513,965</u>	<u>62,595</u>	<u>576,560</u>
Total net assets, ending	<u>\$ 667,875</u>	<u>108,072</u>	<u>775,947</u>

**CITY OF STARKVILLE, MISSISSIPPI**  
**STATEMENT OF CASH FLOWS – NON-MAJOR ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<b>Sanitation and Waste Fund</b>	<b>Sanitary Landfill Fund</b>	<b>Total</b>
<b><u>Cash Flows From Operating Activities</u></b>			
Cash received from customers	\$ 1,868,555	93,050	1,961,605
Cash paid to employees	(595,126)	(86,895)	(682,021)
Cash paid to suppliers	(936,236)	(11,554)	(947,790)
Net cash flows from operating activities	<u>337,193</u>	<u>(5,399)</u>	<u>331,794</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>			
Transfers out			-
Net cash flows from noncapital financing activities		-	-
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>			
Purchase of capital assets	(39,758)		(39,758)
Other receipts	750		750
Net cash flows from capital and related financing activities	<u>(39,008)</u>	-	<u>(39,008)</u>
<b><u>Cash Flows from Investing Activities</u></b>			
Receipt of interest	1,039		1,039
Net cash flows from investing activities	<u>1,039</u>		<u>1,039</u>
Net change in cash	299,224	(5,399)	293,825
Cash and cash equivalents, October 1, 2004	414,561	16,055	430,616
Cash and cash equivalents, September 30, 2005	<u>\$ 713,785</u>	<u>10,656</u>	<u>724,441</u>
<b><u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u></b>			
Operating income (loss)	\$ 214,794	45,477	260,271
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	94,579	2,365	96,944
Non-operating revenues (expenses)	(62,673)		(62,673)
Changes in operating assets and liabilities:			
(Increase) decrease in receivables		(79,351)	(79,351)
(Increase) decrease in due from other funds			-
Increase (decrease) in payables	89,770	537	90,307
Increase (decrease) in due to other funds	724	25,572	26,296
Increase (decrease) in accrued liabilities			-
Total adjustments	<u>122,400</u>	<u>(50,877)</u>	<u>71,523</u>
Net cash provided (used) by operating activities	<u>\$ 337,194</u>	<u>(5,400)</u>	<u>331,794</u>

**SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS  
SEPTEMBER 30, 2005**

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Company</u></b>	<b><u>Bond</u></b>
Dan Camp	Mayor	Western Surety Co.	\$ 25,000
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, 2005**

Name and Date	Maturity Date	Interest Percent	Balance 10/1/04	Transactions		Balance 9/30/05
				Issued	Redeemed	
<b>General Obligation Bonds</b>						
<b>Governmental Activities:</b>						
Research Park 1987	12/1/2004	0.00	\$ 135,000		135,000	-
	12/1/2005	0.00	135,000			135,000
	12/1/2006	0.00	135,000			135,000
	12/1/2007	0.00	<u>135,000</u>			<u>135,000</u>
Total			<u>540,000</u>	<u>-</u>	<u>135,000</u>	<u>405,000</u>
Public Improvement Bonds, 1996	7/1/2005	5.10	140,000		140,000	-
	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	<u>185,000</u>			<u>185,000</u>
Total			<u>1,160,000</u>	<u>-</u>	<u>140,000</u>	<u>1,020,000</u>
Starkville Separate School, 2/1/86	2/1/2005	7.25	80,000		80,000	-
	2/1/2006	7.25	<u>90,000</u>			<u>90,000</u>
			<u>170,000</u>	<u>-</u>	<u>80,000</u>	<u>90,000</u>
Starkville Separate School 2/1/86	2/1/2005	7.25	300,000		300,000	-
Total	2/1/2006	7.25	<u>340,000</u>			<u>340,000</u>
			<u>640,000</u>	<u>-</u>	<u>300,000</u>	<u>340,000</u>
<b>Total General Obligation Bond Liability, Governmental Activities</b>			<u>\$ 2,510,000</u>	<u>-</u>	<u>655,000</u>	<u>1,855,000</u>
<b>Business-type Activities:</b>						
System Improvements Bonds, 4/1/96	4/1/2005		\$ 285,000		285,000	-
	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
	Thereafter		<u>390,000</u>			<u>390,000</u>
Total			<u>2,340,000</u>	<u>-</u>	<u>285,000</u>	<u>2,055,000</u>
Electric System Refunding Bonds, Series 2001	4/1/2005	4.00	200,000		200,000	-
	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
Total	Thereafter	4.00	<u>270,000</u>			<u>270,000</u>
			<u>1,625,000</u>	<u>-</u>	<u>200,000</u>	<u>1,425,000</u>
Electric System Bonds, Series 2001	4/1/2005	6.00	125,000		125,000	-
	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
Total	Thereafter		<u>2,735,000</u>			<u>2,735,000</u>
			<u>3,655,000</u>	<u>-</u>	<u>125,000</u>	<u>3,530,000</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			<u>2,055,000</u>		<u>2,055,000</u>
Total			<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
<b>Total General Obligation Bond Liability, Business-type Activities</b>			<u>\$ 7,620,000</u>	<u>3,000,000</u>	<u>610,000</u>	<u>10,010,000</u>
<b>Total General Obligation Bond Liability</b>			<u>\$10,130,000</u>	<u>3,000,000</u>	<u>1,265,000</u>	<u>11,865,000</u>

**CITY OF STARKVILLE, MISSISSIPPI  
SCHEDULE OF LONG-TERM NOTES  
SEPTEMBER 30, 2005**

<u>Payee</u>	<u>Maturity Date</u>	<u>Interest Percent</u>	<u>Balance 10/1/2004</u>	<u>Transactions</u>		<u>Balance 9/30/2005</u>
				<u>Issued</u>	<u>Redeemed</u>	
<b>Notes Payable</b>						
<b>Governmental Activities:</b>						
Capital Improvements - Fire Truck and Building	FY05		40,322		40,322	-
	FY06		41,529			41,529
	FY07		43,012			43,012
	FY08		36,492			36,492
Total			<u>161,355</u>	<u>-</u>	<u>40,322</u>	<u>121,033</u>
Capital Improvements Revolving Loan	FY05	5.66%	22,917		22,917	-
	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
	Thereafter	5.66%	245,708			245,708
Total			<u>424,211</u>	<u>-</u>	<u>22,917</u>	<u>401,294</u>
Capital Improvements Revolving Loan	FY05	5.66%	24,370		24,370	-
	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
	Thereafter	5.66%	230,336			230,336
Total			<u>412,516</u>	<u>-</u>	<u>24,370</u>	<u>388,146</u>
Capital Improvements Revolving Loan	FY05	2.69	284,288		284,288	-
	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>1,500,000</u>	<u>-</u>	<u>284,288</u>	<u>1,215,712</u>
<b>Total Notes Payable, Governmental Activities</b>			<u><u>\$ 2,498,082</u></u>	<u><u>-</u></u>	<u><u>371,897</u></u>	<u><u>2,126,185</u></u>

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

<u>Payee</u>	<u>Maturity Date</u>	<u>Interest Percent</u>	<u>Balance 10/1/2004</u>	<u>Transactions</u>		<u>Balance 9/30/2005</u>
				<u>Issued</u>	<u>Redeemed</u>	
<b>Notes Payable (Continued)</b>						
<b>Business-type activities:</b>						
Drinking Water Systems						
Improvements Revolving Loan	FY05	3.00%	24,848		24,848	-
	FY06	3.00%	25,603		2,104	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
	Thereafter	3.00%	430,105			430,105
Total			<u>590,996</u>	<u>-</u>	<u>26,952</u>	<u>564,044</u>
Drinking Water Systems						
Improvements Revolving Loan						
	FY05	3.50%	44,621		44,621	-
	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
	Thereafter	3.50%	1,097,769			1,097,769
Total			<u>1,354,733</u>	<u>-</u>	<u>44,621</u>	<u>1,310,112</u>
Drinking Water Systems						
Improvements Revolving Loan						
	FY05	4.00%	103,974	549,546		653,520
Total			<u>103,974</u>	<u>549,546</u>	<u>-</u>	<u>653,520</u>
Drinking Water Systems						
Improvements Revolving Loan						
	FY05	4.00%	61,900	573,240		635,140
Total			<u>61,900</u>	<u>573,240</u>	<u>-</u>	<u>635,140</u>
Water Pollution Control						
Revolving Loan						
	FY05	1.75%	1,615,557	1,645,721		3,261,278
Total			<u>1,615,557</u>	<u>1,645,721</u>	<u>-</u>	<u>3,261,278</u>
<b>Total Notes Payable, Business-type Activities</b>			<u>\$ 3,727,160</u>	<u>2,768,507</u>	<u>71,573</u>	<u>6,424,094</u>
<b>Total Notes Payable</b>			<u>\$ 6,225,242</u>	<u>2,768,507</u>	<u>443,470</u>	<u>8,550,279</u>

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



**WATKINS, WARD AND STAFFORD**  
Professional Limited Liability Company  
Certified Public Accountants

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John N. Russell, CPA

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Starkville, Mississippi as of and for the year ended September 30, 2005, which collectively comprise the City of Starkville, Mississippi's basic financial statements and have issued our report thereon dated January 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of 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 an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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  
January 24, 2006

A handwritten signature in black ink that reads "Watkins, Ward and Stafford PLLC". The signature is written in a cursive, flowing style.

**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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Susan M. Lummus, CPA  
Thomas J. Browder, CPA  
Stephen D. Flake, CPA  
John N. Russell, CPA

**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, 2005. 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, 2005.

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  
January 24, 2006

A handwritten signature in black ink that reads "Watkins, Ward and Stafford, PLLC". The signature is written in a cursive, flowing style.

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



**WATKINS, WARD AND STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

James L. Stafford, CPA  
 Harry W. Stevens, CPA  
 Boyd M. Edwards, CPA  
 Paul A. Ray, CPA  
 S. Keith Winfield, CPA  
 William B. Stagers, CPA  
 Aubrey R. Holder, CPA  
 David M. Howell, CPA  
 Michael W. McCully, CPA  
 Mort Stroud, CPA  
 Gary C. Hamilton, CPA

R. Steve Sinclair, CPA  
 Michael L. Pierce, CPA  
 Marsha L. McDonald, CPA  
 Wanda S. Holley, CPA  
 Robin Y. McCormick, CPA/PFS  
 J. Randy Scrivner, CPA  
 Kimberly S. Caskey, CPA  
 Susan M. Lummus, CPA  
 Thomas J. Browder, CPA  
 Stephen D. Flake, CPA  
 John N. Russell, CPA

**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, 2005, and have issued our report thereon dated January 24, 2006. 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  
 January 24, 2006

*Watkins, Ward and Stafford PLLC*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CITY OF STARKVILLE, MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**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, 2005**

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

**PAYROLL WITHHOLDINGS**

Liability accounts associated with payroll withholdings were not reconciled.

**Recommendation:**

Payroll withholding accounts should be reviewed and reconciled on a periodic basis.

**Response:**

As a result of our audit, the city has addressed the issue of reviewing and reconciling the payroll withholding accounts and will continue to do so in the future.

**Conclusion:**

Response accepted.

**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, 2005**

<b><u>Federal Agency/ Pass-through Entity/ Program Title</u></b>	<b><u>Catalog of Federal Domestic Assistance Number</u></b>	<b><u>Federal Expenditures</u></b>
<b><u>U. S. Federal Bureau of Justice Assistance:</u></b>		
Direct Programs:		
Bullet Proof Vest Partnership Program	16.607	877
Homeland Security Overtime Grant	97.067	8,843
Total U.S. Federal Bureau of Justice Assistance		<u>9,720</u>
<b><u>U.S. Department of Health and Human Services:</u></b>		
Passed-through Federal-State Programs:		
Child Care and Development Block Grant	93.575	339,663
Total U.S. Department of Health and Human Services		<u>339,663</u>
<b><u>U. S. Department of Housing and Urban Development:</u></b>		
Passed-through Federal -State Programs:		
CDBG Small Cities Program	14.219	2,500
Total U.S. Department of Housing and Urban Development		<u>2,500</u>
<b><u>Federal Emergency Management Agency:</u></b>		
Direct Programs:		
Public Assistance Grant	83.544	50,000
Total Federal Emergency Management Agency		<u>50,000</u>
<b><u>Federal Aviation Administration</u></b>		
Direct Programs:		
Airport Improvement Program	20.106	82,280
Total Federal Emergency Management Agency		<u>82,280</u>
<b><u>U. S. Environmental Protection Agency:</u></b>		
Passed-through Federal-State Programs:		
Drinking Water Systems Improvements Revolving Loan Project	66.468	2,768,506
Total U. S. Environmental Protection Agency		<u>2,768,506</u>
<b><u>Total Expenditures of Federal Awards</u></b>		<u>\$ 3,252,669</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.