

Comprehensive Annual Financial Report

**City of Biloxi
Biloxi, Mississippi**

Fiscal Year Ended September 30, 2006

City of Biloxi, Mississippi
Comprehensive Annual Financial Report
Fiscal Year Ended September 30, 2006
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Section I
Introductory Section

City of Biloxi, Mississippi

Listing of City Officials as of September 30, 2006

Elected Officials

Mayor	A. J. Holloway
Councilman Ward 1	George Lawrence
Councilman Ward 2	William Stallworth
Councilman Ward 3	Charles T. Harrison, Jr.
Councilman Ward 4	Mike Fitzpatrick
Councilman Ward 5	Tom Wall
Councilman Ward 6	Edward Gemmill
Councilman Ward 7	David Fayard

Appointed Officials

City Clerk	Brenda Johnston
Director of Administration	David Staehling
Director of Police Department	Bruce Dunagan
Director of Fire Department	David Roberts
Director of Public Works	Richard Sullivan
Director of Community Development	Jerry Creel
Director of Parks And Recreation	Nathan Sullivan

Letter of Transmittal

Mayor
A. J. Holloway

Council Members

George Lawrence, Ward 1
William "Bill" Stallworth, Ward 2
Charles T. Harrison Jr., Ward 3
Mike Fitzpatrick, Ward 4
Tom Wall, Ward 5
Edward "Ed" Gemmill, Ward 6
David Fayard, Ward 7



P.O. Box 429
Biloxi, Mississippi 39533

March 23, 2007

Mayor, and City Council
City of Biloxi, Mississippi

We are pleased to submit the Comprehensive Annual Financial Report of the City of Biloxi (municipal government and its component unit) for the fiscal year ended September 30, 2006. The Administration of the City of Biloxi is responsible for the information presented in this report. We believe that the accompanying information is accurate and complete and fairly presents the financial position of the municipal government of the City of Biloxi as of September 30, 2006 and results of operations for the fiscal year then ended.

Control Environment

The City's management is responsible for maintaining a system of internal controls sufficient to provide reasonable assurance that City assets are safeguarded from loss and that financial transactions are recorded timely and accurately. Reasonable assurance means that internal controls are selected or designed to reduce the risk of asset loss or inaccurate bookkeeping to an acceptable level, considering the constraint that the cost of the control should not exceed the expected benefit. Management is responsible for communicating the purpose and importance of internal controls to employees and for providing the resources necessary to establish and maintain the control system.

Budgetary Controls

Prior to the beginning of each fiscal year, each department director prepares a projection of expenditures for his department. The City's budget staff develops a projection of revenues for all funds and a projection of the expenditures not included in the departmental budgets. The revenue projections and proposed expenditures are presented to the Mayor. After reviewing the draft budget proposal, the Mayor will meet with department directors to discuss their budget requests. Each director must justify his department's budget request by explaining the cost of the programs they propose for the coming year. When the Mayor is satisfied that the proposed budget conforms to the objectives and goals he has set for the coming year, the entire budget proposal is presented to the City Council. During a series of budget workshops, the City Council will review, discuss, question and debate the proposed budget and make modifications to it. The Council will invite public comment on the taxing and spending plan at a special public hearing. After determining that the revenue projections in the budget are sound and that the proposed spending is necessary to provide the level of services and to accomplish the program goals and capital improvements proposed in the budget, the City Council will publish the proposed budget. After adopting the budget for the coming year the City Council will set the property tax rate at a level that will generate the property tax revenue necessary to raise the budgeted ad valorem tax revenue.

Mississippi law prohibits spending in excess of the budget formally adopted by the City Council and spread upon the Council's minutes. The formal budget adopted by the Council sets a limit for total expenditures for each department. For management and control purposes, a budget with greater detail is utilized by City management personnel to monitor spending. For this purpose, the total budget of each department is spread to the expenditure accounts of each department's various divisions and sections. Programmatic constraints within the City's computerized purchasing system prohibit unauthorized purchases in excess of the budget at the expenditure account level.

The City utilizes an encumbrance accounting system in monitoring spending. An encumbrance system provides for charges against the budget at the time goods or services are ordered rather than waiting until the invoice is received or the payment is made.

Independent Audit

In accordance with Section 21-35-31, Miss Code of 1972 and guidelines prescribed by the State Auditor, the financial statements presented herein have been audited by Culumber, Fletcher, Harvey & Associates, P.A., an independent firm of Certified Public Accountants. The objective of the auditor's work is to provide the auditor with a basis upon which to express an opinion on the fairness of the City's financial statements. The auditor's opinion is included in The Financial Section of this report. The auditor's work involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation.

State Department of Audit regulations require the independent auditor to disclose any instance of non-compliance with certain state laws, that may come to their attention during the audit of the City's financial statements. The auditor must test for non-compliance with federal requirements applicable to each major federal program under which the City of Biloxi receives federal financial assistance.

Managements Discussion And Analysis

Management's Discussion and Analysis follows the opinion of the independent auditor and provides a narrative overview and analysis of the basic financial statement.

Profile of the City of Biloxi (The Reporting Entity)

The City of Biloxi, Mississippi was incorporated in 1838. Biloxi is located in Harrison County, and its southern corporate boundary is the Gulf of Mexico. Biloxi is part of the Biloxi, Gulfport, Pascagoula Metropolitan Statistical Area (MSA). This area has a diverse economic base which includes tourism, casino gaming, fishing, seafood processing, shipping, shipbuilding, and petroleum and chemical processing. Keesler Air Force Base, Naval Station Pascagoula, Naval Construction Battalion Center-Gulfport and Northrop Grumman's Ingalls Shipbuilding are located within this metropolitan statistical area. The City of Biloxi's employees provide a full range of services to the City's citizens and visitors including planning and zoning, police and fire protection, culture and recreation, infrastructure maintenance, water and sanitation.

This report includes all funds of the City of Biloxi and any entity that management has determined to be a component unit of the City of Biloxi municipal government. Component units

are entities for which the primary government (the City) is financially accountable and other entities whose relationship with the City is such that its exclusion would create misleading or incomplete financial information. The Point Cadet Development Corporation, a non-profit organization, is blended in the financial statements of the City of Biloxi as proprietary fund. During the fiscal year 03/04, the City of Biloxi assumed responsibility for the assets, liabilities and operation of the Biloxi Port Commission. This activity is presented as a business-type activity in the City's Government-wide financial statements and as a proprietary fund in the City's fund financial statements.

Economic Condition and Outlook

We understand that readers of this Comprehensive Annual Financial Report will be interested in using this report to assess the impact of Hurricane Katrina on the City of Biloxi. Katrina struck the Mississippi Gulf Coast and the City in the last week of the eleventh month of fiscal 04/05. We estimate that Katrina destroyed 6,000 of 25,000 homes and businesses, hundreds of historic homes and landmarks. Entire blocks of neighborhoods were reduced to debris fields. Huge casino barges were torn from their moorings and pushed down the road as far as three-quarters of a mile. The City's infrastructure, facilities, buildings and fleet assets were severely damaged.

Now, a little more than a year later, we ask ourselves "how do we assess the damage and the City's recovery efforts?" Let's look at a few yard sticks. Right now, school enrollment is at 78 percent of its pre-Katrina level of 6,100 students. The mainstays of Biloxi's economy – the casino resort industry and Keesler Air Force Base are excelling. Employment in our casino resort industry is at pre-Katrina levels. Seven of the nine casino resorts are back in operation. Nearly 70 percent of the casino resort hotel rooms up and running. Overall, 55 percent of hotels and motels in Biloxi are open.

The FY 05/06 totals of the City's three largest revenues, gaming, sales and property taxes were down approximately 24 percent below pre-Katrina levels. However, today, we're seeing record levels of gaming tax revenue. Sales tax is at 85% and will continue to increase as amenities are opened. Keesler, the Air Force's electronics training headquarters and home to its second largest medical center, graduated 26,000 students in 2006, and in September, embarked on the largest military housing construction program in the history of the Air Force. Today 8,400 residences are in the works. The City has issued nearly 8,500 storm repair permits in the months since Katrina.

The City has \$151 million in project worksheets pending with FEMA. Of these \$113.5 have been obligated by the agency. The City's share of cost associated with the project worksheets is estimated to be \$39.5 million. The City settled its claim with its insurers for \$39,700,000 of \$40,000,000 in coverage. City management believes that we can replace all the City's lost assets with these resources and that Biloxi will be better than ever. The City received \$16,843,377 in Federal Community Disaster Loans to assist the City with operating expenses during the period of reduced revenue.

Total assessed valuation for 2006 (taxes to be collected in fiscal year 2006-2007) was down from tax year 2005 (pre-Katrina) by \$155,536,013, a reduction of 28.7 percent. The City's Department of Community Development is currently processing 25 new condominium master plan projects coupled with 85 commercial projects under Development Review Committee review. They are also addressing numerous single family and multi-family housing projects to be developed in the City. A conservative estimate of the aggregate private sector reinvestment will be in excess of \$3 billion. The City is working expeditiously to complete the processing and issuance of approval commitments for this new development.

During the fiscal year ended September 30, 2006, gaming tax and sales tax declined. Ad valorem taxes remained unaffected by Hurricane Katrina because ad valorem tax is collected in arrears. The collections in FY 05/06 were for tax year 2005. Because the assessment of tax is finalized early in the tax year (2005), ad valorem tax revenues were not impacted by Hurricane Katrina. Sales tax and gaming tax revenue declined due to the effect of Hurricane Katrina. (Fig. 1).

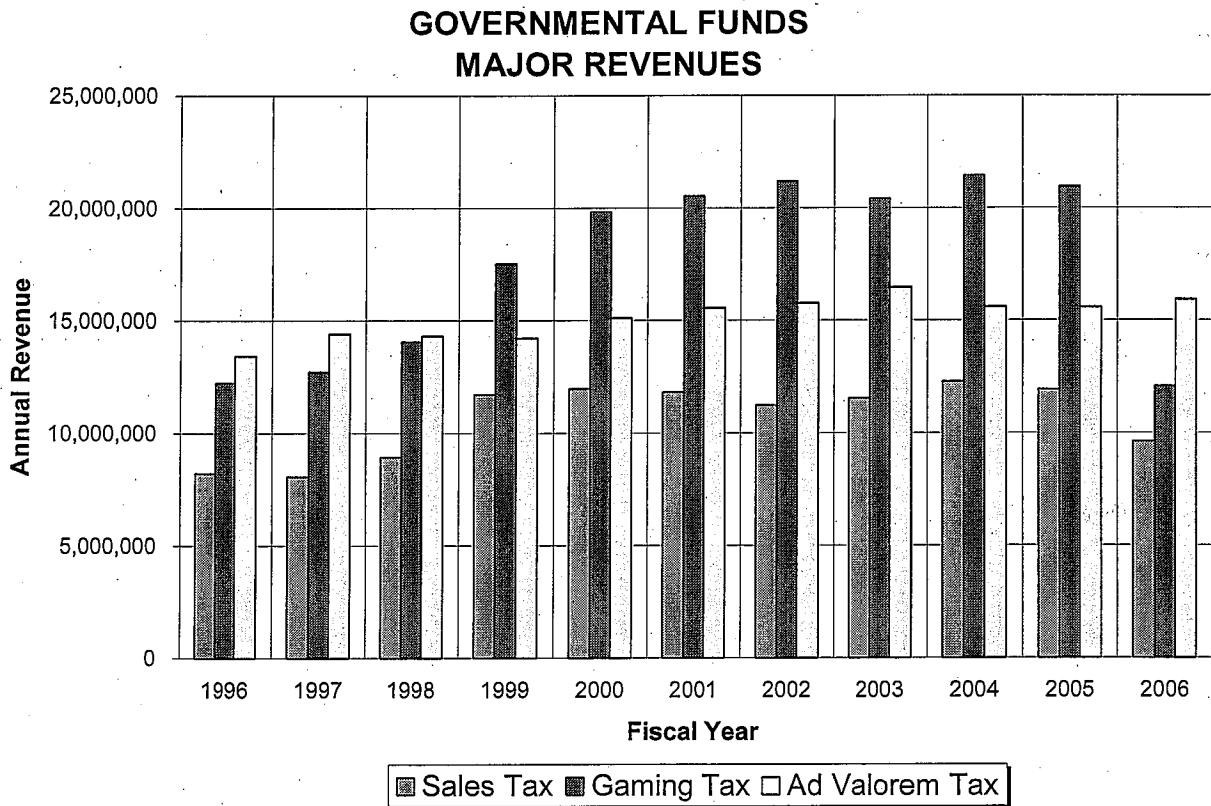


Figure 1

The City's share of local taxes on casino gaming has allowed Biloxi's governing authority to keep growth in property tax revenue low while increasing municipal services and capital spending. The following chart demonstrates how the City has managed growth of ad valorem tax revenue by adjusting its tax rate downward to offset the increases in total assessed value.

In 2001, the mandatory reappraisal of all property in Harrison County increased the assessed value of property within the City, significantly. The City mitigated the impact of the reappraisal with an offsetting reduction in the ad valorem tax rate. The chart also demonstrates that total assessed value has been flat for the last four years (Fig. 2).

TAX RATE & TAX BASE

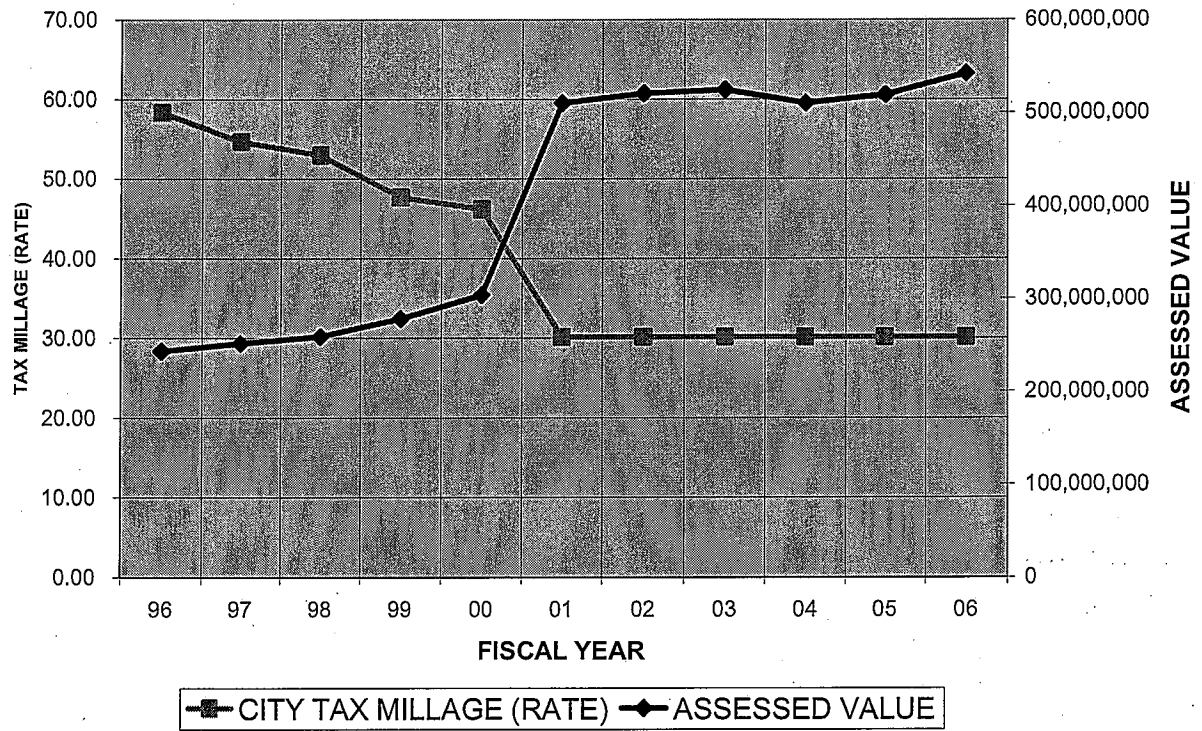


Figure 2

During fiscal year 05/06, the City issued 4,871 building permits with a total valuation of \$478,582,792. The value of building permits issued increased 331% and the number of permits issued increased 248% from the prior fiscal year (Fig. 3).

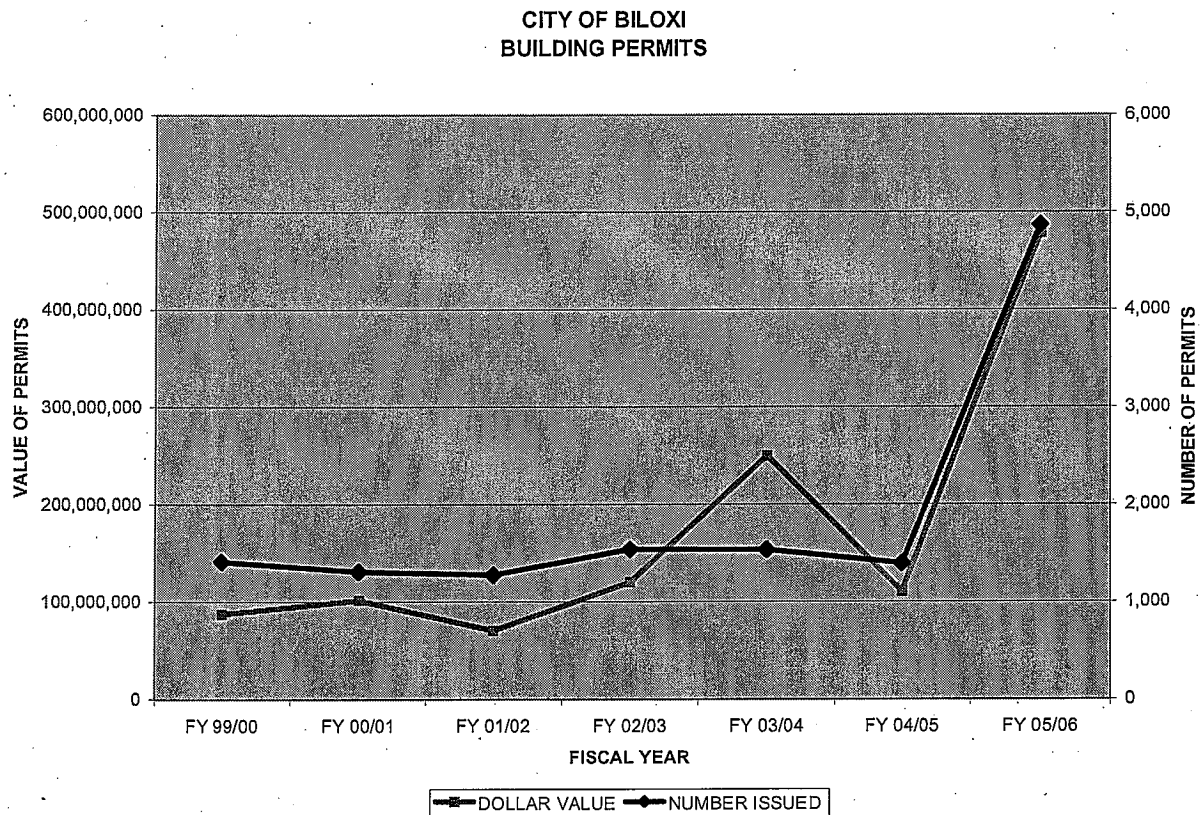


Figure 3

Governmental Fund Revenues

Governmental funds are used to account for most City functions and operations including the various City departments, the City's two old, closed retirement plans, Community Development Block Grants, capital projects, and the City's general obligation debt payments. Figure 4 illustrates the relative amounts of various general governmental revenues for the fiscal year. Normally, the City's three largest sources of revenues for general governmental functions are gaming tax, ad valorem tax and sales tax. However, FEMA grant revenue inflated the Intergovernmental Revenues class and insurance claim proceeds inflated the Other Revenue class in FY 05/06.

**GOVERNMENTAL FUNDS
REVENUES FY 05/06**

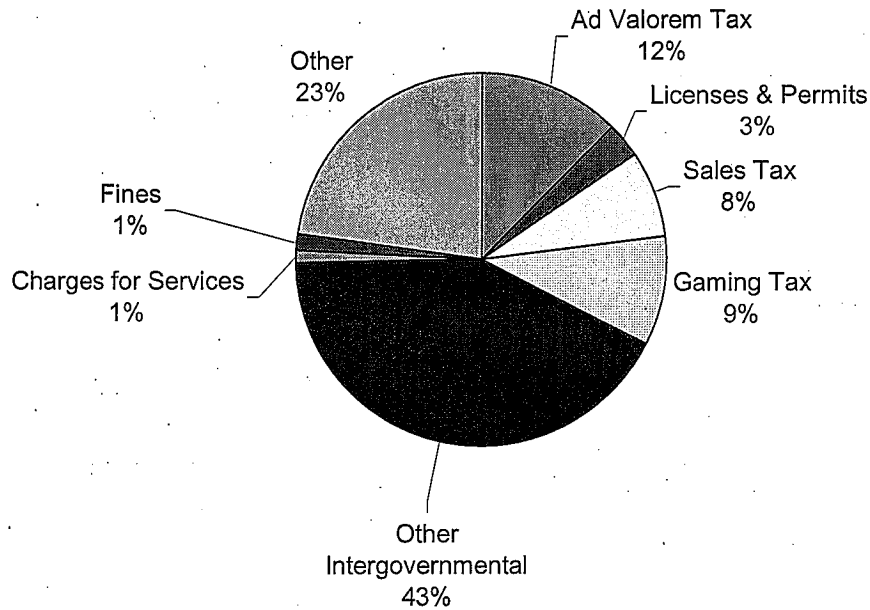


Figure 4

Gaming tax and sales tax are shown separately here but are included in the City's governmental funds financial statements on the line titled "Intergovernmental Revenues". Intergovernmental revenues are collected by other governmental entities such as state government and distributed to the City. Other Intergovernmental Revenue includes other taxes collected by Harrison County and the State of Mississippi and state and federal grants. During fiscal 05/06, the City received \$37,512,974 of FEMA grants which is included in the Other Intergovernmental revenue category.

Property Taxes - In Mississippi, property taxes are levied by municipalities and counties on the assessed value of land and buildings, mobile homes, automobiles, business inventory and equipment. Assessed value is a prescribed percentage of the true (appraised) value of each class of property. Classes of property and assessment ratios are defined in Section 112 of the Mississippi Constitution of 1890.

<u>Class of Property</u>	<u>Ratio</u>
Class I Single-family, owner-occupied, residential real	10%
Class II All other real property, except Class I or IV	15%
Class III Personal property, except motor vehicles and Class IV	15%
Class IV Public Utility property	30%
Class V Motor vehicles	30%

Ad valorem taxes are collected in arrears. The taxes for a calendar tax year are due by February 1 of the subsequent calendar year. Each year the governing authorities of the City of Biloxi determine the total assessed value of property situated within the City limits. Prior to the beginning of a new fiscal year, October 1, they set the tax rate (levy) that will generate the tax revenue needed for the upcoming fiscal year. In each fiscal year, the City collects the ad valorem taxes for the prior calendar tax year. To summarize, the formula for determining tax revenues from each class of property is "Appraised value X assessment ratio X tax levy = tax amount".

Sales Tax - State law requires sellers of goods and services to collect and remit to the state sales taxes of various rates specified in the statutes. A tax rate of 7% applies to retail sales of tangible personal property. Of the taxes collected by the state each month, 18.5% of the sales tax revenue from activities within a municipal corporation is remitted to the municipal government.

Gaming Taxes - All taxes on gross gaming revenue and gaming devices are collected by the State Tax Commission, including those taxes levied by municipalities. The Gaming control act of 1990 provided a tax of eight tenths of one percent (.8%) on casino gross gaming income. This tax revenue is divided between Harrison County and the City in the proportion of the population of each.

House Bill 1504, Regular Session of 1992 (Local and Private Legislation) provided for a tax of three and two tenths of one percent (3.2%) of gross gaming revenue. On the tenth day of each month the State Tax Commission remits the taxes collected in the previous month to the municipality to be distributed in the following ratios:

- 20% for public safety
- 20% for education purposes (Biloxi sends this 20% to the Biloxi Separate School District)
- 10% to Harrison County for public safety purposes
- 10% for educational purposes in Harrison County (This 10% is distributed to the various school districts in Harrison County in the proportion of each district student enrollment to total enrollment of all school districts in the county.)

House Bill 1504 also provided for a licensing fee of \$150, annually, for each gaming device. In addition to local taxes, the Mississippi Gaming Control Act, codified in chapter 76, in title 75 of the Mississippi Code of 1972, provides that casinos pay a fee of 8% of gross gaming revenue to the State of Mississippi.

Figure 5 illustrates the trends in annual totals of revenue sources for the City's governmental funds. Casino gaming and the resulting gaming taxes were implemented in 1992, and since that time, gaming tax revenues have become the single largest revenue source for the City. Note that Other Intergovernmental Revenue increased significantly in fiscal year 05/06 due to grants for Hurricane Katrina debris removal received by the City of Biloxi from the Department of Homeland Security, Federal Emergency Management Agency. The large increase in other revenue was due to receipt of insurance proceeds for the City's Katrina claims.

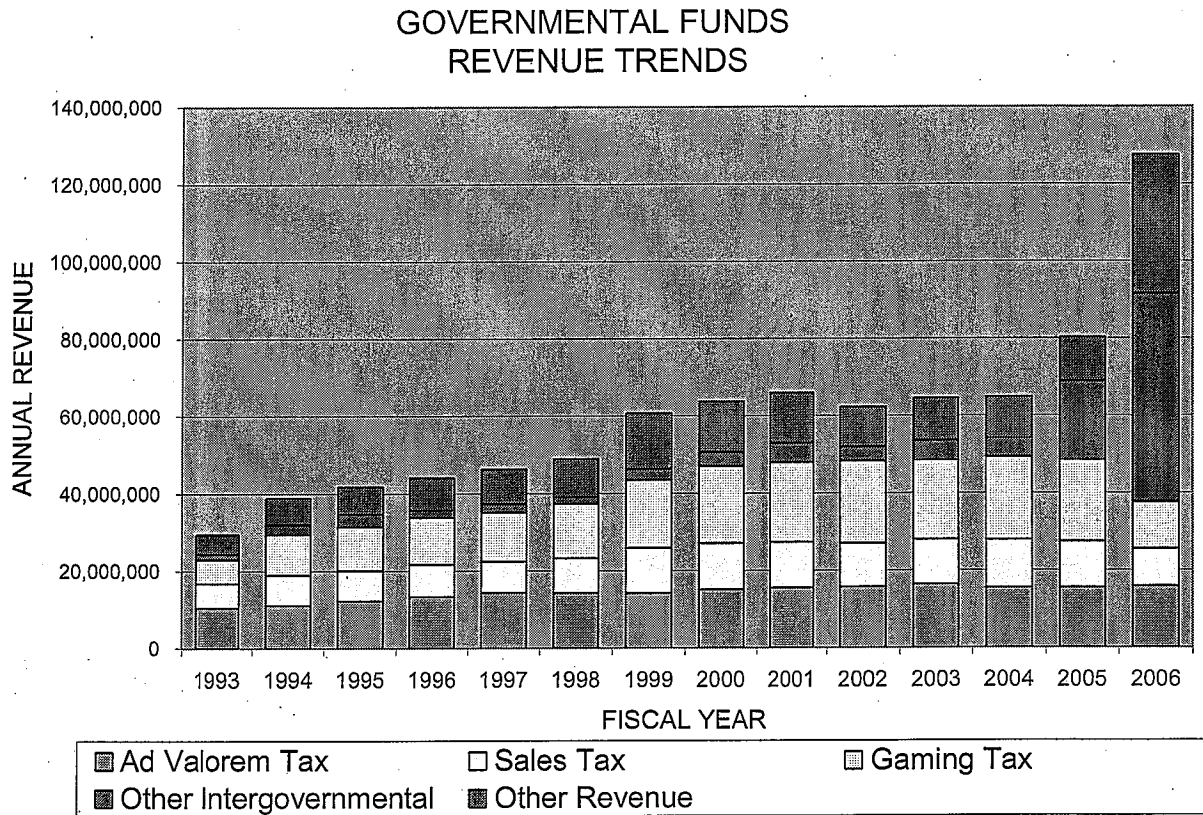


Figure 5

General Governmental Expenditures

Figure 6 illustrates the trends in spending for the various services and functions accounted for in the City's governmental funds. Normally, public safety and capital projects are the largest expenditure categories of the City's governmental funds; however, in FY 05/06 expenditures for Public Works increased due to the cost of removing debris left by Hurricane Katrina.

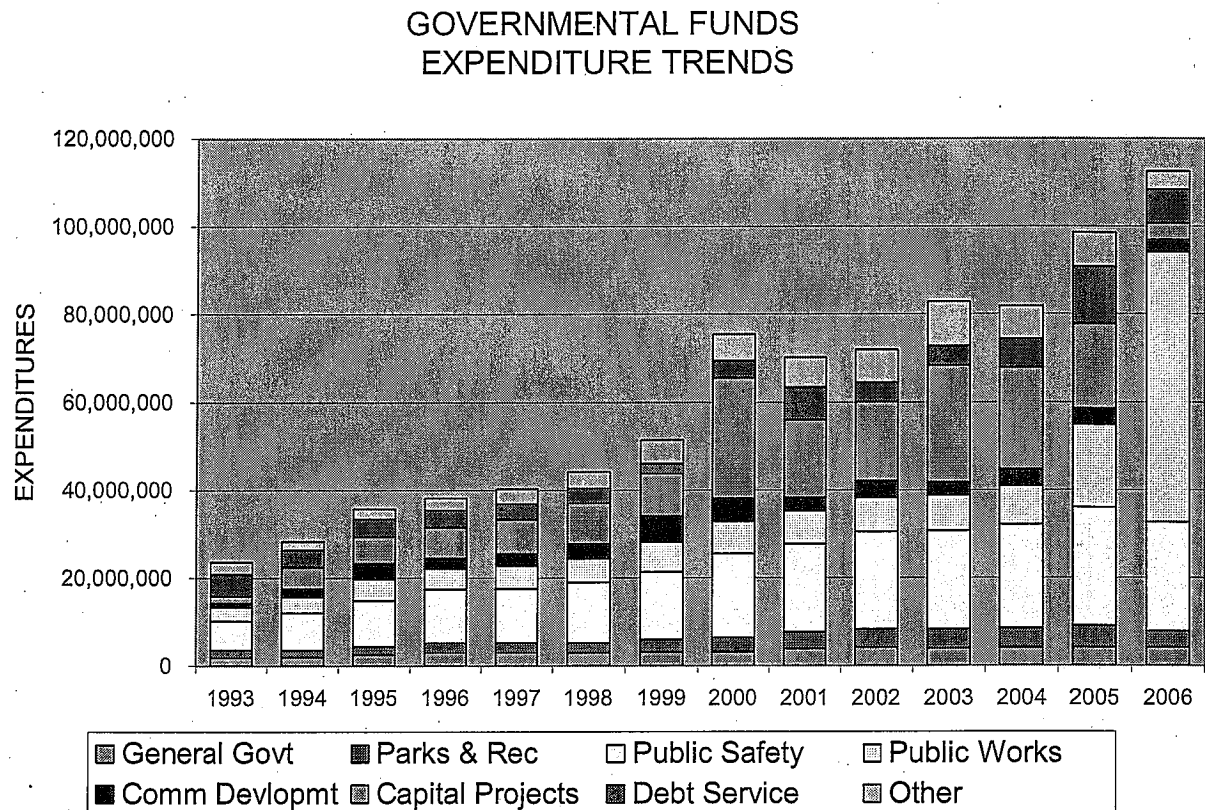


Figure 6

Figure 7 illustrates the relative amount of total expenditures for each service and function accounted for in the City's governmental funds for the fiscal year 05/06.

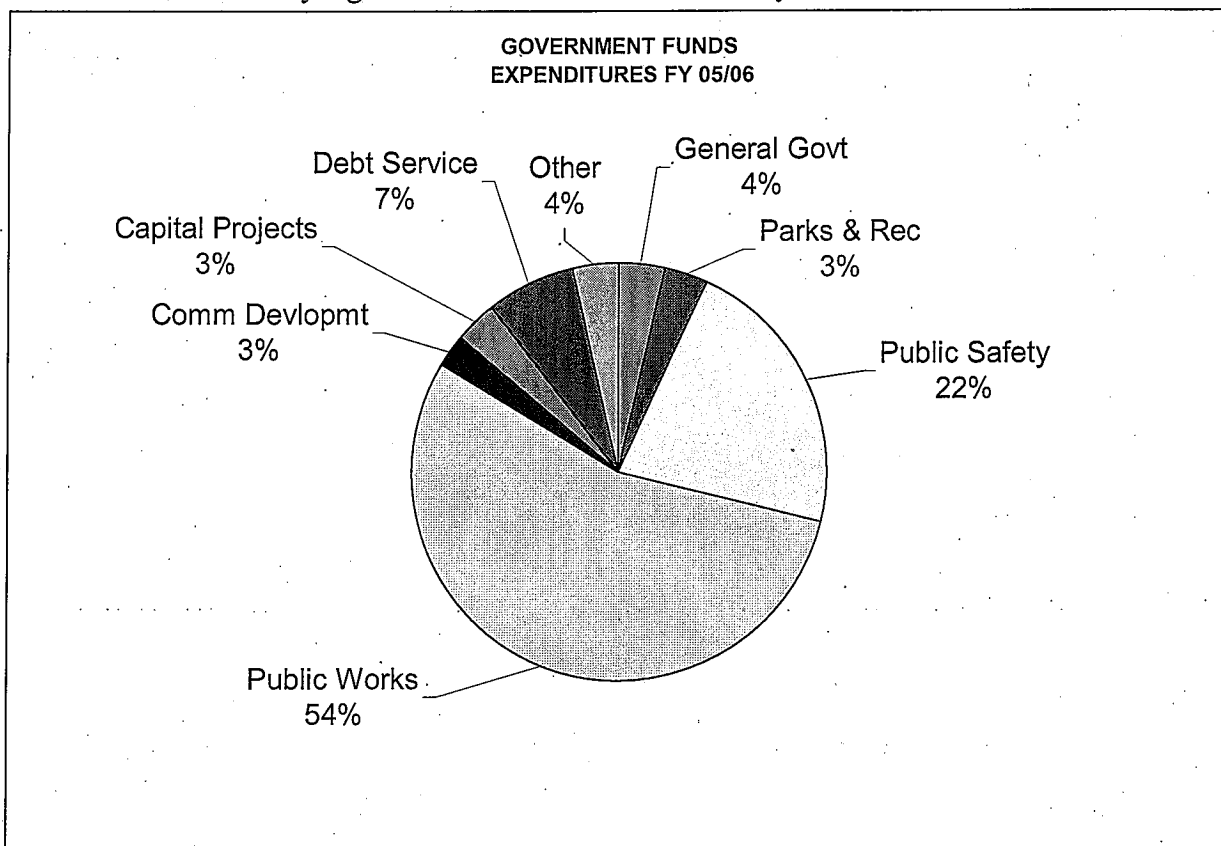


Figure 7

Debt Management

A municipality may finance its activities by incurring various forms of debt, from lease-purchase arrangements to long-term bonds. General obligation debt is bonds or notes secured by the governmental entity's pledge to levy tax adequate to repay the debt. Limited obligation bonds are secured by the pledge of a defined portion of the taxing power of the municipality. Revenue bonds are secured by a pledge of specific revenue sources other than ad valorem taxes such as the revenue from a utility system. See the Management's Discussion and Analysis for additional discussion regarding the City's debt.

Cash Management

Mississippi laws address the investment of surplus money by municipalities and the investment of the proceeds of bonds separately. The investment of surplus money is limited to bonds or other direct obligations of the United States of America or the State of Mississippi or any county or municipality of this state or any school district or obligations issued or guaranteed in full as to principal and interest by the United States of America which are subject to a repurchase agreement with a qualified depository or time certificates of deposit in qualified depositories. The City of Biloxi's policy is to invest surplus funds in United States Treasury Bills and bank certificates of deposit with a maturity of six months or less. Treasury Bills are purchased by a municipal depository under a Security Safekeeping Agreement. The City's checking account balances are invested automatically, overnight, under sweep agreements with the City's depositories.

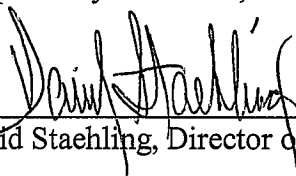
Risk Management

Risk management is an entity's approach to identifying, evaluating and controlling unforeseen expenses. It includes a plan to avoid, prevent and minimize the costs of (1) property loss from accidents, fire, crime, fraud, and natural disaster; (2) liability for the losses of other entities and (3) injury to employees. The City retains the services of independent consultants in loss prevention and control. With the assistance and advice of the City's insurance consultants, the City maintains a mitigation plan involving layers of insurance and self-insured risk retention.

Major Initiatives

During FY 05/06 City management concentrated on debris cleanup and emergency repairs to buildings, facilities and infrastructure. Management restrained spending on capital projects to \$3.7 million. The City carried over capital projects with unexpended project budgets totaling \$24.8 million. Management believes that progress on these projects will accelerate in FY 06/07. FEMA funded capital projects will be added to the capital projects budget as engineering and design are completed. Management estimated that the FEMA funded capital projects will total \$60 million.

Respectfully submitted,



David Staehling, Director of Administration



W. L. Lanham, Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Biloxi
Mississippi

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

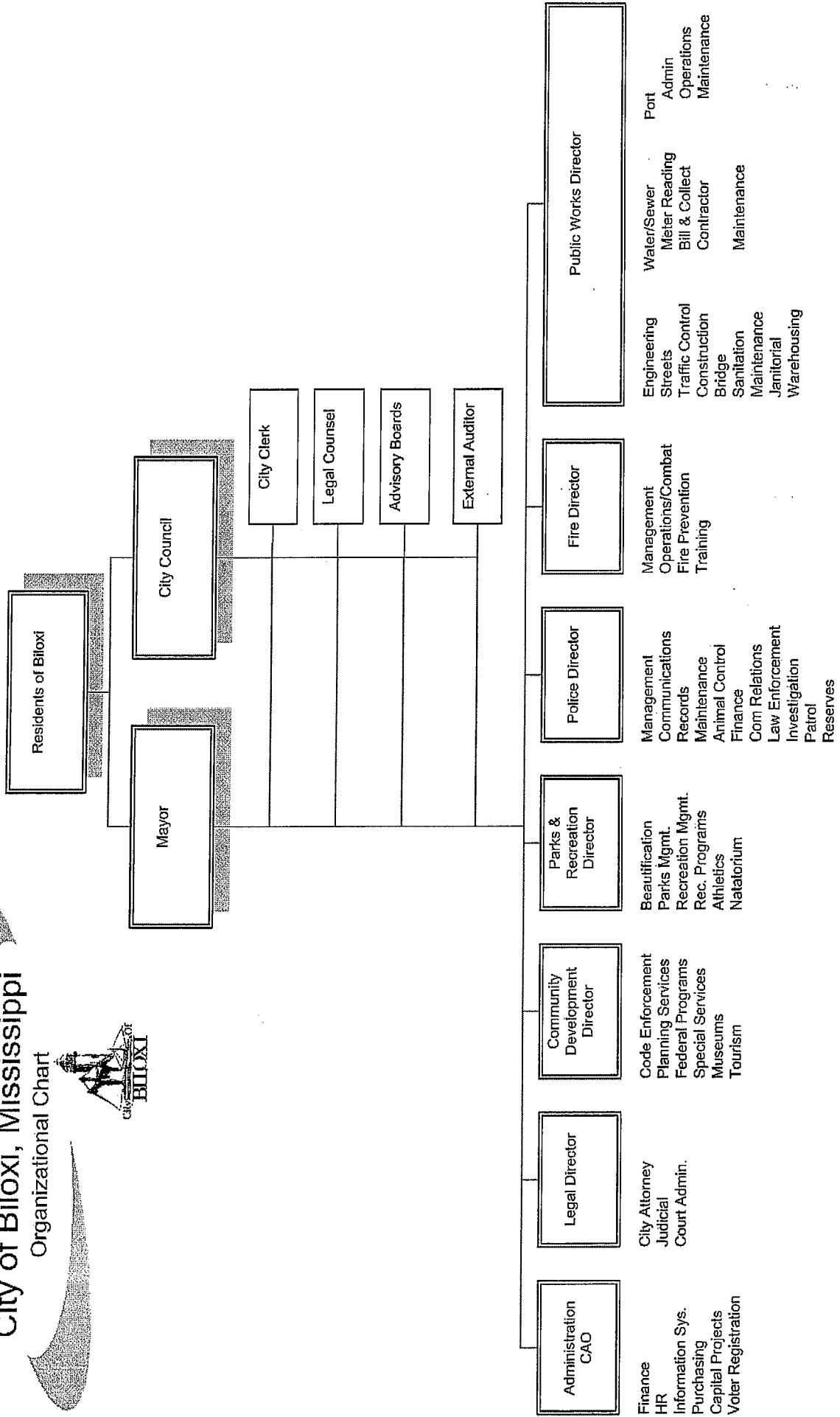


President

Executive Director

City of Biloxi, Mississippi

Organizational Chart



Section II
Financial Section

Independent Auditors' Report

To the City Council
City of Biloxi
Biloxi, 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 the City of Biloxi, Mississippi (City), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Biloxi, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Biloxi, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members:

American Institute of CPAs • AICPA Division of CPA Firms-Private Companies Practice Section • Mississippi Society of CPAs

Biloxi • Gulfport

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2007, on our consideration of the City of Biloxi, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 25 through 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Biloxi, Mississippi's, basic financial statements. The introductory section, combining and individual nonmajor 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 the City of Biloxi, Mississippi. The combining and individual nonmajor fund financial statements, the budgetary comparison information, 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.

Culumber, Fletcher, Harvey & associates, P.A.

Certified Public Accountants

Biloxi, Mississippi
March 15, 2007

Management's Discussion and Analysis

City of Biloxi, Mississippi Management's Discussion and Analysis

Brief Discussion of the Basic Financial Statements

The City's management has prepared this discussion and analysis to provide an objective analysis of the City's financial activities and financial condition as presented in the basic financial statements which form a part of the City's Comprehensive Annual Financial Report (CAFR). The basic financial statements are presented in three parts:

Government-wide financial statements focus on the overall financial position and activities of the City, in total, rather than the City's individual funds. In these statements, all governmental activities are consolidated into a column and all business-type activities are consolidated into a column. The two columns are added to present a total for the City as a whole. These statements include the Statement of Net Assets which discloses all of the City's assets and liabilities and the difference which is titled "net assets". Also included is the Statement of Activities which focuses on the cost of services provided and activities performed by the City and the source of money used to pay for the services and activities. The Statement of Activities also explains how the City's net assets increased or decreased during the fiscal year. Both of the government-wide financial statements segregate functions of the City that are supported by taxes and intergovernmental revenues (governmental activities) from those functions that are mainly supported through charges to the consumer (business-type activities). The City's water and sewer utilities and the City's port operations are business-type activities.

Fund financial statements present the balance sheets and the statement of revenues, expenditures and changes in fund balance of the City's funds. A Fund is a fiscal and accounting entity with a balanced set of accounts for recording and disclosing the reporting entity's stewardship of resources received and segregated for specific activities including the amount of resources received, the amount expended, liabilities owed and the residual balance (equity) of the funds. The City uses funds to segregate resources and resource use according to the purpose for which the resources were segregated. The objective of fund accounting is to demonstrate compliance with budgetary and legal requirements that apply to the resources segregated in each fund.

In the fund financial statements, each of the City's major funds is presented in a separate column. The City's non-major funds are combined and the totals presented in one column. The distinction between governmental type activities and proprietary type activities is maintained through the presentation of separate statements for these two types of funds.

Governmental Funds are used to account for governmental functions of the City of Biloxi including administration, executive, legislative, legal (general governmental activities), public safety, public works, parks and recreation, public health and welfare, capital projects and debt service. These are the functions that are presented as "Governmental Activities" in the Government-wide financial statements. Presentation of financial information for the City's governmental funds differs from the information presented in the government-wide financial statements because the focus of fund accounting is on near-term inflows and outflows of spendable resources and the balances of spendable resources available at year-end.

Proprietary Funds include Enterprise Funds and Internal Service Funds. Enterprise Funds are used for those activities which are financed, primarily, by charges to users and customers. Internal Service Funds are used for city activities that provide goods or services for the City's various funds and departments such as the City's Self Insurance Fund. In the government-wide financial statements these activities are called "business-type activities".

Notes to the Financial Statements provide additional information to explain the data presented in the basic financial statements.

Government-wide Condensed Data – Governmental and Business-type Activities

Table 1
City of Biloxi
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 90,629,671	\$ 69,889,354	\$ 17,159,900	\$ 17,612,347	\$ 107,789,571	\$ 87,501,701
Capital assets	189,286,303	188,938,888	44,402,142	44,208,433	233,688,445	233,147,321
Total assets	279,915,974	258,828,242	61,562,042	61,820,780	341,478,016	320,649,022
Current & other liabilities	\$ 20,991,106	\$ 14,424,503	\$ 2,724,428	\$ 2,793,520	\$ 23,715,534	\$ 17,218,023
Long-term liabilities	65,819,302	73,398,501	4,665,825	5,369,628	70,485,127	78,768,129
Total liabilities	86,810,408	87,823,004	7,390,253	8,163,148	94,200,661	95,986,152
Net assets						
Investment in capital assets						
net of related debt	122,446,292	125,208,731	39,094,116	39,210,473	161,540,408	164,419,204
Restricted	11,814,028	13,202,408	1,684,296	1,897,170	13,498,324	15,099,578
Unrestricted	58,845,246	32,594,099	13,393,377	12,549,989	72,238,623	45,144,088
Total net assets	\$ 193,105,566	\$ 171,005,238	\$ 54,171,789	\$ 53,657,632	\$ 247,277,355	\$ 224,662,870

Table 2
City of Biloxi
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Charges for services	\$ 8,216,596	\$ 6,737,279	\$ 8,778,806	\$ 10,532,459	\$ 16,995,402	\$ 17,269,738
Operating grants	56,706,429	1,196,313	-	-	56,706,429	1,196,313
Capital grants and contributions	1,214,462	17,373,396	2,269,780	978,930	3,484,242	18,352,326
General revenues						
Property taxes	16,859,108	15,599,678	920,215	657,426	17,779,323	16,257,104
Sales taxes	10,159,154	11,944,584	-	-	10,159,154	11,944,584
Gaming taxes	15,187,146	20,968,845	-	-	15,187,146	20,968,845
Franchise taxes	2,360,722	2,653,549	-	-	2,360,722	2,653,549
Other revenue	20,597,297	5,334,119	389,262	301,696	20,986,559	5,635,815
Total revenues	131,300,914	81,807,763	12,358,063	12,470,511	143,658,977	94,278,274
Expenses						
General government	4,444,590	4,462,343	-	-	4,444,590	4,462,343
Parks and recreation	4,294,691	5,476,485	-	-	4,294,691	5,476,485
Public safety	27,540,929	29,311,438	-	-	27,540,929	29,311,438
Public works	64,616,111	19,753,119	-	-	64,616,111	19,753,119
Community development	2,364,826	7,118,035	-	-	2,364,826	7,118,035
Unallocated depreciation	2,219,360	1,869,584	-	-	2,219,360	1,869,584
Interest on long-term debt	2,786,442	3,327,475	-	-	2,786,442	3,327,475
Water and sewer service	-	-	9,925,601	12,515,510	9,925,601	12,515,510
Port Fund activities	-	-	1,415,121	1,666,327	1,415,121	1,666,327
PCDC activities	-	-	5,730	372,659	5,730	372,659
Total expenses	108,266,949	71,318,479	11,346,452	14,554,496	119,613,401	85,872,975
Increase (decrease) in net assets						
before transfers	23,033,965	10,489,284	1,011,611	(2,083,985)	24,045,576	8,405,299
Transfers	(933,637)	(3,034,089)	(497,454)	3,034,089	(1,431,091)	-
Net increase (decrease) in net assets	22,100,328	7,455,195	514,157	950,104	22,614,485	8,405,299
Net assets, beg of year - as restated	171,005,238	163,550,043	53,657,632	52,707,528	224,662,870	216,257,571
Net assets, end of year	\$ 193,105,566	\$ 171,005,238	\$ 54,171,789	\$ 53,657,632	\$ 247,277,355	\$ 224,662,870

Overall financial position and results of operations

The net assets of governmental activities increased by \$22,100,328. The increase resulted from three factors: receipt of insurance claim settlement related to Hurricane Katrina; grant revenues; and management's restriction of operating expenditures and capital outlay.

The net assets of business-type activities (Water and Sewer and Port) would have declined by \$1,755,623 during FY 05/06, had the business-type activities not received capital grants and contributions. Water and Sewer revenues are not covering the cost of operations.

The City's overall financial position improved in FY 05/06 as indicated by the increase in total net assets.

Analysis of Significant Balances And Operation of Individual Funds

Fund Balances

General Fund

The General Fund is the City's primary operating fund. The City began fiscal year 05/06 with a General Fund balance of \$28,976,354 and ended the year with a fund balance of \$54,806,618.

The increase is attributable primarily, to the receipt of insurance claims related to Hurricane Katrina damage and to the receipt of grants from the Federal Emergency Management Agency, to pay for debris removal, and draw down of the Special Community Disaster Loan. During FY 05/06, the City transferred \$1,353,886 of General Fund cash to the City's Capital Projects Fund to pay project expenses.

Concurrent with the inception of legal gaming in 1992, the annual, ending fund balance of the City's General Fund balance began to increase due to rapid growth in revenues, especially the gaming tax. In the first few years after the advent of Biloxi's casino gaming industry, the governing authority dedicated the gaming tax revenue to capital projects including those projects that were needed to accommodate the industry. The size and number of these projects and the constraints of engineering, planning, staffing and acquisition extended the expenditure of budgeted capital project monies over several years. The lag between the appropriation of resources and actual completion of projects caused a temporary accumulation of fund balance in the City's general fund

The City's progress on its capital projects and the eventual easing of the restriction of gaming tax to capital project funding had begun to reduce the accumulated surpluses (fund balance) in the General Fund. Fortunately, the General Fund had a healthy fund balance at the beginning of fiscal 04/05 and was able to suspend the capital projects for which the surplus was intended. City management had fund balance available to deal with the reductions in revenue caused by Hurricane Katrina and to resume the suspended capital projects as conditions allow.

2002 TIF Capital Projects Bond Fund – This capital project fund is utilized by the City to segregate the proceeds of a limited obligation bond issue. The \$29,000,000 of bond proceeds will be expended over the life of the capital projects that are funded by the debt issuance. As project costs are incurred cash is transferred from the 2002 TIF Capital Projects Bond Fund to the General Capital Projects Fund to pay the project costs.

Debt Service Fund – During FY05/06 the fund balance of the City's Debt Service Fund declined by \$769,966, ending the year with \$3.6 million in fund balance. City management has built the fund balance to provide working capital to pay principal and interest on bonded debt that matures in the early months of the fiscal year, October through January, before the bulk of ad valorem tax revenue is received by the City. Ad valorem tax revenue is the primary resource of the Debt Service Fund, therefore the amount of working capital in the fund is directly attributable to the relationship between the amount of debt service maturing during the year and the ad valorem tax millage levied for debt service.

Water and Sewer Fund – Revenues and other Water and Sewer Fund resources were not adequate to pay the cost of operations and debt service. The Water and Sewer Fund incurred an operating loss of \$2.9 million when depreciation expense is considered. The City's water and sewer rates are relatively low compared to other service providers in Mississippi; however, the loss of a significant number of utility customers due to destruction of residences and businesses by Hurricane Katrina further exacerbated this problem. Water and sewer revenue declined 20% from the prior year. The Harrison County Utility Authority provides sewerage treatment services for the City. During the year the Utility Authority restructured its debt, deferring most of the Authority's debt service for a period of 2 years. This restructuring will reduce the City's operating expenses for the next two years. At the end of the deferral period, the governing authority of the City will have to consider water and sewer rates.

The Water and Sewer Fund paid \$226,116 of the \$1,219,628 expended for improvements in the water and sewer system during FY 05/06. \$993,512 of water and sewer capital projects spending was funded from the City's General Fund and bond proceeds. The funding of water/sewer capital projects by the General Fund and dedications of water/sewer system assets by developers offset the Water and Sewer funds operating loss to prevent a decline in net assets.

Budget Variances in the General Fund

During FY 05/06 the City Council passed fifteen resolutions amending the City's budget for all funds. These amendments increased total spending by \$59,321,392 and increased revenues and other financing sources by a similar amount. Most of this total budget increase related to federal funding of Hurricane Katrina related expense.

Capital Assets Activity

During FY 05/06 the City acquired capital assets costing \$9,256,828. Of this amount \$1,302,743 consisted of streets, drainage and utilities within dedicated subdivisions. The City purchased \$3,481,181 of equipment including a fire truck costing \$897,699. The City incurred \$3,172,760 of capitalizable costs on construction projects. See Detail Note III. F, for additional information concerning capital asset activity for the fiscal year ended September 30, 2006.

Long-term Debt

At the beginning of the fiscal year the City of Biloxi had outstanding debt consisting of general obligation bonds, notes, limited obligation bonds and notes, and four pollution control loans. These outstanding debts totaled \$68,728,183 at the beginning of the fiscal year 05/06. During the year, the City received two Federal (Stafford Act) Special Community Disaster Loan authorizations; one for the City's General Fund for \$14,056,264 and another for the City's Water/Sewer Fund for \$2,787,113. The City made draws on the loans totaling \$8,000,000.

During the fiscal year 05/06, the City paid \$2,937,293 of principal and paid \$5,477,845 of interest on all debt. In the Supplemental Information section of the financial report is a schedule

titled Schedule of Long-Term Debt which discloses the beginning balances of each debt, new debt incurred and the principal amount paid during the year.

State laws limit the amount of debt a municipality may incur. General obligation bonded debt, excluding debt issued for utility purposes, is limited to 15% of assessed valuation. All debt, excluding utility revenue debt and tax increment financing bonds, is subject to a limit of 20% of assessed value. Note III. H discloses the City's compliance with statutory debt limitations.

When a governmental entity issues bonds, it may obtain a rating from one or more of the bond rating agencies. The rating is a measure of the issuer's ability to repay the debt and provides a means whereby investors may measure the risk of their investment in the bonds.

In a statement dated November 10, 2005, Standard & Poor's Ratings Services announced that they had lowered their ratings on Biloxi's GO debt to BBB from "A" and Biloxi's series 1999 limited tax port commission bonds to "BBB" from "BBB+" and removed them from CreditWatch with negative implications and a developing outlook. The announcement stated "The downgrade reflects the severe economic dislocation in the residential and commercial sector, specifically the casino industry, and the uncertainty over the restoration of a viable, sustainable economic and revenue performance." The BBB rating is defined as "An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation". The "Developing" qualifier indicates that a rating may be raised or lowered over the intermediate term (typically six months to two years).

On August 11, 2006 Moody's Investors Service announced that they "affirmed the City of Biloxi's general obligation rating of "Baa1" with a stable outlook." Prior to Hurricane Katrina, Moody's Investors Service rated the City's debt "A2".

See Detail Note III. H and the Supplementary Information section of the CAFR for additional information concerning the City's debt.

Contact Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, William L. Lanham, City of Biloxi, P.O. Box 429, Biloxi, MS 39533.

Basic Financial Statements

City of Biloxi, Mississippi
Statement of Net Assets
September 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 58,655,282	\$ 9,819,158	\$ 68,474,440
Restricted cash and cash equivalents	-	1,365,581	1,365,581
Investments	7,899,279	1,684,295	9,583,574
Restricted investments	1,104,294	-	1,104,294
Receivables:			
Taxes	6,956,635	-	6,956,635
Customer accounts, net	61,448	1,440,189	1,501,637
Grants	7,648,501	391,086	8,039,587
Other	445,077	35,970	481,047
Prepays	598,922	2,218,341	2,817,263
Net Pension Obligation	7,095,370	-	7,095,370
Inventories	-	205,280	205,280
Mortgage loans receivable	99,946	-	99,946
Land inventory	64,917	-	64,917
Capital assets			
Land and construction in progress	60,861,543	6,060,626	66,922,169
Other (net of accumulated depreciation)	128,424,760	38,341,516	166,766,276
Total assets	<u>279,915,974</u>	<u>61,562,042</u>	<u>341,478,016</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	7,950,051	551,405	8,501,456
Accounts payable from restricted assets	-	25,622	25,622
Customer deposits payable from restricted assets	-	952,995	952,995
Internal balances	(153,474)	153,474	-
Unearned revenue	1,394,261	14,999	1,409,260
Noncurrent liabilities			
Due within one year			
Bonds, capital leases, and notes	4,512,267	705,000	5,217,267
Compensated absences	1,163,853	20,933	1,184,786
Claims payable	-	300,000	300,000
Claims payable from restricted assets	6,124,148	-	6,124,148
Due beyond one year			
Bonds, capital leases, and notes	62,327,744	4,603,026	66,930,770
Compensated absences	3,491,558	62,799	3,554,357
Total liabilities	<u>86,810,408</u>	<u>7,390,253</u>	<u>94,200,661</u>
Net assets			
Invested in capital assets, net of related debt	122,446,292	39,094,116	161,540,408
Restricted for:			
Public safety	2,525,615	-	2,525,615
Debt service	3,651,761	1,010,078	4,661,839
Capital improvements	5,609,194	674,218	6,283,412
Endowment, expendable	27,458	-	27,458
Unrestricted	58,845,246	13,393,377	72,238,623
Total net assets	<u>\$ 193,105,566</u>	<u>\$ 54,171,789</u>	<u>\$ 247,277,355</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Statement of Activities
For the Fiscal Year Ended September 30, 2006

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Governmental Activities						
General Government	\$ 4,444,590	\$ 34,656	\$ -	\$ 41,285	(4,368,649)	\$ -
Parks and Recreation	4,294,691	522,282	1,927	169,810	(3,600,672)	-
Public Safety	27,540,929	1,352,917	2,887,504	145,534	(23,154,974)	-
Public Works	64,616,111	544,772	53,792,390	857,033	(9,421,916)	-
Community Development	2,364,826	5,761,969	24,608	800	3,422,551	-
Unallocated Depreciation, Infrastructure	2,219,360	-	-	-	(2,219,360)	-
Interest and Other, Long-Term Debt	2,786,442	-	-	-	(2,786,442)	-
Total Governmental Activities	108,266,949	8,216,596	56,706,429	1,214,462	(42,129,462)	-
Business-Type Activities						
Water and Sewer	9,925,601	6,989,753	-	1,816,494	-	(1,119,354)
Biloxi Port Fund	1,415,121	1,768,179	-	453,286	-	806,344
Point Cadet Development Corporation	5,730	20,874	-	-	-	15,144
Total Business-Type Activities	11,346,452	8,778,806	-	2,269,780	-	(297,866)
Total Primary Government	119,613,401	16,995,402	56,706,429	3,484,242	(42,129,462)	(42,427,328)
General revenues						
Property taxes					16,859,108	920,215
Sales taxes					10,159,154	-
Gaming taxes					15,187,146	-
Franchise and utility taxes					2,360,722	-
Other taxes					706,999	-
Grants and contributions not restricted to specific programs					527,815	-
Unrestricted Investment Earnings					2,298,869	389,262
Insurance proceeds					16,306,863	-
Donations					650,727	-
Miscellaneous					106,024	-
Transfers					(933,637)	(497,454)
Total general revenues and transfers					64,229,790	812,023
Change in net assets					22,100,328	514,157
Net Assets - beginning of period - as restated					171,005,238	53,657,632
Net assets - end of period					\$ 193,105,566	\$ 54,171,789

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Balance Sheet
Governmental Funds
September 30, 2006

	General Fund	General Capital Projects Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 49,062,888	\$ 1,309,839	\$ 1,414,781	\$ 723,436	\$ 52,510,944
Investments	2,179	-	2,160,686	5,736,414	7,899,279
Receivables:					
Taxes	6,778,368	-	119,712	58,555	6,956,635
Customer accounts, net	61,448	-	-	-	61,448
Grants	7,393,382	255,119	-	-	7,648,501
Other	438,090	-	-	6,987	445,077
Due from other city funds		363,581	-	-	363,581
Prepays	598,922	-	-	-	598,922
Mortgage loans receivable	-	-	-	99,946	99,946
Land inventory	-	-	-	64,917	64,917
Total assets	<u>\$ 64,335,277</u>	<u>\$ 1,928,539</u>	<u>\$ 3,695,179</u>	<u>\$ 6,690,255</u>	<u>\$ 76,649,250</u>
Liabilities and Fund Balance					
Liabilities					
Accounts payable and accrued liabilities	\$ 8,470,256	\$ 534,278	\$ 43,418	\$ 65,952	\$ 9,113,904
Due to other city funds	1,058,403	-	-	127,220	1,185,623
Deferred revenue	-	1,394,261	-	-	1,394,261
Total liabilities	<u>9,528,659</u>	<u>1,928,539</u>	<u>43,418</u>	<u>193,172</u>	<u>11,693,788</u>
Fund Balances					
Reserved for					
Public safety	2,525,615	-	-	-	2,525,615
Loans receivable	-	-	-	99,946	99,946
Land inventory	-	-	-	64,917	64,917
Debt service	-	-	3,651,761	-	3,651,761
Endowment, expendable	-	-	-	27,458	27,458
Capital projects funds	-	-	-	5,609,194	5,609,194
Unreserved reported in					
General fund					
Designated for capital projects	32,406,379	-	-	-	32,406,379
Undesignated	19,874,624	-	-	-	19,874,624
Special revenue funds	-	-	-	695,568	695,568
Total fund balances	<u>54,806,618</u>	<u>-</u>	<u>3,651,761</u>	<u>6,497,083</u>	<u>64,955,462</u>
Total liabilities and fund balances	<u>\$ 64,335,277</u>	<u>\$ 1,928,539</u>	<u>\$ 3,695,179</u>	<u>\$ 6,690,255</u>	<u>\$ 76,649,250</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
as of September 30, 2006

Total fund balances of governmental funds in the balance sheet, page 33		\$ 64,955,462
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		189,286,303
Internal service funds are used by management to account for the costs of the City's risk management, including insurance. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		2,100,000
Net pension obligation		7,095,370
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.		
Notes payable	(3,542,312)	
Bonds payable	(62,400,000)	
Capital leases payable	(897,699)	
Compensated absences	(3,491,558)	
		<u>(70,331,569)</u>
Net assets of governmental activities, page 31		<u><u>\$ 193,105,566</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2006

	General Fund	General Capital Projects Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Ad valorem taxes	\$ 8,466,210	\$ -	\$ 6,147,295	\$ 2,245,603	\$ 16,859,108
Licenses and permits	4,059,907	-	-	-	4,059,907
Intergovernmental	83,006,742	3,496	561,423	24,608	83,596,269
Charges for services	1,124,939	-	-	-	1,124,939
Fines	1,346,888	-	-	-	1,346,888
Other	6,337,653	-	95,603	523,532	6,956,788
Total revenues	<u>104,342,339</u>	<u>3,496</u>	<u>6,804,321</u>	<u>2,793,743</u>	<u>113,943,899</u>
Expenditures					
Current:					
General government	4,180,351	-	-	41,240	4,221,591
Parks and recreation	3,729,316	-	-	36,790	3,766,106
Public safety	25,584,738	-	-	1,554,846	27,139,584
Public works	62,878,551	-	-	620,302	63,498,853
Community development	2,070,759	-	-	177,567	2,248,326
Non-departmental	2,919,036	-	-	-	2,919,036
Debt service					
Principal retirement	-	-	4,787,845	-	4,787,845
Interest and other	-	-	2,786,442	-	2,786,442
Bond issue cost	-	-	-	-	-
Capital outlay, projects	-	3,259,444	-	-	3,259,444
Total expenditures	<u>101,362,751</u>	<u>3,259,444</u>	<u>7,574,287</u>	<u>2,430,745</u>	<u>114,627,227</u>
Excess (deficiency) of revenues over expenditures	<u>2,979,588</u>	<u>(3,255,948)</u>	<u>(769,966)</u>	<u>362,998</u>	<u>(683,328)</u>
Other financing sources (uses)					
Insurance proceeds	16,306,863	-	-	-	16,306,863
Issuance of note	7,000,000	-	-	-	7,000,000
Capital lease	897,699	-	-	-	897,699
Transfers in	-	3,255,948	-	-	3,255,948
Transfers out	(1,353,886)	-	-	(1,404,608)	(2,758,494)
Total other financing sources (uses)	<u>22,850,676</u>	<u>3,255,948</u>	<u>-</u>	<u>(1,404,608)</u>	<u>24,702,016</u>
Net change in fund balance	<u>25,830,264</u>	<u>-</u>	<u>(769,966)</u>	<u>(1,041,610)</u>	<u>24,018,688</u>
Fund balances, beginning of year	<u>28,976,354</u>	<u>-</u>	<u>4,421,727</u>	<u>7,538,693</u>	<u>40,936,774</u>
Fund balances, end of year	<u>\$ 54,806,618</u>	<u>\$ -</u>	<u>\$ 3,651,761</u>	<u>\$ 6,497,083</u>	<u>\$ 64,955,462</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
for the Fiscal Year Ended September 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances of governmental funds, page 35	\$ 24,018,688
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	6,204,046	
Less: current year depreciation	<u>(5,190,929)</u>	1,013,117

The issuance of long-term debt (bonds payable) provides 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 reduced long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeds repayments.

Bond, capital lease, and loan proceeds	(7,897,699)	
Principal payments	<u>4,787,845</u>	(3,109,854)

Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds

Donated assets	1,050,152	
Seized assets	23,300	
Basis of assets sold	<u>(308,063)</u>	765,389

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 funds

Change in net pension obligation	847,971	
Change in long-term compensated absences	<u>(3,892)</u>	844,079

Transfer of governmental capital assets to business-type activities	<u>(1,431,091)</u>
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Change in net assets of governmental activities, page 32	<u><u>\$ 22,100,328</u></u>
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City of Biloxi, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative)
Revenues				
Ad valorem taxes	\$ 8,286,951	\$ 8,286,951	\$ 8,261,188	\$ (25,763)
Licenses and permits	3,806,700	3,806,700	3,936,588	129,888
Intergovernmental	36,425,066	36,425,066	23,221,438	(13,203,628)
Federal & state grants	604,826	60,160,841	50,672,643	(9,488,198)
Charges for services	1,057,000	1,057,000	1,157,604	100,604
Fines	1,315,000	1,315,000	1,346,888	31,888
Other	4,495,120	4,518,870	28,406,810	23,887,940
Total revenues	55,990,663	115,570,428	117,003,159	1,432,731
Expenditures				
Administration				
Personnel services	1,660,849	1,655,349	1,516,055	139,294
Supplies	63,919	38,219	30,798	7,421
Other services & charges	628,352	890,491	753,172	137,319
Contractual services	295,856	313,277	291,782	21,495
Capital outlay	132,680	25,680	20,296	5,384
Total	2,781,656	2,923,016	2,612,103	310,913
Executive				
Personnel services	233,183	233,183	236,727	(3,544)
Supplies	10,350	11,350	8,019	3,331
Other services & charges	68,650	66,466	26,877	39,589
Contractual services	13,160	14,344	9,795	4,549
Capital outlay	55,000	55,000	32,533	22,467
Total	380,343	380,343	313,951	66,392
Legislative				
Personnel services	437,662	437,662	414,881	22,781
Supplies	16,600	16,100	10,188	5,912
Other services & charges	165,380	149,771	103,597	46,174
Contractual services	17,356	18,465	10,351	8,114
Capital outlay	7,000	22,000	18,924	3,076
Total	643,998	643,998	557,941	86,057
Judicial				
Personnel services	256,602	256,602	223,671	32,931
Contractual services	500	500	181	319
Total	257,102	257,102	223,852	33,250
Legal				
Personnel services	535,643	535,643	447,060	88,583
Supplies	16,800	13,095	5,233	7,862
Other services & charges	18,300	19,800	14,336	5,464
Contractual services	36,937	39,142	13,548	25,594
Capital outlay	10,500	10,500	2,750	7,750
Total	618,180	618,180	482,927	135,253

Continued on next page

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended September 30, 2006
(Continued)

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Community development				
Personnel services	1,732,868	1,732,868	1,493,099	239,769
Supplies	173,935	188,935	33,233	155,702
Other services & charges	1,182,825	1,197,825	354,346	843,479
Contractual services	447,351	432,351	165,336	267,015
Capital outlay	106,598	121,598	28,532	93,066
Total	<u>3,643,577</u>	<u>3,673,577</u>	<u>2,074,546</u>	<u>1,599,031</u>
Parks & recreation				
Personnel services	3,767,862	3,767,862	2,649,912	1,117,950
Supplies	462,158	516,490	374,187	142,303
Other services & charges	514,288	506,464	436,533	69,931
Contractual services	344,292	336,289	204,211	132,078
Capital outlay	76,200	92,024	76,257	15,767
Total	<u>5,164,800</u>	<u>5,219,129</u>	<u>3,741,100</u>	<u>1,478,029</u>
Public safety				
Personnel services	22,674,405	22,791,795	20,445,141	2,346,654
Supplies	1,473,990	1,506,019	981,955	524,064
Other services & charges	720,260	746,260	634,195	112,065
Contractual services	1,113,388	1,097,036	1,039,598	57,438
Capital outlay	1,540,797	2,837,916	1,644,989	1,192,927
Total	<u>27,522,840</u>	<u>28,979,026</u>	<u>24,745,878</u>	<u>4,233,148</u>
Public works				
Personnel services	4,752,240	4,752,240	4,012,796	739,444
Supplies	945,550	994,950	780,565	214,385
Other services & charges	861,075	870,715	1,145,529	(274,814)
Contractual services	3,233,292	60,796,754	55,534,561	5,262,193
Capital outlay	375,000	375,000	67,290	307,710
Total	<u>10,167,157</u>	<u>67,789,659</u>	<u>61,540,741</u>	<u>6,248,918</u>
Nondepartmental				
Other services & charges	1,761,200	1,761,200	1,454,730	306,470
Contractual services	3,149,773	3,149,773	1,246,110	1,903,663
Total	<u>4,910,973</u>	<u>4,910,973</u>	<u>2,700,840</u>	<u>2,210,133</u>
Total expenditures	<u>56,090,626</u>	<u>115,395,003</u>	<u>98,993,879</u>	<u>16,401,124</u>
Excess (deficiency) of revenues over expenditures	<u>(99,963)</u>	<u>175,425</u>	<u>18,009,280</u>	<u>17,833,855</u>
Other financing sources (uses)				
Issuance of note	-	-	7,000,000	7,000,000
Transfers out	<u>(7,625,618)</u>	<u>(7,642,633)</u>	<u>(538,507)</u>	<u>7,104,126</u>
Total other financing sources (uses)	<u>(7,625,618)</u>	<u>(7,642,633)</u>	<u>6,461,493</u>	<u>14,104,126</u>
Net change in fund balances	<u>(7,725,581)</u>	<u>(7,467,208)</u>	<u>24,470,773</u>	<u>31,937,981</u>
Fund balances, beginning of year	<u>17,745,798</u>	<u>17,745,798</u>	<u>17,745,798</u>	
Fund balances, end of year	<u>\$ 10,020,217</u>	<u>\$ 10,278,590</u>	<u>\$ 42,216,571</u>	<u>\$ 31,937,981</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Statement of Net Assets
Proprietary Funds
September 30, 2006

	Business-Type Activities-Enterprise Funds				Governmental
	Major Funds		Non-Major Fund		Activities
	Water And Sewer Fund	Biloxi Port Fund	Point Cadet Development Corporation	Total Enterprise Funds	Internal Service Funds
Assets					
Current assets:					
Cash	\$ 5,146,767	\$ 4,531,328	\$ 141,063	\$ 9,819,158	\$ 6,144,338
Restricted cash	1,302,560	63,021	-	1,365,581	-
Investments	-	1,684,295	-	1,684,295	-
Restricted investments	-	-	-	-	1,104,294
Receivables:					
Customer accounts, net	877,295	102,214	-	979,509	-
Customer accounts earned but not billed	460,680	-	-	460,680	-
Grants	25,061	366,025	-	391,086	-
Other	-	35,970	-	35,970	-
Due from other city funds	16,839	125,798	-	142,637	975,516
Restricted due from other city funds	-	-	-	-	-
Supplies inventory	205,280	-	-	205,280	-
Prepaid contractual services	2,192,941	25,400	-	2,218,341	-
Total current assets	10,227,423	6,934,051	141,063	17,302,537	8,224,148
Noncurrent assets:					
Capital assets, net of accumulated depreciation	42,804,669	1,481,391	116,082	44,402,142	-
Total noncurrent assets	42,804,669	1,481,391	116,082	44,402,142	-
Total assets	53,032,092	8,415,442	257,145	61,704,679	8,224,148
Liabilities					
Current liabilities:					
Accounts payable	556,533	78,604	-	635,137	-
Accounts payable from restricted assets	25,622	-	-	25,622	-
Customer deposits payable from restricted assets	889,974	63,021	-	952,995	-
Current portion of bond and notes	-	705,000	-	705,000	-
Unearned revenue	-	14,999	-	14,999	-
Due to other city funds	202,340	93,771	-	296,111	-
Claims Payable	-	300,000	-	300,000	-
Claims contingency payable from restricted assets	-	-	-	-	6,124,148
Total current liabilities	1,674,469	1,255,395	-	2,929,864	6,124,148
Non-current liabilities:					
Notes payable, non-current	2,628,026	1,975,000	-	4,603,026	-
Total non-current liabilities	2,628,026	1,975,000	-	4,603,026	-
Total liabilities	4,302,495	3,230,395	-	7,532,890	6,124,148
Net assets					
Invested in capital assets, net of related debt	40,176,643	(1,198,609)	116,082	39,094,116	-
Restricted for capital projects	-	674,218	-	674,218	-
Restricted for debt service	-	1,010,078	-	1,010,078	-
Unrestricted	8,552,954	4,699,360	141,063	13,393,377	2,100,000
Total net assets	\$ 48,729,597	\$ 5,185,047	\$ 257,145	\$ 54,171,789	\$ 2,100,000

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended September 30, 2006

	Business-Type Activities-Enterprise Funds			Governmental Activities Internal Service Funds
	Major Funds		Non-Major Fund	
	Water And Sewer Fund	Biloxi Port Fund	Point Cadet Development Corporation	Total Enterprise Funds
Operating Revenues				
Charges for services:				
Water sales, sewer revenues				
penalties & installations, net	\$ 6,333,624	\$ -	\$ -	\$ 6,333,624
Keesler Air Force Base, sewer	579,775	-	-	579,775
Harbor Fees and Rents	-	1,723,229	20,874	1,744,103
Insurance billings	-	-	-	-
Total charges for service	6,913,399	1,723,229	20,874	8,657,502
Cobra contributions	-	-	-	-
Other income	76,354	44,950	-	121,304
Total operating revenues	6,989,753	1,768,179	20,874	8,778,806
Operating expenses				
Personal services	1,110,081	848,282	-	1,958,363
Contracted services	5,281,824	-	-	5,281,824
Other services and charges	1,626,124	308,531	5,730	1,940,385
Depreciation	1,907,117	72,718	-	1,979,835
Total operating expenses	9,925,146	1,229,531	5,730	11,160,407
Operating income (loss)	(2,935,393)	538,648	15,144	(2,381,601)
Non-operating revenues (expenses)				
Interest income	222,427	166,529	306	389,262
Interest expense	-	(185,590)	-	(185,590)
Intergovernmental tax revenues	-	920,215	-	920,215
Loss on capital assets	(455)	-	-	(455)
Grant revenue	41,900	241,823	-	283,723
Donations	1,774,594	211,463	-	1,986,057
Total non-operating revenues (expenses)	2,038,466	1,354,440	306	3,393,212
Income (loss) before transfers	(896,927)	1,893,088	15,450	1,011,611
Transfers to other City funds	(226,116)	(271,338)	-	(497,454)
Change in net assets	(1,123,043)	1,621,750	15,450	514,157
Net assets, beginning of year	49,852,640	3,563,297	241,695	53,657,632
Net assets, end of year	\$ 48,729,597	\$ 5,185,047	\$ 257,145	\$ 54,171,789

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended September 30, 2006

	Business-Type Activities-Enterprise Funds				Governmental
	Major Funds		Non-Major Fund		Activities
	Water And Sewer Fund	Biloxi Port Fund	Point Cadet Development Corporation	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities					
Receipts from customers	\$ 6,210,588	\$ 1,735,653	\$ 20,874	\$ 7,967,115	\$ 7,314,731
Payments to suppliers	(9,738,886)	(331,707)	(5,730)	(10,076,323)	(6,208,708)
Payments for services of employees	(1,110,081)	(848,282)	-	(1,958,363)	-
Net cash provided by (used in) operating activities	(4,638,379)	555,664	15,144	(4,067,571)	1,106,023
Cash flows from non-capital financing activities					
Loans (to) from other funds	(32,834)	(7,956)	-	(40,790)	(207,902)
Net cash provided by (used in) non-capital financing activities	(32,834)	(7,956)	-	(40,790)	(207,902)
Cash flows from capital and related financing activities					
Intergovernmental tax revenues	-	893,978	-	893,978	-
Grant revenues	16,839	(124,202)	-	(107,363)	-
Insurance proceeds	2,927,147	2,980,635	-	5,907,782	-
Transfers (to) from other funds	(226,116)	(271,338)	-	(497,454)	-
Loans (to) from other funds	(217,481)	(61,448)	-	(278,929)	-
Acquisition of capital assets	(186,333)	(1,610)	-	(187,943)	-
Proceeds from debt	1,000,066	-	-	1,000,066	-
Retirement of debt	-	(690,000)	-	(690,000)	-
Interest paid on debt	-	(185,590)	-	(185,590)	-
Net cash provided by (used in) capital and related financing activities	3,314,122	2,540,425	-	5,854,547	-
Cash flows from investing activities					
Interest and dividends on investments	222,427	166,529	306	389,262	-
Proceeds from investments	-	1,167,011	-	1,167,011	(39,925)
Purchase of investments	-	(954,136)	-	(954,136)	2,400
Net cash provided by (used in) investing activities	222,427	379,404	306	602,137	(37,525)
Net increase (decrease) in cash and cash equivalents	(1,134,664)	3,467,537	15,450	2,348,323	860,596
Cash and cash equivalents, beginning of period	7,583,991	1,126,812	125,613	8,836,416	5,283,742
Cash and cash equivalents, end of period	<u>\$ 6,449,327</u>	<u>\$ 4,594,349</u>	<u>\$ 141,063</u>	<u>\$ 11,184,739</u>	<u>\$ 6,144,338</u>
Classified as:					
Current assets	\$ 5,146,767	\$ 4,531,328	\$ 141,063	\$ 9,819,158	\$ 6,144,338
Restricted assets	1,302,560	63,021	-	1,365,581	-
Totals	<u>\$ 6,449,327</u>	<u>\$ 4,594,349</u>	<u>\$ 141,063</u>	<u>\$ 11,184,739</u>	<u>\$ 6,144,338</u>
Non cash					
Contributions of capital assets	\$ 1,774,594	\$ 211,463	\$ -	\$ 1,986,057	\$ -

Continued on next page

City of Biloxi, Mississippi
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2006
(Continued)

	Business-Type Activities-Enterprise Funds				Governmental
	Major Fund		Non-Major Fund		Activities
	Water And Sewer	Biloxi Port Fund	Point Cadet Development Corporation	Total Enterprise Funds	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (2,935,393)	\$ 538,648	\$ 15,144	\$ (2,381,601)	\$ -
Adjustments not affecting cash					
Depreciation	1,907,117	72,718	-	1,979,835	-
Changes in assets and liabilities:					
Accounts receivable	(647,266)	8,084	-	(639,182)	-
Supplies inventory	(92,241)	-	-	(92,241)	-
Prepays	(2,171,141)	-	-	(2,171,141)	-
Accounts payable and accrued expenses	(567,556)	(23,176)	-	(590,732)	1,106,023
Unearned revenue	-	(7,043)	-	(7,043)	-
Customer deposits	(131,899)	(33,567)	-	(165,466)	-
Net cash provided by (used in) operating activities	<u>\$ (4,638,379)</u>	<u>\$ 555,664</u>	<u>\$ 15,144</u>	<u>\$ (4,067,571)</u>	<u>\$ 1,106,023</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Biloxi, Mississippi
Notes to Financial Statements
September 30, 2006

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City of Biloxi, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2006

I. Summary of Significant Accounting Policies

The financial statements of the City of Biloxi, Mississippi (the City) have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) applicable to governmental units. The following is a summary of the more significant accounting policies of the City:

(A) Reporting Entity

The City of Biloxi, Mississippi was incorporated on February 8, 1838 under the laws of the State of Mississippi. The City operates under a Mayor-Council form of government and provides the following services: public safety, (police, fire and civil defense), public works (highways, streets, and sanitation), health and social services, culture-recreation, community development, planning and zoning, and general administrative services.

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As required by GAAP, these financial statements present the City of Biloxi (the primary government) and its components. The component unit discussed in Note I (B) below is included in the City's reporting entity because of the significance of its operation and financial relationships with the City.

(B) Component Unit Disclosure

The criteria for including component units consist of identification of legally separate organizations for which the elected officials of the City are financially accountable. This criteria also includes identification of organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the governments-wide financial statements to emphasize that they are legally separate from the government. The City presents its component unit using the blending method.

(1) Blended Component Unit: Point Cadet Development Corporation

The Point Cadet Development Corporation (PCDC), a non-profit corporation, is governed by a three member board whose president is always the current Mayor of the City of Biloxi. Although it is legally separate from the City, PCDC is reported as part of the primary government because its sole purpose is to finance, develop and manage City owned property. PCDC provides services solely to the City of Biloxi and is reported as an enterprise fund using the blending method. PCDC does not issue separate financial statements.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

(2) Biloxi Port Commission / Biloxi Port Fund

The Biloxi Port Commission (Commission) provides various services, including rental of pleasure and commercial berths, industrial building rentals, maintenance and operation of various harbors, wharves, piers, and channels, etc. The Commission had going concern issues and on July 24, 2003, the City assumed all of its management responsibilities. The Commissions' assets and liabilities were completely absorbed by the City during the fiscal year ending September 2004. Separate financial statements are no longer available.

(C) Related Organizations

The Biloxi Municipal Separate School District has been excluded from the reporting entity, because it is an "other stand-alone government". The school district is a related organization of, but not a component unit of the City of Biloxi. The governing authorities of the City do select a majority of the school district's board, but do not have ongoing financial accountability for the school district.

(D) Joint Ventures and Jointly Governed Organizations

Additionally, during its evaluation of potential component units, management identified one joint venture (Harrison County Utility Authority), and two jointly governed organizations (the Harrison County Library System and the Gulfport-Biloxi Regional Airport Authority).

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the costs, risks and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients.

A jointly governed organization is similar in nature to a joint venture in that they provide goods and services to the citizenry of two or more governments. However, they do not meet the definition of a joint venture because there is no ongoing significant financial interest or responsibility by the participating governments

(E) Basic Financial Statements- GASB Statement 34

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the City as a whole, or major individual funds (within the fund financial

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

statements). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements, including the *statement of net assets* and the *statement of activities*, report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from the statements. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely extensively on fees and charges for support. 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 reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

(F) Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, i.e., measurable and available to pay liabilities of the current period. *Available* means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recognized when the related fund liability is incurred, if measurable, except for interest on long-term debt and the long-term portion of accumulated compensated absences, which are recognized when due.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Year-end accruals of ad valorem taxes, sales taxes, gaming taxes and franchise fees are based upon actual collections of amounts remitted to the City within 60 days of year end. Anticipated refunds of taxes are recorded as liabilities and reductions of revenue when they are measurable. Other licenses and permits, charges for services, fines and penalties, and miscellaneous revenues are recorded as revenues when they are received as they are generally not measurable until actually received; however, charges for services which are measurable are recorded as revenue in the period earned.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33 the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

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

GASB Statement No. 34 sets forth minimum criteria for the determination of major funds. The City has electively added the General Bond and Interest Fund as a major fund. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal operations. The principal operating revenues of the Water and Sewer fund and PCDC are charges to customers for sales and services. The City insurance funds bill the other funds to cover insurance premiums and claims. Operating expenses for the enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of the basic financial statements in conformity with GAAP requires management to make use of estimates that affect reported amounts in the basic financial statements. Actual results could differ from estimates.

(G) Fund Types and Major Funds

Governmental Funds

Governmental funds are those funds through which the City finances most of its municipal services and are accounted for on the basis of a spending measurement focus. The focus on

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

governmental funds is on the determination of changes in financial position rather than upon net income determination. The City's governmental funds are as follows:

General Fund is the City's primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in a separate fund.

General Capital Projects Fund is used to account for the City's capital projects. Revenues are received primarily from the General Fund.

Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Other Non-Major Governmental Funds is a summarization of all of the non-major governmental funds including:

Special Revenue Funds

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

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to businesses. The following is a description of the Proprietary Funds of the City:

Water and Sewer Fund accounts for the activities of the city's water and sewer system.

Biloxi Port Fund accounts for the activities of the City's harbors, wharves, piers and channels.

Non-Major Proprietary Fund – Point Cadet Development Corporation (a blended component unit) accounts for the activities of PCDC.

Internal Service Funds

Like commercial enterprises, a governmental unit may decide to accept certain risk rather than insure against those risks. As part of the City's self-insurance program, Internal Service Self-Insurance Reserve Funds have been established to account for the actual cost of claims, reinsurance, and reserves. The City's Internal Service Funds administer the risk for workman's compensation, liability, automobile, casualty, health insurance and revenue interruption due to catastrophic damage to the gaming industry. The Internal Service Funds in turn charge the other City funds for their allocable share of these net costs.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Non-Current Governmental Assets / Liabilities

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

(H) Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

The City considers cash on hand, cash with fiscal agents, demand deposit, certificates of deposit and bank repurchase agreements as cash and cash equivalents. In addition, each fund's equity in the City's investment pool has been treated as a cash equivalent since cash may be deposited or withdrawn from the pool at any time without prior notice or penalty.

Investments

Investments are stated at fair value.

Accounts Receivable

Accounts receivable are recorded in the Governmental, Business-type, and Component Unit Funds. Where appropriate, an associated allowance for doubtful accounts has been established in the related fund.

Inventories

Governmental and Proprietary Fund inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are consumed.

Capital Assets

Capital assets, including land, buildings, improvements other than buildings, infrastructure (i.e., roads, bridges, street lighting and other similar items) and equipment are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. The City's capitalization levels are as follows: purchased assets costing more than \$500 are capitalized; building renovations are capitalized when their cost exceeds 25% of the building's previously capitalized cost and if the repair extends the building's estimated useful life; contributed capital assets are capitalized and recorded at the estimated market value at the time of the contribution. Assets acquired using capital lease obligations are treated in the same manner as purchased capital assets.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40-50 years
Improvements	40-50 years
Infrastructure	20-60 years
Equipment	3-15 years

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

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. For proprietary funds and the government-wide statements, the current portion is the amount estimated to be used in the following year.

Post Employment Health Care Benefits

The City does not have costs associated with post-employment benefits for retired employees.

Interfund Transactions

Numerous interfund transactions occur during the normal course of operations of the City. Disbursements made by one fund which are properly chargeable to another fund result in the creation of interfund receivables and payables. This type of transaction is normally settled by a cash payment between the funds. All other interfund transactions are accounted for as either an operating transfer or a capital transfer. A capital transfer results when a governmental fund permanently transfers funds to a proprietary fund as a capital infusion for the construction of fixed assets, for example. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government wide columnar presentation.

Advances to Other Funds

Various funds have made short-term advances to other funds. These advances, shown as "Due From Other Funds", are temporary in nature, bear no interest, and are considered "available spendable resources". Long-term advances, if any, are those for which the timing of repayment is uncertain: thus, an allocable portion of fund balance would be reserved in governmental funds.

Estimated Insurance Claims Payable

The City is self insured for general liability, property, automobile, workers' compensation and employee health claims. The operating funds are charged premiums by the City's insurance internal service funds. The accrued liabilities for estimated claims represent an estimate of the eventual loss on claims arising prior to year-end including claims incurred and not yet reported.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Bond Discounts, Bond Premiums, and Issuance Costs

In governmental funds, bond discounts, bond premiums and issuance costs are treated as period costs in the year of issue and are shown as "Other Financing Sources (Uses)".

In proprietary funds (and for governmental activities, in government-wide statements) bond discounts, bond premiums and issuance costs are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. Bond discounts and premiums are presented as a reduction and increase, respectively, of the face amount of the revenue bonds payable, whereas issuance costs are recorded as other assets.

Historically, the City's bond discount/premiums and issuance cost have not been material.

Deferred Revenue

In the governmental funds, certain revenue transactions have been reported as deferred revenue. Revenue can not be recognized until it has been earned and it becomes available to finance expenditures of the current fiscal period.

In proprietary funds (and for governmental activities in the Government-wide statements) deferred revenue is reported for unearned revenue, regardless of its availability.

II. Stewardship, Compliance and Accountability:

A. Budgetary Data

The procedures used by the City in establishing the budgetary data reflected in the combined financial statements are as follows:

1. Prior to October 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Not later than September 15, the budget is legally enacted through passage of a resolution.
4. The budgetary comparisons present budget figures at the legal level of control. The City legally adopts annual budgets for all funds. The City Council formally adopts the annual budget for the general fund with revenues segregated by source (ad valorem tax, licenses and permits, intergovernmental, etc.). The general fund expenditure budget is set at the character level (current, capital outlay, debt service) for each department (function) with current expenditures further detailed at the object level (personal services, supplies, other services and charges, and contractual services).

For special revenue and debt service funds, the budgets for revenues are set up at the source level and expenditures budgets are set at the total expenditure level by fund type.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

The budget for capital project funds is adopted at total fund type level with the revenue budget set at the source level and expenditures set at the total expenditure level. Proprietary fund budgets are adopted for the Water and Sewer Fund and for the Port Fund with revenues delineated at the source level (total intergovernmental revenue and total charges for services) and expenditure budgets delineated by character (current, capital outlay debt service).

State statutes authorize the State Auditor to regulate the municipal budget process. Expenditures must be defined to the minimum level prescribed by the State Auditor. The State Auditor has set this level at the purpose level. Municipalities are prohibited from spending in excess of the lowest level adopted in the budget except for the capital outlay, election expense and emergency warrants.

Formal budgetary integration at the "account level" is employed by management for expenditure control purposes. Management may transfer budget between expenditure accounts within each character grouping of the expenditure accounts for each department.

The City's budgets are adopted in accordance with state statutes and regulations of the State Auditor and not on a basis consistent with Generally Accepted Governmental Accounting Principles. The budgets for revenues are on a cash basis – revenue is recognized if actually received within the year. Budgeted expenditures are on the cash basis with allowance for encumbrances for goods and services actually received prior to year-end and liquidated (paid) within thirty days after year-end. Accounting principles applied in preparation of the budget comparison statements differ from the generally accepted accounting principles used in preparation of the fund financial statements. These differences in the principles used results in timing differences in the recognition of revenues and expenditures. Below is a reconciliation of the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual – Budget Basis to the General Fund column of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds:

	<u>General Fund</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses, budgetary basis	\$ 24,470,773
Adjustments	
To convert receivables	3,590,701
To convert prepaids	(181,469)
To convert liabilities	(2,105,086)
To convert deferred revenue	55,345
Totals, GAAP basis	<u>\$ 25,830,264</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

B. Excess Expenditures Over Appropriations in Individual Funds

For the year ended September 30, 2006, expenditures exceeded appropriations in the executive department (the legal level of budgetary control) of the general fund by \$3,544 and in the port fund by \$181. These overexpenditures were funded by greater than anticipated revenues of the general fund and the port fund, respectively.

C. Deficit Fund Equity

There were no funds with net equity in a deficit position.

III. Detail Notes - All Funds

A. Property and Gaming Tax Revenues

Property Tax

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Harrison County Tax Assessor. The taxes on real and personal property attach as an enforceable lien on the property as of January 1 of each year. Taxes on real and personal property are levied by the City Council at the first regular meeting in September. Through an inter-local agreement, all of the property taxes of the City of Biloxi are collected by the Harrison County Tax Collector and remitted as tax settlements (less an appropriate collection fee) to the City on a monthly basis. Taxes for the Biloxi Municipal Separate School District are also billed and collected by the county and remitted to the schools through the City.

In accordance with the Mississippi Code of 1972, as amended, the City Council may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for any one year may not exceed one hundred and ten percent (110%) of the taxes collected for the prior assessment year. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation. In addition, the City Council may levy additional taxes for specific purposes, such as culture and recreation, as authorized by law.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

The tax levies for the calendar years 2007, 2006 and 2005 (taxes collected in the fiscal years ending 9/30/07, 9/30/06, and 9/30/05) are as follows:

	<u>9/30/07</u> <u>Millage</u>	<u>9/30/06</u> <u>Millage</u>	<u>9/30/05</u> <u>Millage</u>
City Funds			
General Fund	14.15	14.15	15.65
Special revenue funds:			
Disability and Relief (Pension) Funds	4.50	4.50	4.50
Debt Service Funds	9.20	9.20	7.70
Solid waste collection and disposal	<u>2.25</u>	<u>2.25</u>	<u>2.25</u>
Total City administered funds	<u>30.10</u>	<u>30.10</u>	<u>30.10</u>
School Funds			
District maintenance	30.44	30.58	29.01
School debt	<u>7.59</u>	<u>7.45</u>	<u>9.02</u>
Total School administered funds	<u>38.03</u>	<u>38.03</u>	<u>38.03</u>
Total levy	<u><u>68.13</u></u>	<u><u>68.13</u></u>	<u><u>68.13</u></u>

Gaming Revenue

In 1992, the citizens of Harrison County voted to allow dockside casino gaming as defined by the Mississippi Gaming Control Act of 1990. In August of 1992, the first casino opened at Biloxi's Point Cadet development. As of September 30, 2006, there were seven casinos operating within the City of Biloxi. Gaming activities are taxed in a variety of ways. The State of Mississippi levies a sliding scale tax on gross gaming revenue, of which Harrison County and the City of Biloxi receive .4 to .8 percent. This tax is divided 73.4% to the County, and 26.6% to the City of Biloxi. The allocation is based upon the population demographics of the last official census. In addition to the State tax, the City of Biloxi, through local ordinance in accordance with state law, levies an additional 3.2% tax on gross gaming revenues. This tax is distributed as follows: 60% to the General Fund, (20% of which is designated for public safety); 20% to the Biloxi Public Schools; 10% to Harrison County for public safety; and 10% to Harrison County Schools. In addition to the taxes on gross gaming revenue, the State, City and County annually receive licensing fees and permits from each casino for each gaming device. The following is an analysis of the gaming revenues reported in the General Fund:

Local option 3.2% tax	\$ 13,015,429
Local share of state tax	1,443,834
Gaming licenses and permits	<u>727,883</u>
Total gaming revenues	<u><u>\$ 15,187,146</u></u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

B. Deposits and Investments

The City deposits funds in financial institutions selected by the City Council in accordance with state statutes. Furthermore, the City invests excess funds in various investment instruments that are allowed by statutes. Various restrictions on deposits and investments are imposed by statutes. Deposits and investments are summarized below.

Deposits –

Deposits consist of cash amounts in demand accounts and certificates of deposit. The collateral for public entities' deposits in financial institutions is now 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. By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2006 fall into the credit risk category of "*Insured or collateralized with securities held by the entity or by its agent in the entity's name*". Deposits are summarized as follows:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Cash	\$ 69,740,021	\$ 71,294,058
Certificates of deposit	<u>100,000</u>	<u>100,000</u>
Total deposits	<u>\$ 69,840,021</u>	<u>\$ 71,394,058</u>

Cash and cash equivalents for cash flows of Proprietary Funds include all cash accounts and certificates of deposit.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions' trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the City.

Investments –

The City is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved. At September 30, 2006, investments consisted of the following:

City of Biloxi, Mississippi
Notes to the Financial
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(Continued)

	<u>Reported Amount</u>	<u>Fair Value</u>
Investments held by the City or the City's safekeeping agent, and registered in the Name of the City:		
United States of America Treasury Bills, 4.75%, maturing 11/2/06	\$ 1,103,840	\$ 1,126,555
Investments not categorized:		
Money Market Mutual Funds	<u>9,584,028</u>	<u>9,584,028</u>
Totals	<u>\$ 10,687,868</u>	<u>\$ 10,710,583</u>

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in US Treasury Bills and Money Market Mutual Funds. These are 10.33% and 89.67%, respectively, of the City's total investments.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

C. Receivables

The Statement of Net Assets of the City of Biloxi includes the following receivables at September 30, 2006:

Taxes receivable:

Utility franchise taxes	\$ 652,243
Sales taxes	1,855,567
Ad valorem taxes	436,877
Gaming taxes and fees	4,011,948
Total taxes receivable	<u>\$ 6,956,635</u>

Customer accounts receivable:

Garbage fees	\$ 69,182
Water and sewer utility charges (billed)	951,246
Port berth rentals	130,773
Less allowance for doubtful accounts	(110,244)
Customer accounts receivable earned but not billed	460,680
Total customer accounts receivable, net	<u>\$ 1,501,637</u>

Grants receivable:

Federal and state grants	<u>\$ 8,039,587</u>
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Other receivables:

Special assessments	\$ 170,473
Less allowance for doubtful accounts	(127,592)
Liquor privilege tax	27,600
County road tax	12,447
Other	398,119
Total other receivables	<u>\$ 481,047</u>

D. Prepaids

Prepaids at September 30, 2006 consist of the following:

Prepaid insurance premiums	\$ 598,922
Contractual services	<u>2,218,341</u>
Total prepaids	<u>\$ 2,817,263</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

E. Interfund Receivables and Payables

<u>Individual Interfund Balances at September 30, 2006</u>	Due From Other Funds	Due to Other Funds
General Fund		
General Capital Projects to fund project cost	\$ -	\$ 87,354
Water and Sewer Fund	-	16,839
Biloxi Port Fund	-	125,798
Claims contingency fund for claims and expenses	-	828,412
Total General Fund	-	<u>1,058,403</u>
General Capital Projects Fund:		
General Fund	87,354	-
GOPI 2003 Bond Fund	56,824	-
2002 TIF Capital Projects Bond Fund	70,396	-
Water and Sewer Fund	84,657	-
Biloxi Port Fund	64,350	-
Total General Capital Projects Fund	<u>363,581</u>	-
Other Nonmajor Governmental Funds		
GOPI 2003 Bond Fund to General Capital Projects	-	56,824
2002 TIF Capital Projects Bond Fund to General Capital Projects	-	70,396
Total other nonmajor governmental funds	-	<u>127,220</u>
Enterprise Fund:		
Water and Sewer Fund from General Fund	16,839	-
Water and Sewer Fund to General Capital Projects Fund	-	84,657
Water and Sewer Fund for claims and expenses	-	117,683
Biloxi Port Fund from General Fund	125,798	-
Biloxi Port Fund for claims and expenses	-	29,421
Biloxi Port Fund to General Capital Projects Fund	-	64,350
Total Enterprise Fund	<u>142,637</u>	<u>296,111</u>
Internal Service Self-Insurance:		
Claims Contingency Fund from General Fund for claims and expenses	828,412	-
Claims Contingency Fund from Water and Sewer Fund for claims and expenses	117,683	-
Claims Contingency Fund from Biloxi Port Fund for claims and expenses	29,421	-
Total Internal Service Self-Insurance	<u>975,516</u>	-
Totals	<u>\$ 1,481,734</u>	<u>\$ 1,481,734</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

The composition of interfund transfers for the year ended September 30, 2006:

<u>Transfers From</u>	<u>Transfers Into</u>
	<u>General Capital</u> <u>Projects Fund</u>
General Fund	\$ <u>1,353,886</u>
Nonmajor governmental funds	
GOPI 2002 Bond Fund	743,339
2002 TIF Capital Projects Bond Fund	210,111
GOB 2003 Bond Fund	<u>451,158</u>
Total nonmajor governmental funds	<u>1,404,608</u>
Enterprise Funds	
Water and Sewer Fund	226,116
Biloxi Port Fund	<u>271,338</u>
Total enterprise funds	<u>497,454</u>
Totals	\$ <u><u>3,255,948</u></u>

The City transfers funds from the General Fund, various bond funds, and various enterprise funds to pay for project cost incurred.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 227,814
Community development	68,699
Cultural affairs	258,646
Parks and recreation	271,116
Public safety	1,933,738
Public works	211,556
Infrastructure	<u>2,219,360</u>
Total depreciation expense – governmental activities	<u>\$ 5,190,929</u>
Business-type activities	
Water and sewer	\$ 1,907,117
Port Fund	<u>72,718</u>
Total depreciation expense – business-type activities	<u>\$ 1,979,835</u>

Leased assets

The City is the lessor of certain real property in both its governmental and enterprise funds. The following is a summary of this leased property:

	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Cost	\$ 2,023,642	\$ 8,944,421	\$ 10,968,063
Accumulated depreciation	<u>-</u>	<u>(7,463,030)</u>	<u>(7,463,030)</u>
Carrying amount	<u>\$ 2,023,642</u>	<u>\$ 1,481,391</u>	<u>\$ 3,505,033</u>
Depreciation expense	<u>\$ -</u>	<u>\$ 72,718</u>	<u>\$ 72,718</u>

City of Biloxi, Mississippi
Notes to Financial Statements
(Continued)

F. Capital Assets Activity

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

	Balance October 1, 2005	Increases	Decreases	Balance September 30, 2006
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 29,309,463	\$ 161,962	\$ -	\$ 29,471,425
Construction in progress	30,863,420	3,177,236	2,650,538	31,390,118
Total capital assets not being depreciated	<u>60,172,883</u>	<u>3,339,198</u>	<u>2,650,538</u>	<u>60,861,543</u>
Capital assets being depreciated				
Buildings	28,959,585	68,620	-	29,028,205
Improvements other than buildings	3,791,230	-	-	3,791,230
Machinery and equipment	23,735,048	3,180,310	618,425	26,296,933
Infrastructure - streets and drainage	127,328,307	1,908,817	-	129,237,124
Total capital assets being depreciated	<u>183,814,170</u>	<u>5,157,747</u>	<u>618,425</u>	<u>188,353,492</u>
Less accumulated depreciation for:				
Buildings	6,507,439	678,289	-	7,185,728
Improvements other than buildings	2,033,923	123,103	-	2,157,026
Machinery and equipment	15,047,090	2,170,177	310,362	16,906,905
Infrastructure - streets and drainage	31,459,713	2,219,360	-	33,679,073
Total accumulated depreciation	<u>55,048,165</u>	<u>5,190,929</u>	<u>310,362</u>	<u>59,928,732</u>
Net capital assets being depreciated	<u>128,766,005</u>	<u>(33,182)</u>	<u>308,063</u>	<u>128,424,760</u>
Net governmental activities assets	<u>\$ 188,938,888</u>	<u>\$ 3,306,016</u>	<u>\$ 2,958,601</u>	<u>\$ 189,286,303</u>
Business type activities				
Capital assets, not being depreciated:				
Land	\$ 829,243	\$ -	\$ -	\$ 829,243
Construction in progress	3,821,744	1,426,616	16,977	5,231,383
Total Capital assets not being depreciated	<u>4,650,987</u>	<u>1,426,616</u>	<u>16,977</u>	<u>6,060,626</u>
Capital assets being depreciated				
Equipment	1,337,415	300,871	530	1,637,756
Water and sewer system	65,741,276	463,488	-	66,204,764
Port Buildings & Improvements	7,989,201	-	-	7,989,201
Total capital assets being depreciated	<u>75,067,892</u>	<u>764,359</u>	<u>530</u>	<u>75,831,721</u>
Less accumulated depreciation for:				
Equipment	544,189	216,530	75	760,644
Water and sewer system	27,776,692	1,702,216	-	29,478,908
Port Buildings and Improvements	7,189,565	61,088	-	7,250,653
Total accumulated depreciation	<u>35,510,446</u>	<u>1,979,834</u>	<u>75</u>	<u>37,490,205</u>
Net capital assets being depreciated	<u>39,557,446</u>	<u>(1,215,475)</u>	<u>455</u>	<u>38,341,516</u>
Net business type activities assets	<u>\$ 44,208,433</u>	<u>\$ 211,141</u>	<u>\$ 17,432</u>	<u>\$ 44,402,142</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

G. Leases

Capital Leases

During the fiscal year ended September 30, 2006 the City entered into a capital lease with The Peoples Bank to finance the purchase of a fire truck. The purchase amount financed was \$897,699 at the fixed, simple interest rate of 3.75% for five years. Title to the fire truck is held in the name of the City and The Peoples Bank as lien holder. The lease terms include a non-appropriation clause; however, the possibility of non-appropriation is remote. The lease does not include any contingent or purchase option payments or penalties. There are no restrictions on the City's use of the fire truck and the City insures the vehicle. The City has accounted for the lease as a financing arrangement. The City will make the following payments of principal and interest:

Fiscal Year Ended <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 168,812	\$ 31,450	\$ 200,262
2008	172,854	27,408	200,262
2009	179,410	20,852	200,262
2010	186,138	14,124	200,262
2011	<u>190,485</u>	<u>7,143</u>	<u>197,628</u>
	<u>\$ 897,699</u>	<u>\$ 100,977</u>	<u>\$ 998,676</u>

Assets acquired through capital leases are:

<u>Asset</u>	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>
Fire Truck	\$ <u>897,699</u>	\$ <u>-</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Future minimum lease payments and the net present value of the lease payments are:

<u>Year Ended September 30</u>	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>
2007	\$ 200,262	\$ -
2008	200,262	-
2009	200,262	-
2010	200,262	-
2011	<u>197,628</u>	<u>-</u>
Total minimum lease payments	<u>\$ 998,676</u>	<u>\$ -</u>
Less: amount representing interest	(100,977)	-
Present value of minimum lease payments	<u>\$ 897,699</u>	<u>\$ -</u>

H. Long-Term Debt

The following is a summary of bond and other long-term debt transactions of the City for the year ended September 30, 2006:

	<u>Beginning 10/01/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending 9/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
General Obligation Bonds and Notes	\$ 31,662,672	\$ 7,000,000	\$ 3,547,512	\$ 35,115,160	\$ 3,037,512
Limited Obligation Bonds	32,067,485	-	1,240,333	30,827,152	1,305,943
Capital leases	-	897,699	-	897,699	168,812
Compensated absences	<u>4,650,219</u>	<u>1,372,506</u>	<u>1,367,314</u>	<u>4,655,411</u>	<u>1,163,853</u>
Total governmental activities	<u>\$ 68,380,376</u>	<u>\$ 9,270,205</u>	<u>\$ 6,155,159</u>	<u>\$ 71,495,422</u>	<u>\$ 5,676,120</u>
Business-type Activities					
Water and Sewer, pollution control loans	\$ 1,628,026	\$ -	\$ -	\$ 1,628,026	\$ -
Limited tax port bonds	3,370,000	-	690,000	2,680,000	705,000
Special community disaster loan	-	1,000,000	-	1,000,000	-
Compensated absences	<u>71,668</u>	<u>84,257</u>	<u>72,193</u>	<u>83,732</u>	<u>20,933</u>
Total business-type activities	<u>\$ 5,069,694</u>	<u>\$ 1,084,257</u>	<u>\$ 762,193</u>	<u>\$ 5,391,758</u>	<u>\$ 725,933</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Bonds, notes, and other long-term debt payable at September 30, 2006 are comprised of the following individual issues:

	<u>Original Issue</u>	<u>Range of Interest Rates</u>	<u>Amount Outstanding 9/30/06</u>
Governmental Activities			
General Obligation Bonds and Notes:			
General Obligation Bonds of 1988-A, due in annual installments of \$90,000 through 6/1/2008	\$ 1,200,000	7.6%	\$ 180,000
General Obligation Bonds of 1988-D, due in annual installments of \$60,000 to \$75,000 through 12/1/2008	750,000	7.4%-7.5%	205,000
General Obligation Bonds of 1989-A, due in annual installments of \$60,000 to \$75,000 through 2/15/2009	750,000	7.0%	205,000
General Obligation Bonds series 1998, due in annual installments of \$655,000 to \$895,000 through 12/1/2013	10,000,000	4.1%-4.2%	6,160,000
Mississippi Development Bank promissory note, due in monthly installments of \$41,876 plus interest through 2/28/2015. Interest is based upon The Bond Market Association (TBMA) index plus 105 basis points	5,025,000	TBMA plus 1.05%	3,120,160
General Obligation Bonds, series 2002, due in annual installments of \$210,000 to \$450,000 through 12/1/2022	6,000,000	3.70%-5.25%	5,430,000
General Obligation Bonds, series 2003, due in annual installments of \$520,000 to \$860,000 through 12/1/18	9,800,000	3.0%-3.75%	8,820,000
Refunding Bond of 2004, due in annual installments of \$940,000 to \$1,060,000 through 2/1/2010	5,530,000	3.00%-3.25%	3,995,000
Special Community Disaster Loan, due in one installment with a five year available extension, due 12/29/2010	7,000,000	2.69%	<u>7,000,000</u>
Total General Obligation Bonds			<u>\$ 35,115,160</u>
Limited Obligation Bonds and Notes:			
Tax Increment Financing, 1999, due in annual installments of \$480,000 to \$945,000 through 10/1/2019	\$12,000,000	5.30%-7.00%	\$ 9,595,000
Mississippi Development Association loan, due in annual installments of \$33,608, secured by City sales tax, payable by Harrison County Development Commission	500,000	3.00%	422,152
Tax Increment Financing, 2002, due in annual installments of \$805,000 to \$1,760,000 through 11/1/2022	23,000,000	2.90%-5.2%	<u>20,810,000</u>
Total Limited Obligation Bonds and Notes			<u>30,827,152</u>
Other General Long-Term Debt:			
The Peoples Bank capital lease, amortized in monthly installments of \$200,262 through 4/1/2011	897,699	3.75%	<u>897,699</u>
Compensated absences			<u>4,655,411</u>
Total governmental long-term debt			<u>\$ 71,495,422</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

	<u>Original Issue</u>	<u>Range of Interest Rates</u>	<u>Amount Outstanding 9/30/06</u>
Business Type Activities			
Water and Sewer Fund			
State of Mississippi Pollution Control Loans, due in varying installments through 5/01/21	2,497,903	3.0%-4.5%	\$ 1,628,026
Biloxi Port Fund			
Limited Tax Port Bonds, series 1998 due in an annual installment of \$605,000 through 12/1/06	4,325,000	6.25%	605,000
Limited Tax Port Bonds, series 1999 due in annual installments of \$100,000 to \$210,000 through 12/1/19	2,500,000	5.4%-6.50%	2,075,000
Special Community Disaster Loan, due in one installment with a five year available extension, due 1/2/11	1,000,000	2.67%	<u>1,000,000</u>
Total business-type activities bonds and notes			<u>5,308,026</u>
Compensated absences			<u>83,732</u>
Total business-type activities long-term debt			\$ <u>5,391,758</u>

Debt Refunding

The City of Biloxi issued General Obligation Refunding Bonds, Series 2004, in the amount of \$5,530,000. The refunding bonds were issued to raise money for the purpose of refunding the callable maturities of the City's outstanding General Obligation Refunding Bonds, Series 1995, dated November 1, 1995, issued in the original principal amount of \$4,135,000, General Obligation Bonds, Series 2000, dated May 1, 2000, issued in the original principal amount of \$6,500,000, and General Obligation Airport Improvement Bonds, Series 2000, dated May 1, 2000, issued in the original amount of \$1,000,000, in order to reduce debt service requirements.

The aggregate difference in the debt service between the refunded debt and the refunding debt was \$198,677. The economic gain on the refunding transaction was \$151,203.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

The annual requirements to pay principal and interest on the bonds, notes and loans outstanding at September 30, 2006 follow and include interest on the variable rate debt.

Year Ended September 30,	Governmental Activities				Business-Type Activities	
	General Obligation Bonds		Limited Obligation Bonds		Port Bonds & Water and Sewer	Pollution Control Loans
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 3,037,512	\$ 1,046,045	\$ 1,305,943	\$ 1,526,465	\$ 705,000	\$ 136,595
2008	3,162,512	921,757	1,371,572	1,468,891	227,420	165,610
2009	3,192,512	793,158	1,442,219	1,405,432	236,754	155,156
2010	3,147,512	671,459	1,512,885	1,337,840	251,247	144,392
2011	9,081,805	1,403,507	1,593,572	1,264,478	1,260,904	257,602
2012-2016	8,238,307	1,794,651	9,258,901	5,134,586	1,334,278	475,254
2017-2021	4,370,000	591,978	10,874,431	2,552,293	1,183,517	144,119
2022-2023	885,000	43,950	3,467,629	269,444	108,906	2,882
Totals	<u>\$ 35,115,160</u>	<u>\$ 7,266,505</u>	<u>\$ 30,827,152</u>	<u>\$ 14,959,429</u>	<u>\$ 5,308,026</u>	<u>\$ 1,481,610</u>

The City's legal debt limit for general obligation bonds is as follows:

Assessed valuations 2006 (inside the City):

Real property	\$ 367,933,781
Personal property	97,968,890
Public utility	21,956,503
Autos, estimated	54,004,362
Total assessed valuations	<u>\$ 541,863,536</u>

Fifteen percent (15%) of total assessed valuation	\$ 81,279,530
Less outstanding general issues at 9/30/06	31,995,000
Legal debt margin	<u>\$ 49,284,530</u>

The City Council annually adopts a resolution providing for the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City. The millage rate for the year ended September 30, 2006, was 9.20 mills or \$9.20 per \$1,000 of assessed value.

Other general long-term debt of the Enterprise Funds is \$1,628,026 of pollution control/state revolving loans from the State of Mississippi. The Mississippi Department of Environmental Quality restructured the state loan repayment schedules to provide some financial relief to the Mississippi Gulf Coast while they rebuild their communities. The restructured loans provide a 24 month repayment forbearance period, during which there will be no interest accrual, with loan repayments to resume September 2007. At that time, the loans will be re-amortized based upon a final maturity date equal to the original maturity date.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

The City has authorized the issuance of limited tax port bonds for the purpose of making improvements to property belonging to the Biloxi Port Fund (previously the Biloxi Port Commission). The bonds are secured by an irrevocable pledge of the avails of a direct and continuing one (1) mill ad valorem tax to be levied by Harrison County, Mississippi. The bonds are payable solely from the avails of the Harrison County tax levy. At September 30, 2006, the aggregate, outstanding principal amount of the issues was \$2,680,000.

H. Retirement Plans

**Firemen's and Policemen's Disability and Relief Plan and
Employee's Disability and Relief Plan**

All firemen and policemen hired prior to March 1, 1976, are covered by the Firemen's and Policemen's Disability and Relief Plan. All other City employees employed prior to February 5, 1975, are covered by the Employees' Disability and Relief Plan. Both the Firemen's and the Policemen's Disability and Relief Plan and the Employee's Disability and Relief Plan are agent multiple-employer defined benefit pension plan administered by the Public Employees Retirement System of Mississippi.

Under the provisions of Chapter No. 511 of the General Laws of the State of Mississippi, 1987, effective October 1, 1987, the administrative responsibility for these retirement systems was assigned to the Mississippi Municipal Retirement System, a program of the Public Employees' Retirement System of Mississippi. The City is authorized by law to require membership contributions from 1% to a maximum of 10% of the total compensation of each participating employee. City employee contributions are 9%. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the Municipal Retirement Systems' Disability and Relief Plans. That information may be obtained by writing to Public Employees Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601)359-3589 or 800-444-PERS. Based upon annual actuarial data provided by PERS, the City levies a tax millage sufficient to fund the current obligations for retirement payments and also provide the recommended amount to reduce the balance of the unfunded employer liability. For the year ended September 30, 2006, the combined millage was 4.5 mills. The City has no control over the administration of the plans. The City is required by statute to set a tax levy sufficient to fund the annual required contribution. The plan administrator, the Mississippi Public Employees Retirement System, provides actuarial data for the two plans combined. The City accounts for these closed plans as a single, agent multiple-employer defined benefit plan.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Current membership in the City's Mississippi Municipal Retirement System is composed of the following:

Active members	3
Retirees and beneficiaries	<u>146</u>
Total	<u><u>149</u></u>

Participating employees who retire, regardless of age, with at least 20 years of credited service are entitled to an annual retirement allowance, payable monthly in an amount equal to 50% of their average monthly compensation plus an additional 1.7% for each year of credited service in excess of 20 years with a maximum of 66 2/3% of average monthly compensation. Average monthly compensation is the average for the last 6 months of service. Certain death and disability benefits are also provided by these plans which are governed by State statute and City ordinances.

The Annual Required Contribution (ARC)

(based on the valuation as of September 30, 2006)

Normal	\$ 19,555
Accrued liability	<u>1,210,896</u>
Total	<u><u>\$ 1,230,451</u></u>

Additional information as of September 30, 2006 follows.

Valuation date	9/30/06
Actuarial cost method	entry age
Amortization method	level dollar closed
Remaining amortization period	28 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases**	4.50 – 6.00%
* Includes price inflation at	3.75%
** Includes wage inflation at	4.00%
Cost of living adjustments	3% per year, not to exceed 30%, for each year of retirement after 6/30/00, in addition to any previously granted COLAs

During the year ended September 30, 2006, contributions totaling \$2,258,265 (\$2,237,972 employer and \$20,293 employee) were made in accordance with contribution requirements determined by an actuarial valuation of the system as of September 30, 2005. The employer contributions consisted of \$27,082 for normal cost and administrative expenses and \$2,210,890 for amortization of the unfunded actuarial accrued liability.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Schedule of employer contributions:

Fiscal Year Ended	Annual Required Contribution	Interest on the NPO	Adjustment to Remove Amortization of Past Under/Over Contribution	Annual Pension Cost	Employer Pension Contribution	Percentage	Change in the NPO	NPO at Year End
9/30/2004	1,451,050	(395,218)	(430,772)	1,486,604	2,161,055	148.9	(674,451)	(5,614,678)
9/30/2005	1,407,163	(449,174)	(493,942)	1,451,931	2,084,652	148.1	(632,721)	(6,247,399)
9/30/2006	1,334,850	(499,792)	(554,943)	1,390,001	2,237,972	167.7	(847,971)	(7,095,370)

The City's negative Net Pension Obligation (NPO) as of September 30, 2006 was \$7,095,370.

Actuarial Accrued Liability (AAL)	(in thousands)
Retirees and beneficiaries currently receiving benefits	\$ 22,377
Active members	1,108
Vested terminated members not yet receiving benefits	<u>-</u>
Total actuarial accrued liability	23,485
Less: Actuarial value of assets	<u>9,926</u>

Unfunded Actuarial Accrued Liability \$ 13,559

During the year ended September 30, 2006, the plan experienced a net change of \$(389) thousand in the AAL. Of the change, \$0 thousand was attributable to plan amendments and \$389 thousand was attributable to a change in actuarial assumption changes.

PERS' Defined Benefit Pension Plan

All full-time City employees hired after June 30, 1987, participate in the Public Employees' Retirement System of Mississippi (PERS). Other City employees hired prior to July 1, 1987 may elect to participate in the retirement system under an option offered by PERS.

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

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Funding Policy: PERS' members are required to contribute 7.25% of their annual covered salary and City of Biloxi is required to contribute at an actuarially determined rate. The current rate is 11.30% of annual covered payroll. PERS increased the employer contribution rate from 10.75% to 11.30% effective July 1, 2006. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Biloxi's contributions to PERS for the years ending September 30, 2006, 2005, and 2004 were \$2,483,072 and \$2,565,040, and \$2,177,678, respectively.

Deferred Compensation Plan

The City also offers to its employees voluntary participation in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, Group Flexible Fund Retirement Contracts, administered by Nationwide Retirement Solutions, Inc., permits employees to defer a portion of their salary until future years. All plan assets are held in trust by Nationwide for the exclusive benefit of the participants and their beneficiaries and not subject to the claims of the City's general creditors. Accordingly, the assets and liabilities for the compensation deferred by plan participants is not reflected in the City's financial statements. During the year ended September 30, 2006, contributions by participants employed by the City totaled \$311,049

J. Community Development Block Grant Program
Status of Grants

The City of Biloxi is awarded an entitlement grant every year by the Department of Housing and Urban Development Community Block Grant Program. The following represents the status of the award of grant funds as of September 30, 2006:

	<u>Award</u>	<u>Drawn Prior to FYE 9/30/06</u>	<u>Drawn During FYE 9/30/06</u>	<u>Balance</u>
CDBG B-04-MC-28-0001	\$ 580,000	\$ 379,434	\$ 31,350	\$ 169,216
CDBG B-05-MC-28-0001	565,683	-	-	565,683
CDBG B-06-MC-28-0001	495,375	-	-	495,375
Totals	<u>\$ 1,641,058</u>	<u>\$ 379,434</u>	<u>\$ 31,350</u>	<u>\$ 1,230,274</u>

Waterfront Development

Through the use of certain Department of Housing & Urban Development (HUD) grants and loans, the City has acquired and developed property commonly known as the Point Cadet Waterfront Development Project. These federal grants and loans contain restrictions which require that 6% of the income (such as rents), generated by these properties, be restricted as to use for CDBG eligible activities only.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

The City of Biloxi has negotiated three leases with the Riverboat Corporation of Mississippi who operates the "Isle of Capri Hotel and Casino" at the Point Cadet Waterfront Development. A portion of the lease revenues are considered program income under the CDBG and HUD Section 108 loan programs, and are restricted to use for such eligible purposes. The initial lease (casino lease), dated August 1, 1992, calls for an initial term of seven (7) years with seven additional five (5) year renewal options. Minimum annual rentals are \$500,000. Minimum annual rentals for each renewal option period are adjusted by the Consumer Price Index. In addition to the minimum annual rentals, the lease calls for an additional annual amount equal to three percent (3%) of the tenant's gross annual revenues in excess of \$25,000,000.

Another lease (hotel lease), dated April 13, 1994, calls for an initial term of twenty-five (25) years with six additional ten (10) year renewal options and a final option period with a termination date of December 31, 2085. Minimum annual rentals began at \$404,000 and are adjusted every five years by reference to the Consumer Price Index. In addition to the minimum annual rentals, the lease calls for an additional amount equal to four percent (4%) of the tenant's gross revenues.

A third lease (podium lease), dated August 15, 2002, calls for an initial term of forty (40) years (although the tenant has the right to terminate on July 31, 2009, and on every fifth anniversary of that date), with one additional twenty-five (25) year renewal option. The final period would terminate on August 14, 2067. Minimum rent is computed as a function of the total annual minimum and percentage rent from the casino lease and hotel lease. When coupled with four percent (4%) of the tenant's gross revenues from the property covered by the podium lease, the annual guaranteed rent is \$2,733,000 plus one-third (1/3) of all scheduled contingent increases. The guaranteed rent is to be adjusted every five years by reference to the Consumer Price Index.

Mortgage Loans Receivable

Under the CDBG Program, the City of Biloxi makes installment mortgage loans to eligible parties. These loans are secured by a deed of trust and have varying interest rates and terms.

Mortgage loans receivable at September 30, 2006, consisted of the following:

Nixon Street home acquisition mortgages	\$ 13,198
Revolving Loan Program	<u>86,748</u>
Total deferred mortgage loans receivable	<u>\$ 99,946</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

K. Self-Insured Risk, Claims and Other Contingencies

As described in Note 1 to the financial statements, the City has established a self-insurance risk retention program administered through an internal service fund. The following is a summary of the City's insurance coverage and self-insured risk retention (SIR):

Property damage

Per occurrence deductible (SIR)	\$ 50,000
Specific excess coverage in force	30,000,000

Workers' compensation

Per occurrence deductible (SIR)	300,000
Specific excess coverage in force	Statutory

General and other liability coverage

Per occurrence deductible (SIR)	\$ 100,000
Specific excess coverage in force	500,000

Annual aggregate coverage to:

General liability	1,500,000
Law enforcement liability	1,500,000
Automobile liability	No Limit

Health

Per individual deductible (SIR)	100,000
Annual aggregate risk of loss through deductibles	5,474,299
Specific excess coverage in force	1,000,000

The following is a summary of the City's self-insurance reserves at September 30, 2006:

	Employee Medical Claims	Property, Liability & Workers' Compen- sation	Total
Total estimated liability and reserves –			
October 1, 2004	\$ 2,520,571	\$ 2,042,242	\$ 4,562,813
Claims incurred and changes in estimates	5,200,577	704,505	5,905,082
Claims paid	(4,681,687)	(768,083)	(5,449,770)
Total estimated liability and reserves –			
September 30, 2005	\$ 3,039,461	\$ 1,978,664	\$ 5,018,125
Claims incurred and changes in estimates	4,880,502	1,195,870	6,076,372
Claims paid	(4,282,175)	(688,175)	(4,970,350)
Total estimated liability and reserves –			
September 30, 2006	\$ <u>3,637,788</u>	\$ <u>2,486,359</u>	\$ <u>6,124,147</u>

The City's reserves, including estimates for claims incurred but not reported, are developed by the City's third-party claims administrator. Administrative officials have reviewed the reserve estimates and consider them fairly stated. Additionally, the liability has been actuarially evaluated and found to be reasonable.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Before the City acquired the assets and liabilities of the Biloxi Port Commission, the Biloxi Port Commission recognized a contingent liability in the amount of \$300,000 related to ongoing litigation.

The City is involved in various other legal matters arising during the normal course of business activities. Management, after consulting legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the financial condition of the City.

L. Related Party Commitments

Joint Venture

The City of Biloxi is a member of the Harrison County Utility Authority (Authority) which was established by an act of the Mississippi Legislature to provide for adequate wastewater treatment and solid waste disposal services to the citizens of Harrison County, Mississippi. The governing board is comprised of one member from each of the cities and two members from each of the counties who are members of the Authority. Through a fifty-year contract, the City of Biloxi is obligated to pay monthly, its pro-rata share of all operating, administrative, and capital costs of the Authority. Additionally, the City is jointly and severally liable for all of the liabilities of the Authority. The Authority is classified as a joint venture between the City of Biloxi and the other members. The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2006, a complete copy of which is on file at the administrative offices of the Authority.

Harrison County Utility Authority Synopsis

Balance Sheet

Assets

Current assets	\$ 9,289,849
Restricted assets	25,328,299
Property, plant and equipment	83,963,018
Deferred charges	<u>3,529,013</u>
Total assets	\$ <u>122,110,179</u>

Liabilities & Fund Equity

Liabilities

Current, unrestricted	\$ 6,546,608
Current, restricted	7,066,095
Long-term liabilities	<u>117,232,547</u>
Total liabilities	<u>130,845,250</u>

Net assets (8,735,071)

Total liabilities and net assets \$ 122,110,179

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Statement of Revenues and Expenses

Operating revenues	\$ 12,999,863
Operating expenses	(15,940,039)
Depreciation and amortization	(5,033,317)
Non-operating revenues (expenses)	<u>9,250,807</u>
Changes in net assets	<u>\$ 1,277,314</u>

The following financial information concerning transactions with the Authority have been included in the City of Biloxi's financial statements under the following captions:

General Fund

Statement of revenues, expenditures and changes in fund balance:

Public works expenditures:

Other services and charges (solid waste charges) \$ 1,731,945

Water and Sewer Enterprise Fund

Balance sheet:

Prepaid Contractual Services \$ 2,171,141

Statement of revenues, expenses and changes in retained earnings:

Operating expenses:

Contracted services (wastewater treatment) \$ 6,806,094

Jointly Governed Organizations

Harrison County Library System – On May 18, 1976, the City entered into an agreement with the Board of Trustees of the Biloxi Public Library, the City of Gulfport, the Board of Supervisors of Harrison County, the Board of Trustees of the Gulfport-Harrison County Library, the City of Pass Christian, and the Board of Trustees of the Pass Christian Public Library to mutually cooperate in securing a more economical public library system through combined resources, interests, materials and facilities to be known as the Harrison County Library System. There are no specific monetary terms in the agreement and the City of Biloxi has no equity interest in the organization. However, a budget is approved every year by the County Library Board, which stipulates the amount of funds needed from the participating municipalities and various other funding sources. The City of Biloxi contributed \$600,000 for the year ended September 30, 2006. The amount budgeted for the City of Biloxi for the fiscal year ended September 30, 2007 is \$650,000. This agreement is cancelable upon 60 days written notice prior to the end of the fiscal year and therefore, the City of Biloxi does not have an ongoing financial responsibility.

Gulfport-Biloxi Regional Airport Authority – The Gulfport-Biloxi Regional Airport Authority was chartered on August 25, 1977, and assumed control of the Airport on October 1, 1977. The Authority is comprised of one appointee each from the local governmental units of

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

the City of Gulfport, the City of Biloxi, and Harrison County. These governmental units have agreed to subsidize the Airport annually. During the past fiscal year, the City of Biloxi provided \$115,000 to the Gulfport-Biloxi Regional Airport in order to assist in the operation of the facility. The City has budgeted \$115,000 for the 2006-2007 fiscal year. The City of Biloxi has no equity interest in the organization.

M. Other Commitments

Property Leases

On August 15, 2002, the City of Biloxi entered into the Point Cadet Compromise and Settlement Agreement with the State Institutions of Higher Learning (IHL) and the Secretary of State on behalf of the State of Mississippi, and the Isle of Capri. The purpose of the agreement was to resolve public trust tidelands issues affecting the Point Cadet Waterfront Development property. In lieu of the December 2, 1985, lease with the Board of Trustees of State Institutions of Higher Learning, this agreement provides that the City has an undivided one third interest in the entire Point Cadet Development site. The first \$2,733,000 of revenue from this property each year is received by the City of Biloxi. All additional annual revenue which exceeds \$2,733,000 is allocated by thirds to the City of Biloxi, IHL, and the State Tidelands Trust Fund.

The two tidelands lease agreements with the State of Mississippi dated July 15, 1988, continue in effect until June 30, 2018. Lease payments under those leases are now established at \$500,000 per year, but the Isle of Capri is obligated to make those payments.

Capital Projects

In connection with the Capital Projects Funds, the City has budgeted certain commitments for engineering services, construction and other capital project costs. The projects are to be funded, in part, with State and Federal grants. The remainder of the required funds will be generated by local sources. The following is a summary of the budgeted commitment for capital projects at September 30, 2006:

Total commitment for general Capital Projects	\$ <u>53,203,230</u>
Funding sources:	
Federal and State Grants	\$ 5,302,935
Bond Funds	7,138,244
Enterprise Funds	8,355,672
General Fund surplus and other future sources of funds to be provided	<u>32,406,379</u>
Total fund sources	\$ <u>53,203,230</u>

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

Matching Funds – USM Advanced Education Center

In 1997, the City pledged its support and agreed to participate with the county and other cities in funding the local matching contribution for the construction of the Advanced Education Center at the USM Gulf Park campus. The City's 20.5% portion of the annual debt service for the \$2,000,000 in bonds issued by Harrison County will be approximately \$40,000 annually through September 2016.

N. Subsequent Events

Subsequent to fiscal year ended September 30, 2006, the City issued \$31,685,000 of Tax Increment Limited Obligation Refunding Bonds, Series 2006A and \$2,335,000 Taxable Tax Increment Limited Obligation Bonds, Series 2006B (together the 2006 TIF Refunding Bonds) to advance refund its outstanding Tax Increment Limited Obligation Bonds, Series 1999 (the 1999 bonds) dated October 1, 1999 and its outstanding Tax Increment Limited Obligation Bonds, Series 2002 (the 2002 bonds) dated November 1, 2002. The outstanding 1999 and 2002 bonds have face value of \$29,925,000.

The 2006 TIF Refunding Bonds were issued at a premium of \$581,645. Issuance costs totaled \$990,361. \$2,269,855 of the proceeds was placed into an escrow fund to pay \$1,595,810 of interest on the 2006 TIF Refunding Bonds due 11/01/2007 and \$795,695 of the interest due November 1, 2008.

\$31,334,936 of the 2006 TIF Refunding Bond proceeds was placed into a trust account to pay the interest and principal on the advance refunded 1999 bonds and 2002 bonds as the payments became due or on the call date of the bonds. The trustee invested the proceeds in United States Government State and Local Government Series Securities (SLGS).

The advance refunding met the requirements of an in-substance defeasance therefore the 1999 bonds and the 2002 bonds will be removed from the City's government-wide financial statement for the fiscal year to end September 30, 2007.

The debt service requirements on the 2006 TIF Refunding Bonds exceed the debt service requirements of the refunded, outstanding 1999 and 2002 bonds by \$9,057,621. The difference in the present value of the total debt service requirements for the new 2006 TIF Refunding Bonds and the present value of the total debt service requirements for the outstanding refunded debt represents an economic loss to the City of \$164,035.

Through an inter-local agreement, Harrison County is obligated to pay one half, up to a maximum of \$1,200,000, of the annual debt service on the 1999 and 2002 bonds and the 2006 TIF Refunding Bonds. The justification for the refunding transaction was the desire of the Harrison County Board of Supervisors to defer debt service on the 1999 and 2002 bonds for a two year period.

City of Biloxi, Mississippi
Notes to the Financial Statements
(Continued)

O. Prior Period Adjustment

In the City of Biloxi's government-wide Statement of Net Assets for this reporting period ended September 30, 2006, the City made an adjustment to recognize a previously unreported asset—the City's negative net pension obligation related to its closed, defined benefit municipal retirement systems. The adjustment recognized an asset of \$6,247,399 in the City's governmental activities and increased net assets as of the beginning of the fiscal year 2005-06. Net pension obligation is discussed in Note I.

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Fund balance/retained earnings as previously reported, September 30, 2005	\$ 164,757,839	\$ 53,657,632	\$218,415,471
Record City's Negative Net Pension Obligation	<u>6,247,399</u>	<u>-</u>	<u>6,247,399</u>
Fund balance/retained earnings as restated, October 1, 2005	<u>\$ 171,005,238</u>	<u>\$ 53,657,632</u>	<u>\$ 224,662,870</u>

Required Supplementary Information

City of Biloxi, Mississippi
Required Supplementary Information
Disability and Retirement Plans

Schedule of Funding Progress
(\$ Thousands)

Plan Year Ended	(1) Actuarial Value of Assets	(2) Actuarial Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
9/30/97	\$ 2,684	\$ 19,504	13.8%	\$ 16,820	\$ 862	1,951.3%
9/30/98	3,787	21,561	17.6	17,774	785	2,264.2
9/30/99	4,474	21,854	20.5	17,380	613	2,835.2
9/30/00	5,207	21,913	23.8	16,706	615	2,716.4
9/30/01	6,379	26,092	24.4	19,713	469	4,203.2
9/30/02	7,483	25,960	28.8	18,477	364	5,076.1
9/30/03	8,558	25,021	34.2	16,463	275	5,986.5
9/30/04	8,958	24,765	36.2	15,807	292	5,413.4
9/30/05	9,087	23,874	38.1	14,787	259	5,709.3
9/30/06	9,926	23,485	42.3	13,559	150	9,039.3

Schedule of Employer Contributions

Fiscal Year 10-1 / 9-30	Valuation Date 9-30	Annual Required Contribution	Percentage Contributed
1997-98	1997	\$ 1,488,764	130.1%
1998-99	1998	1,573,193	120.4
1999-00	1999	1,528,671	131.7
2000-01	2000	1,480,273	180.4
2001-02	2001	1,729,519	156.7
2002-03	2002	1,625,642	161.2
2003-04	2003	1,451,050	148.9
2004-05	2004	1,407,163	148.1
2005-06	2005	1,334,850	167.7
2006-07	2006	1,230,451	

Combining Financial Statements

Governmental Funds

City of Biloxi, Mississippi
Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2006

Assets	Special Revenue				Capital Projects				
	Community Development Block Grant	Employees' Disability & Relief Funds	Employees' State Unemployment Fund	City Bicentennial Trust Fund	General Obligation Public Improvement			2002 TIF Capital Projects Bond Fund	
					2003 Bond Fund	2002 Bond Fund	1998 Bond Fund		
Cash	\$ 182,705	\$ -	\$ 513,273	\$ 27,458	\$ -	\$ -	\$ -	\$ -	\$ 723,436
Investments	-	-	-	-	1,601,687	851,341	14,501	110,014	5,736,414
Receivables:									
Taxes	-	58,555	-	-	-	-	-	-	58,555
Other	6,987	-	-	-	-	-	-	-	6,987
Mortgage loans receivable	99,946	-	-	-	-	-	-	-	99,946
Land inventory	64,917	-	-	-	-	-	-	-	64,917
Total assets	\$ 354,555	\$ 58,555	\$ 513,273	\$ 27,458	\$ 1,601,687	\$ 851,341	\$ 14,501	\$ 110,014	\$ 6,690,255
Liabilities & Fund Balance									
Liabilities									
Accounts payable	\$ 7,397	\$ 58,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,952
Due to other funds	-	-	-	-	56,824	-	-	-	127,220
Total liabilities	7,397	58,555	-	-	56,824	-	-	-	193,172
Fund balance									
Reserved for:									
Endowment, expendable	-	-	-	27,458	-	-	-	-	27,458
Loans receivable	99,946	-	-	-	-	-	-	-	99,946
Land inventory	64,917	-	-	-	-	-	-	-	64,917
Capital projects	-	-	-	-	1,544,863	851,341	14,501	110,014	5,609,194
Unreserved reported in:									
Special revenues	182,295	-	513,273	-	-	-	-	-	695,568
Total fund balances	347,158	-	513,273	27,458	1,544,863	851,341	14,501	110,014	6,497,083
Total liabilities & fund balance	\$ 354,555	\$ 58,555	\$ 513,273	\$ 27,458	\$ 1,601,687	\$ 851,341	\$ 14,501	\$ 110,014	\$ 6,690,255

See Independent Auditors' Report.

City of Biloxi, Mississippi
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended September 30, 2006

	Special Revenue				Capital Projects					
	Community Development Block Grant	Employees' Disability & Relief Funds	Employees' State Unemployment Fund	City Bicentennial Trust Fund	General Obligation Public Improvement				2002 TIF Capital Projects Bond Fund	
					2003 Bond Fund	2002 Bond Fund	1998 Bond Fund	2000 Bond Fund		
Revenues										
Ad valorem taxes	\$ -	\$ 2,245,603	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,245,603
Intergovernmental	24,608	-	-	-	-	-	-	-	-	24,608
Other income	238,783	-	23,811	1,282	74,613	49,406	565	4,285	130,787	523,532
Total revenues	263,391	2,245,603	23,811	1,282	74,613	49,406	565	4,285	130,787	2,793,743
Expenditures										
Community Development	157,139	-	-	-	-	-	-	-	-	157,139
Benefit payments	-	2,245,603	28,003	-	-	-	-	-	-	2,273,606
Total expenditures	157,139	2,245,603	28,003	-	-	-	-	-	-	2,430,745
Excess of revenues over expenditures	106,252	-	(4,192)	1,282	74,613	49,406	565	4,285	130,787	362,998
Other financing sources (uses)										
Transfers out	-	-	-	-	(451,158)	(743,339)	-	-	(210,111)	(1,404,608)
Total other financing sources	-	-	-	-	(451,158)	(743,339)	-	-	(210,111)	(1,404,608)
Excess (deficiency) of revenues and other sources over expenditures and other uses	106,252	-	(4,192)	1,282	(376,545)	(693,933)	565	4,285	(79,324)	(1,041,610)
Fund balance, beginning of year	240,906	-	517,465	26,176	1,921,408	1,545,274	13,936	105,729	3,167,799	7,538,693
Fund balance, end of year	\$ 347,158	\$ -	\$ 513,273	\$ 27,458	\$ 1,544,863	\$ 851,341	\$ 14,501	\$ 110,014	\$ 3,088,475	\$ 6,497,083

See Independent Auditors' Report.

Combining Financial Statements

Internal Service Funds

City of Biloxi, Mississippi
Combining Statement of Net Assets
Internal Service Funds
(for self-insured risks)
September 30, 2006

Assets	Liability, Property & Workers Comp.	Employee Medical Claims	Gaming Revenue Interruption	Total
Restricted assets				
Cash	\$ 406,550	\$ 3,637,788	\$ 2,100,000	\$ 6,144,338
Investments	1,104,294	-	-	1,104,294
Due from other City funds	975,516	-	-	975,516
Total restricted assets	<u>\$ 2,486,360</u>	<u>\$ 3,637,788</u>	<u>\$ 2,100,000</u>	<u>\$ 8,224,148</u>
Liabilities & Net Assets				
Liabilities payable from restricted assets				
Claims contingency payable	<u>\$ 2,486,360</u>	<u>\$ 3,637,788</u>	<u>\$ -</u>	<u>\$ 6,124,148</u>
Net assets				
Unrestricted	<u>-</u>	<u>-</u>	<u>2,100,000</u>	<u>2,100,000</u>
Total liabilities and net assets	<u>\$ 2,486,360</u>	<u>\$ 3,637,788</u>	<u>\$ 2,100,000</u>	<u>\$ 8,224,148</u>

See Independent Auditors' Report.

City of Biloxi, Mississippi
Combining Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Funds
(for self-insured risks)
For the Year Ended September 30, 2006

	Liability, Property & Workers Comp.	Employee Medical Claims	Gaming Revenue Interruption	Total
Operating revenues				
Charges for services, insurance billings	\$ 2,506,522	\$ 4,762,307	\$ -	\$ 7,268,829
COBRA contributions	-	45,902	-	45,902
Total operating revenue	<u>\$ 2,506,522</u>	<u>\$ 4,808,209</u>	<u>\$ -</u>	<u>\$ 7,314,731</u>
Operating expenses				
Insurance and reinsurance	\$ 1,313,777	\$ 290,910	\$ -	\$ 1,604,687
Claims expense	1,192,745	4,517,299	-	5,710,044
Total operating expenses	<u>2,506,522</u>	<u>4,808,209</u>	<u>-</u>	<u>7,314,731</u>
Excess (deficiency of revenues over expenditures	-	-	-	-
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>2,100,000</u>	<u>2,100,000</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,100,000</u>	<u>\$ 2,100,000</u>

See Independent Auditors' Report.

City of Biloxi, Mississippi
Combining Statement of Cash Flows
Internal Service Funds
(for self-insured risks)
For the Year Ended September 30, 2006

	Liability, Property & Workers Comp.	Employee Medical Claims	Gaming Revenue Interruption	Total
Cash flows from operating activities				
Receipts from customers	\$ 2,506,522	\$ 4,808,209	\$ -	\$ 7,314,731
Payments to suppliers	(1,998,826)	(4,209,882)		(6,208,708)
Net cash provided by (used in) operating activities	507,696	598,327	-	1,106,023
Cash flows from non-capital financing activities				
Loans (to) other funds	(207,902)	-		(207,902)
Net cash provided by (used in) non-capital financing activities	(207,902)	-	-	(207,902)
Cash flows from investing activities				
Purchase of investments	(39,925)	-	-	(39,925)
Proceeds from investments	2,400	-	-	2,400
	(37,525)	-	-	(37,525)
Net increase (decrease) in cash and cash equivalents	262,269	598,327	-	860,596
Cash and cash equivalents, beginning of period	144,281	3,039,461	2,100,000	5,283,742
Cash and cash equivalents, end of period	<u>\$ 406,550</u>	<u>\$ 3,637,788</u>	<u>\$ 2,100,000</u>	<u>\$ 6,144,338</u>

See Independent Auditors' Report.

Supplemental Information

City of Biloxi, Mississippi
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Budget Basis
Community Development Block Grant
For the Year Ended September 30, 2006

	Actual	Budget	Variance Positive (Negative)
Revenues			
Intergovernmental	\$ 31,350	\$ 1,142,635	\$ (1,111,285)
Other income	305,021	136,454	168,567
Total revenues	<u>336,371</u>	<u>1,279,089</u>	<u>(942,718)</u>
Expenditures			
Community Development	<u>157,139</u>	<u>1,279,715</u>	<u>1,122,576</u>
Excess (deficiency) of revenues over expenditures	179,232	(626)	179,858
Fund balances, beginning of year	<u>(3,906)</u>	<u>(3,906)</u>	<u>-</u>
Fund balances, end of year	<u>\$ 175,326</u>	<u>\$ (4,532)</u>	<u>\$ 179,858</u>

See Independent Auditors' Report.

City of Biloxi, Mississippi
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Budget Basis
Disability & Relief Funds
For the Year Ended September 30, 2006

	Fire and Police Disability & Relief Fund	Employees' Disability & Relief Fund	Total	Budget	Variance Positive (Negative)
Revenues					
Ad valorem taxes	\$ 1,277,538	\$ 925,114	\$ 2,202,652	\$ 2,207,162	\$ (4,510)
Expenditures					
Benefit payments	1,277,538	925,114	2,202,652	2,207,162	4,510
Excess of revenues over expenditures	-	-	-	-	-
Fund balances, beginning of year	-	-	-	-	-
Fund balances, end of year	\$ -	\$ -	\$ -	\$ -	\$ -

City of Biloxi, Mississippi
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Budget Basis
Debt Service Fund
For the Year Ended September 30, 2006

	Actual	Budget	Variance Positive (Negative)
Revenues			
Ad valorem taxes	\$ 6,054,284	\$ 6,036,644	\$ 17,640
Intergovernmental	1,231,765	1,200,001	31,764
Other income	95,603	58,000	37,603
Total revenues	<u>7,381,652</u>	<u>7,294,645</u>	<u>87,007</u>
Expenditures			
Principal retirement	4,787,845	4,787,833	(12)
Interest expense	2,756,890	2,755,657	(1,233)
Paying agents' fees	29,552	34,000	4,448
Total expenditures	<u>7,574,287</u>	<u>7,577,490</u>	<u>3,203</u>
Excess (deficiency) of revenues over expenditures	<u>(192,635)</u>	<u>(282,845)</u>	<u>90,210</u>
Fund balances, beginning of year	<u>3,724,686</u>	<u>3,724,686</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 3,724,686</u></u>	<u><u>\$ 3,724,686</u></u>	<u><u>\$ -</u></u>

See Independent Auditors' Report.

City of Biloxi, Mississippi
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Budget Basis
Capital Projects Funds
For the Year Ended September 30, 2006

	General Capital Projects Fund	General Obligation Public Improvement				2002 TIF Capital Projects Bond Fund	Total	Budget	Variance Positive (Negative)
		2003 Bond Fund	2002 Bond Fund	1998 Bond Fund	2000 Bond Fund				
Revenues									
Intergovernmental	\$ 346,560	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 346,560	\$ 5,432,262	\$ (5,085,702)
Other income	-	74,614	49,406	565	4,285	130,787	259,657	85,900	173,757
Total revenues	346,560	74,614	49,406	565	4,285	130,787	606,217	5,518,162	(4,911,945)
Expenditures									
Capital projects	3,735,387	-	-	-	-	-	3,735,387	29,965,217	26,229,830
Excess (deficiency) of revenues over expenditures	(3,388,827)	74,614	49,406	565	4,285	130,787	(3,129,170)	(24,447,055)	21,317,885
Other financing sources (uses)									
Issuance of note	-	-	-	-	-	-	-	2,028,689	(2,028,689)
Transfers in	2,433,939	-	-	-	-	-	2,433,939	20,927,480	(18,493,541)
Transfers out	-	(454,225)	(743,339)	-	-	(247,786)	(1,445,350)	(10,128,604)	8,683,254
Total other financing sources (uses)	2,433,939	(454,225)	(743,339)	-	-	(247,786)	988,589	12,827,565	(11,838,976)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(954,888)	(379,611)	(693,933)	565	4,285	(116,999)	(2,140,581)	(11,619,490)	9,478,909
Fund balances, beginning of year	560,815	1,981,258	1,545,274	13,936	105,729	3,205,474	7,412,486	7,412,486	
Fund balances, end of year	\$ (394,073)	\$ 1,601,647	\$ 851,341	\$ 14,501	\$ 110,014	\$ 3,088,475	\$ 5,271,905	\$ (4,207,004)	\$ 9,478,909

See Independent Auditors' Report.

City of Biloxi, Mississippi
Schedule of Revenues and Expenses Compared to Budget
Water and Sewer Fund
For the Year Ended September 30, 2006

	<u>Actual</u>	<u>Budget</u>	Variance Positive (Negative)
Revenues			
Charges for services:			
Water and sewer charges	\$ 5,872,943	\$ 9,005,000	\$ (3,132,057)
Keesler Air Force Base, sewer	458,416	560,000	(101,584)
Intergovernmental tax revenues	16,839	-	16,839
Interest income	222,427	150,000	72,427
Other income	3,003,501	-	3,003,501
Total revenues	<u>9,574,126</u>	<u>9,715,000</u>	<u>(140,874)</u>
Expenses			
Personal services	1,101,743	1,394,930	293,187
Contracted services	8,288,996	8,221,521	(67,475)
Other services and charges	1,284,409	1,312,140	27,731
Bond principal	122,419	122,419	-
Interest expense	54,321	54,321	-
Capital outlay	186,333	249,450	63,117
Total expenses	<u>11,038,221</u>	<u>11,354,781</u>	<u>316,560</u>
Other financial sources (uses)			
Issuance of note	1,000,000	-	1,000,000
Transfers out	(243,093)	(2,928,858)	2,685,765
Total other financial sources (uses)	<u>756,907</u>	<u>(2,928,858)</u>	<u>3,685,765</u>
Excess (deficiency) of revenues over expenses	<u>\$ (707,188)</u>	<u>\$ (4,568,639)</u>	<u>\$ 3,861,451</u>

See Independent Auditors' Report.

City of Biloxi, Mississippi
Schedule of Revenues and Expenses Compared to Budget
Biloxi Port Fund
For the Year Ended September 30, 2006

	<u>Actual</u>	<u>Budget</u>	Variance Positive (Negative)
Revenues			
Charges for services:			
Harbor Fees and Rents	\$ 1,717,053	\$ 1,732,432	\$ (15,379)
Intergovernmental tax revenues	769,776	1,000,000	(230,224)
Other income	3,192,113	34,592	3,157,521
Total revenues	<u>5,678,942</u>	<u>2,767,024</u>	<u>2,911,918</u>
Expenses			
Personal services	840,346	968,383	128,037
Contracted services	152,662	189,989	37,327
Other services and charges	155,868	300,041	144,173
Bond principal	690,000	690,000	-
Interest expense	185,590	185,409	(181)
Capital outlay	1,609	35,000	33,391
Total expenses	<u>2,026,075</u>	<u>2,368,822</u>	<u>342,747</u>
Excess (deficiency) of revenues over expenses	<u>3,652,867</u>	<u>398,202</u>	<u>3,254,665</u>
Other financial sources (uses)			
Transfers out	<u>(206,988)</u>	<u>(227,385)</u>	<u>20,397</u>
Total other financial sources (uses)	<u>(206,988)</u>	<u>(227,385)</u>	<u>20,397</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 3,445,879</u>	<u>\$ 170,817</u>	<u>\$ 3,275,062</u>

See Independent Auditors' Report.

City of Biloxi, Mississippi
Schedule of Revenues and Expenses Compared to Budget
Internal Service Funds
(for self-insured risks)
For the Year Ended September 30, 2006

	Liability, Property & Workers Comp.	Employee Medical Claims	Gaming Revenue Interruption	Total	Budget	Variance Positive (Negative)
Revenues						
Charges for services, insurance billings	\$ 2,506,522	\$ 4,762,307	\$ -	\$ 7,268,829	\$ 8,438,000	\$ (1,169,171)
COBRA contributions	-	45,902	-	45,902	60,000	(14,098)
Total revenues	2,506,522	4,808,209	-	7,314,731	8,498,000	(1,183,269)
Expenses						
Insurance and reinsurance	1,313,777	290,910	-	1,604,687	1,952,508	347,821
Claims expense	1,192,745	4,517,299	-	5,710,044	6,398,367	688,323
Total expenses	2,506,522	4,808,209	-	7,314,731	8,350,875	1,036,144
Excess of revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ 147,125	\$ (147,125)

See Independent Auditors' Report.

City of Biloxi, Mississippi
Schedule of Investments – All Funds
September 30, 2006

	<u>Yield</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Governmental Funds					
General Fund					
Money Market Fund	4.80%	various	N/A	2,179	2,179
Debt Service Funds					
Money Market Fund	4.80%	various	N/A	2,160,686	2,160,686
Capital Projects Funds					
2003 GO Bond Fund					
Money Market Fund	4.80%	various	N/A	1,601,687	1,601,687
GOPI 2002 Bond Fund					
Money Market Fund	4.80%	various	N/A	851,341	851,341
GOPI 1998 Bond Fund					
Money Market Fund	4.80%	various	N/A	14,501	14,501
GOPI 2000 Bond Fund					
Money Market Fund	4.80%	various	N/A	110,014	110,014
2002 TIF Capital Projects Bond Fund					
Money Market Fund	4.80%	various	N/A	<u>3,158,871</u>	<u>3,158,871</u>
Total investments, governmental funds				7,899,279	7,899,279
Proprietary funds					
Biloxi Port Fund					
Money Market Fund	4.80%	various	N/A	675,091	675,091
Money Market Fund	4.80%	various	N/A	<u>1,009,204</u>	<u>1,009,204</u>
Total investments, proprietary funds				1,684,295	1,684,295
Internal service funds					
Treasury Bill	4.75%	5/4/2006	11/2/2006	1,103,840	1,126,555
Money Market Fund	4.91%	various	N/A	<u>454</u>	<u>454</u>
Total investments, internal service funds				1,104,294	1,127,009
Total investments				<u><u>10,687,868</u></u>	<u><u>10,710,583</u></u>

See Independent Auditors' Report.

City of Biloxi, Mississippi
Schedule of Long-Term Debt
September 30, 2006

	Date Issued	Original Issue	Balance	New Issues	Retirements	Balance	Requirements Year Ended	
			October 1, 2005			September 30, 2006	September 30, 2007	Principal
General Obligation Bonds and Notes								
General Obligation Bonds of 1988 - A	06/01/88	\$ 1,200,000	\$ 270,000	\$ -	\$ 90,000	180,000	\$ 90,000	\$ 13,680
General Obligation Bonds of 1988 - D	12/01/88	750,000	265,000	-	60,000	205,000	60,000	13,095
General Obligation Bonds of 1989 - A	02/15/89	750,000	265,000	-	60,000	205,000	60,000	12,250
GOPI 1998	12/01/98	10,000,000	6,785,000	-	625,000	6,160,000	655,000	244,124
Mississippi Development Bank promissory note	01/04/01	5,025,000	3,622,672	-	502,512	3,120,160	502,512	121,360
General Obligation Bonds of 2002	12/01/02	6,000,000	5,630,000	-	200,000	5,430,000	210,000	245,905
General Obligation Bonds of 2003	12/01/03	9,800,000	9,320,000	-	500,000	8,820,000	520,000	287,231
Refunding Bond of 2004	12/30/04	5,530,000	5,505,000	-	1,510,000	3,995,000	940,000	108,400
Special Community Disaster Loan	12/20/05	7,000,000	-	7,000,000	-	7,000,000	-	-
Total General Obligation Bonds and Notes			31,662,672	7,000,000	3,547,512	35,115,160	3,037,512	1,046,045
Limited Obligation Bonds and Notes								
Tax Increment Financing, 1999	10/01/99	12,000,000	10,050,000	-	455,000	9,595,000	480,000	572,465
Mississippi Development Authority Loan	11/01/01	500,000	442,485	-	20,333	422,152	20,943	12,665
Tax Increment Financing, 2002	11/01/02	23,000,000	21,575,000	-	765,000	20,810,000	805,000	941,335
Total Limited Obligation Bonds and Notes			32,067,485	-	1,240,333	30,827,152	1,305,943	1,526,465
Other General Long-Term Debt								
Lease/purchase , The Peoples Bank	04/01/06	897,699	-	897,699	-	897,699	168,812	31,450
Total General Long-Term Debt			63,730,157	7,897,699	4,787,845	66,840,011	4,512,267	2,603,960
Proprietary Funds Debt								
Water and sewer pollution control loans	1981-2001	2,685,427	1,628,026	-	-	1,628,026	-	-
Limited Tax Port Bonds, Series 1998	04/01/98	4,325,000	1,200,000	-	595,000	605,000	605,000	18,906
Limited Tax Port Bonds, Series 1999	12/01/99	2,500,000	2,170,000	-	95,000	2,075,000	100,000	117,689
Special Community Disaster Loan	01/03/06	1,000,000	-	1,000,000	-	1,000,000	-	-
Total Proprietary Funds Debt			4,998,026	1,000,000	690,000	5,308,026	705,000	136,595
Totals			\$ 68,728,183	\$ 8,897,699	\$ 5,477,845	\$ 72,148,037	\$ 5,217,267	\$ 2,740,555

See Independent Auditors' Report.

City of Biloxi, Mississippi
Schedule of Surety Bonds for Municipal Officials
And Other Municipal Employees

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
A. J. Holloway	Mayor	Fidelity and Deposit Company of Maryland	\$ 100,000
George Lawrence	Councilman	Fidelity and Deposit Company of Maryland	100,000
William Stallworth	Councilman	Fidelity and Deposit Company of Maryland	100,000
Charles T. Harrison, Jr.	Councilman	Fidelity and Deposit Company of Maryland	100,000
Mike Fitzpatrick	Councilman	Fidelity and Deposit Company of Maryland	100,000
Tom Wall	Councilman	Fidelity and Deposit Company of Maryland	100,000
Edward Gemmill	Councilman	Fidelity and Deposit Company of Maryland	100,000
David Fayard	Councilman	Fidelity and Deposit Company of Maryland	100,000
William L. Lanham	Deputy Clerk	Fidelity and Deposit Company of Maryland	50,000
Brenda Johnston	City Clerk/ Tax Collector	Fidelity and Deposit Company of Maryland	50,000
Patricia Richardson	Court Clerk	Fidelity and Deposit Company of Maryland	10,000
Bruce Dunagan	Director of Police	Fidelity and Deposit Company of Maryland	50,000

Note – In addition to the Surety Bond Coverage detailed above, all employees are covered under a \$100,000 Honesty Blanket Bond.

See Independent Auditors' Report.

Section III
Statistical Section

Schedule 1
City of Biloxi
Net Assets by Component
Last Four Fiscal Years

	Fiscal Year			
	2006	2005	2004	2003
Governmental activities				
Invested in capital assets, net of related debt	\$ 122,446,292	\$ 125,208,731	\$ 115,566,223	\$ 104,918,348
Restricted	11,814,028	13,202,408	22,015,077	21,906,281
Unrestricted	58,845,246	26,346,700	20,354,065	27,138,061
Total governmental activities net assets	<u>\$ 193,105,566</u>	<u>\$ 164,757,839</u>	<u>\$ 157,935,365</u>	<u>\$ 153,962,690</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 39,094,116	\$ 39,210,473	\$ 40,657,098	\$ 38,554,905
Restricted	1,684,296	1,897,170	2,127,659	181,334
Unrestricted	13,393,377	12,549,989	9,922,771	9,560,438
Total business-type activities net assets	<u>\$ 54,171,789</u>	<u>\$ 53,657,632</u>	<u>\$ 52,707,528</u>	<u>\$ 48,296,677</u>
Primary government				
Invested in capital assets, net of related debt	\$ 161,540,408	\$ 164,419,204	\$ 156,223,321	\$ 143,473,253
Restricted	13,498,324	15,099,578	24,142,736	22,087,615
Unrestricted	72,238,623	38,896,689	30,276,836	36,698,499
Total primary government net assets	<u>\$ 247,277,355</u>	<u>\$ 218,415,471</u>	<u>\$ 210,642,893</u>	<u>\$ 202,259,367</u>

Schedule 2
City of Biloxi
Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2006	2005	2004	2003
Expenses				
Governmental activities:				
General government	\$ 4,444,590	\$ 4,505,044	\$ 4,494,668	\$ 4,998,883
Parks and recreation	4,294,691	5,528,890	5,718,522	6,315,711
Public safety	27,540,929	29,591,921	26,638,158	25,810,017
Public works	64,616,111	19,942,138	9,706,107	9,525,166
Community development	2,364,826	7,186,148	8,326,850	6,413,034
Unallocated depreciation, infrastructure	2,219,360	1,869,584	1,664,522	1,664,522
Interest and other, long-term debt	2,786,442	3,327,475	2,898,309	2,450,726
Total governmental activities expenses	108,266,949	71,951,200	59,447,136	57,178,059
Business-type activities:				
Water & Sewer	9,925,601	12,515,510	10,662,616	10,224,620
Biloxi Port Fund	1,415,121	1,666,327	2,024,677	-
Point Cadet Development Corporation	5,730	372,659	22,394	46,885
Total business-type activities expenses	11,346,452	14,554,496	12,709,687	10,271,505
Total primary government expenses	\$ 119,613,401	\$ 86,505,696	\$ 72,156,823	\$ 67,449,564
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 34,656	\$ 36,776	\$ 37,828	\$ 223,257
Parks and recreation	522,282	596,247	477,684	404,137
Public safety	1,352,917	1,249,630	1,166,560	1,268,426
Public works	544,772	702,655	614,340	935,568
Community development	5,761,969	4,151,971	4,295,159	4,293,780
Operating grants and contributions	56,706,429	1,196,313	1,254,752	1,649,026
Capital grants and contributions	1,214,462	17,373,396	1,969,950	1,622,550
Total governmental activities program reviews	66,137,487	25,306,988	9,816,273	10,396,744
Business-type activities:				
Charges for services:				
Water & Sewer	6,989,753	8,762,117	9,566,541	9,416,309
Biloxi Port Fund	1,768,179	1,752,748	1,723,490	-
Point Cadet Development Corporation	20,874	17,594	21,175	18,352
Operating grants and contributions	-	-	-	-
Capital grants and contributions	2,269,780	978,930	406,216	-
Total business-type activities program revenues	11,048,586	11,511,389	11,717,422	9,434,661
Total primary government program revenues	\$ 77,186,073	\$ 36,818,377	\$ 21,533,695	\$ 19,831,405

Net (Expense)/Revenue

Governmental activities	\$ (42,129,462)	\$ (46,644,212)	\$ (49,630,863)	\$ (46,781,315)
Business-type activities	(297,866)	(3,043,107)	(992,265)	(836,844)
Total primary government net expense	<u>\$ (42,427,328)</u>	<u>\$ (49,687,319)</u>	<u>\$ (50,623,128)</u>	<u>\$ (47,618,159)</u>

General Revenues and**Other Changes In Net Assets****Governmental activities:****Taxes**

Property taxes	\$ 16,859,108	\$ 15,599,678	\$ 15,621,385	\$ 16,494,797
Franchise taxes	10,159,154	2,653,549	2,555,738	2,619,001
Sales taxes	15,187,146	11,944,584	12,294,618	11,551,426
Gaming taxes	2,360,722	20,968,845	21,441,126	20,428,337
Other taxes	706,999	654,641	722,315	862,366
Unrestricted grants and contributions	527,815	1,200,000	1,200,000	1,200,000
Unrestricted investment earnings	2,298,869	1,136,693	415,483	735,195
Insurance proceeds	16,306,863	1,436,097	-	-
Miscellaneous	756,751	906,688	1,447,516	401,842
Transfers	(933,637)	(3,034,089)	(2,992,157)	(3,861,291)

Total governmental activities	<u>64,229,790</u>	<u>53,466,686</u>	<u>52,706,024</u>	<u>50,431,673</u>
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Business-type activities:

Property taxes	920,215	657,426	987,051	-
Investment earnings	389,262	301,696	128,965	129,585
Transfers	(497,454)	3,034,089	2,992,157	3,861,291

Total business-type activities	<u>812,023</u>	<u>3,993,211</u>	<u>4,108,173</u>	<u>3,990,876</u>
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Total primary government	<u>\$ 65,041,813</u>	<u>\$ 57,459,897</u>	<u>\$ 56,814,197</u>	<u>\$ 54,422,549</u>
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Change in Net Assets

Governmental activities	\$ 22,100,328	\$ 6,822,474	\$ 3,075,161	\$ 3,650,388
Business-type activities	514,157	950,104	3,115,908	3,154,032
Total primary government	<u>\$ 22,614,485</u>	<u>\$ 7,772,578</u>	<u>\$ 6,191,069</u>	<u>\$ 6,804,420</u>

Schedule 3
City of Biloxi
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2006	2005	2004	2003
General Fund				
Reserved	\$ 2,525,615	\$ 2,000,359	\$ 49,058	\$ 55,345
Unreserved	52,281,003	26,975,995	21,420,184	28,581,807
Total general fund	<u>\$ 54,806,618</u>	<u>\$ 28,976,354</u>	<u>\$ 21,469,242</u>	<u>\$ 28,637,152</u>
All Other Governmental Funds				
Reserved	\$ 9,453,276	\$ 11,420,479	\$ 5,841,560	\$ 5,891,439
Unreserved, reported in:				
General Capital Projects Fund	-	-	-	-
2002 TIF Capital Projects Fund	-	-	7,947,935	11,130,049
Debt Service Fund	-	-	-	-
Other Non-Major Governmental Funds	695,568	539,941	8,963,706	5,749,106
Total all other governmental funds	<u>\$ 10,148,844</u>	<u>\$ 11,960,420</u>	<u>\$ 22,753,201</u>	<u>\$ 22,770,594</u>

Fiscal Year					
2002	2001	2000	1999	1998	1997
\$ 815,112	\$ 571,659	\$ 401,060	\$ 363,546	\$ 350,633	\$ 639,281
34,822,162	37,043,806	29,800,018	28,690,871	22,356,766	19,598,218
<u>\$ 35,637,274</u>	<u>\$ 37,615,465</u>	<u>\$ 30,201,078</u>	<u>\$ 29,054,417</u>	<u>\$ 22,707,399</u>	<u>\$ 20,237,499</u>
\$ 5,043,537	\$ 11,495,624	\$ 17,726,246	\$ 12,876,234	\$ 3,210,540	\$ 2,787,566
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,033	184,912	4,335,854	3,070,971	-	-
<u>\$ 5,047,570</u>	<u>\$ 11,680,536</u>	<u>\$ 22,062,100</u>	<u>\$ 15,947,205</u>	<u>\$ 3,210,540</u>	<u>\$ 2,787,566</u>

Schedule 4
City of Biloxi
Changes in Fund Balance,
Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2006	2005	2004	2003
Revenues				
Taxes	\$ 16,859,108	\$ 15,599,678	\$ 15,621,385	\$ 16,494,797
Licenses and permits	4,059,907	3,667,843	3,597,812	3,661,074
Intergovernmental	83,596,269	53,337,778	38,546,261	37,250,012
Charges for services	1,124,939	1,081,843	982,416	1,129,740
Fines	1,346,888	1,241,663	1,156,867	1,180,109
Other	6,956,788	5,442,861	4,988,822	4,908,527
Total revenues	113,943,899	80,371,666	64,893,563	64,624,259
Expenditures				
General government	4,221,591	4,225,009	4,066,268	4,021,258
Parks and recreation	3,766,106	4,926,209	4,564,356	4,323,630
Public safety	27,139,584	26,922,427	23,522,963	22,412,569
Public works	63,498,853	18,802,996	8,829,393	8,114,028
Community development	2,248,326	3,702,265	3,702,108	4,128,317
Non-departmental	2,919,036	5,535,248	5,380,002	6,180,177
Retirement contribution		2,108,989	2,085,382	2,691,822
Capital outlay	3,259,444	19,299,416	23,236,972	26,681,858
Debt service:				
Principal	4,787,845	9,813,918	3,661,674	2,641,116
Interest	2,786,442	3,246,883	2,863,804	1,689,836
Bond issue costs	-	80,592	120,031	760,890
Total expenditures	114,627,227	98,663,952	82,032,953	83,645,501
Excess of revenues over (under) expenditures	(683,328)	(18,292,286)	(17,139,390)	(19,021,242)
Other Financing Sources (Uses)				
Insurance proceeds	16,306,863	5,528,315	-	-
Issuance of bonds	-	5,530,000	9,801,416	29,000,000
Issuance of notes	7,000,000	2,000,000	-	-
Capital lease	897,699	-	-	-
Transfers in	3,255,948	17,378,176	21,421,773	25,256,872
Transfers out	(2,758,494)	(15,429,874)	(21,269,102)	(24,846,156)
Total other financing sources (uses)	24,702,016	15,006,617	9,954,087	29,410,716
Net change in fund balances	\$ 24,018,688	\$ (3,285,669)	\$ (7,185,303)	\$ 10,389,474
Debt services as a percentage of noncapital expenditures	6.8%	16.6%	11.3%	8.9%

Fiscal Year					
2002	2001	2000	1999	1998	1997
\$ 15,788,474	\$ 15,570,922	\$ 15,129,168	\$ 14,235,254	\$ 14,319,944	\$ 14,416,033
3,320,782	3,403,789	3,116,426	2,848,885	2,589,044	2,942,327
36,101,336	37,451,946	35,548,793	32,124,722	24,767,498	22,894,848
1,213,723	1,174,942	962,833	944,151	891,662	724,323
1,133,113	1,387,709	1,367,677	1,227,526	989,477	1,212,835
4,780,681	7,069,911	7,603,962	9,467,551	5,405,523	4,138,035
62,338,109	66,059,219	63,728,859	60,848,089	48,963,148	46,328,401
4,159,184	3,886,516	3,236,454	3,240,314	2,973,058	3,087,628
4,254,332	3,839,485	3,161,109	2,762,056	2,267,951	2,177,271
22,203,686	20,080,649	19,160,996	15,399,824	13,822,490	12,358,991
7,639,287	7,506,841	7,292,767	6,876,835	5,464,126	5,240,023
3,777,394	2,944,613	5,234,303	5,785,890	5,779,560	4,540,654
4,816,858	4,155,396	4,100,494	3,424,797	1,768,632	1,409,370
2,728,111	2,690,011	2,003,334	1,935,661	1,975,410	1,963,354
18,041,127	17,726,160	27,508,751	9,706,179	6,804,730	5,978,367
2,627,508	5,389,627	2,679,648	1,654,079	2,480,119	2,485,045
1,821,497	2,026,245	1,151,844	647,055	816,293	985,567
-	-	-	-	-	-
72,068,984	70,245,543	75,529,700	51,432,690	44,152,369	40,226,270
(9,730,875)	(4,186,324)	(11,800,841)	9,415,399	4,810,779	6,102,131
-	-	-	-	-	-
500,000	3,025,000	22,454,000	10,000,000	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,878,390	12,853,018	9,846,456	8,914,198	6,822,082	5,164,988
(16,259,161)	(15,702,744)	(13,238,995)	(9,246,845)	(8,740,964)	(8,029,979)
1,119,229	175,274	19,061,461	9,667,353	(1,918,882)	(2,864,991)
\$ (8,611,646)	\$ (4,011,050)	\$ 7,260,620	\$ 19,082,752	\$ 2,891,897	\$ 3,237,140

8.2%

14.1%

8.0%

5.5%

8.8%

10.1%

Schedule 5
City of Biloxi
Assessed Value and Actual
Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended	Real Property (1)		Personal Property	
	Assessed Value	Actual Value	Assessed Value	Actual Value
2006	367,933,781	2,689,574,423	97,968,890	653,125,933
2005	358,029,587	2,617,175,344	90,986,491	606,576,607
2004	349,059,331	2,551,603,297	87,534,512	583,563,413
2003	363,850,114	2,659,723,056	89,559,850	597,065,667
2002	364,674,681	2,665,750,592	86,133,392	574,222,613
2001	357,382,870	2,612,447,880	84,626,942	564,179,613
2000	171,458,879	1,253,354,379	70,078,864	467,192,427
1999	156,364,784	1,143,017,427	65,850,585	439,003,900
1998	145,958,532	1,066,948,333	62,375,669	415,837,793
1997	143,212,567	1,046,875,490	60,122,266	400,815,107

(1) Class 1 – residential, owner occupied is assessed at 10% of true value.

Class 2 – commercial is assessed at 15% of true value

Above schedule uses estimated combined assessment ratio of 13.68% for real property.

(2) Fiscal year 2001 real property figures reflect completion of real property reappraisal by Harrison County.

Schedule 6
City of Biloxi
Direct and Overlapping
Property Tax Rates
Last Ten Fiscal Years

Fiscal Year Ended	Tax Year	City of Biloxi		
		Operating Millage	Debt Service	Total
2006	2005	20.90	9.20	30.10
2005	2004	22.40	7.70	30.10
2004	2003	22.40	7.70	30.10
2003	2002	23.40	6.70	30.10
2002	2001	23.40	6.70	30.10
2001	2000	23.40	6.70	30.10
2000	1999	37.61	8.60	46.21
1999	1998	38.61	9.10	47.71
1998	1997	42.86	10.10	52.96
1997	1996	42.86	11.85	54.71

Ad valorem taxes on real property are collected in arrears for each calendar year. The tax is levied in September of the tax year on all property on the tax roll as of January 1 of the same year. Consequently, ad valorem tax is collected in the fiscal year ending in the calendar year subsequent to the calendar year for which the tax is assessed.

Utilities		Automobiles		Total		Ratio of Assessed to Actual
Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value	
21,956,503	146,376,687	54,004,362	180,014,540	541,863,536	3,669,091,583	14.77%
23,589,400	157,262,667	46,875,398	156,251,327	519,480,876	3,537,265,945	14.69%
23,673,558	157,823,720	49,958,644	166,528,813	510,226,045	3,459,519,243	14.75%
22,826,980	152,179,867	48,284,298	160,947,660	524,521,242	3,569,916,250	14.69%
23,614,559	157,430,393	46,417,107	154,723,690	520,839,739	3,552,127,288	14.66%
21,071,009	140,473,393	47,431,840	158,106,133	510,512,661	3,475,207,019	14.69%
18,344,995	122,299,967	43,529,432	145,098,107	303,412,170	1,987,944,880	15.26%
18,796,527	125,310,180	36,826,879	122,756,263	277,838,775	1,830,087,770	15.18%
18,389,461	122,596,407	32,473,483	108,244,943	259,197,145	1,713,627,476	15.13%
17,708,799	118,058,660	30,360,099	101,200,330	251,403,731	1,666,949,587	15.08%

Harrison County			Biloxi School District			Total Millage	Total City and School
Operating Millage	Debt Service	Total	Operating Millage	Debt Service	Total		
34.14	2.35	36.49	30.58	7.45	38.03	104.62	68.13
33.39	2.31	35.70	29.01	9.02	38.03	103.83	68.13
33.51	2.19	35.70	32.34	4.34	36.68	102.48	66.78
32.90	2.80	35.70	30.84	4.34	35.18	100.98	65.28
32.45	3.25	35.70	27.09	4.34	31.43	97.23	61.53
32.80	3.40	36.20	26.59	4.34	30.93	97.23	61.03
40.06	3.36	43.42	36.50	2.60	39.10	128.73	85.31
41.32	2.10	43.42	35.00	2.60	37.60	128.73	85.31
41.42	2.00	43.42	35.00	2.60	37.60	133.98	90.56
40.42	3.00	43.42	35.00	2.35	37.35	135.48	92.06

Schedule 7
City of Biloxi
Principal Property Tax Payers
Current Year

Taxpayer	2006		
	Taxable Assessed Value	Rank	Percentage of Total Assessed Valuation
Beau Rivage	\$ 69,277,737	1	12.79%
Grand Casino	34,044,217	2	6.28%
Imperial Palace	22,138,500	3	4.09%
Isle of Capri Casino	16,985,316	4	3.13%
Casino Magic	15,736,927	5	2.90%
Mississippi Power	11,564,041	6	2.13%
Master	8,405,354	7	1.55%
Bell South	7,935,515	8	1.46%
The New Palace Casino	5,474,878	9	1.01%
President Casino	2,436,145	10	0.45%
Total	\$ 193,998,630		35.79%

The City did not prepare this schedule or accumulate this data prior to 2000.

Schedule 8
City of Biloxi
Property Tax Levies
and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2006	33,817,049	33,670,317	99.57%	1,094,228	34,764,545	102.80%
2005	32,839,579	32,332,482	98.46%	415,459	32,747,941	99.72%
2004	31,900,734	31,894,516	99.98%	434,597	32,329,113	101.34%
2003	32,263,406	32,095,387	99.48%	1,043,193	33,138,580	102.71%
2002	30,269,675	29,505,708	97.48%	446,975	29,952,683	98.95%
2001	29,595,998	28,845,271	97.46%	522,664	29,367,935	99.23%
2000	25,214,333	25,192,231	99.91%	221,892	25,414,123	100.79%
1999	22,924,382	22,911,971	99.95%	386,089	23,298,060	101.63%
1998	22,681,513	22,256,417	98.13%	218,831	22,475,248	99.09%
1997	22,266,266	21,722,026	97.56%	784,493	22,506,519	101.08%

Schedule 9
City of Biloxi
Ratios of Outstanding
Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-Type Activities	
	General Obligation Bonds	Limited Obligation Bonds	Capital Leases	Other General Long-Term Debt	Water/ Sewer Revenue Bonds	SRF Loans
2006	\$ 24,995,000	\$ 30,405,000	\$897,699	\$ 10,542,312	\$ -	\$ 1,628,026
2005	28,040,000	31,625,000	-	4,065,157	-	1,628,026
2004	26,946,849	32,785,000	-	6,282,226	-	1,746,170
2003	23,160,000	33,890,000	-	2,825,749	-	1,860,468
2002	19,090,000	11,280,000	-	3,146,865	-	1,970,978
2001	21,045,000	11,650,000	-	2,949,373	-	2,069,085
2000	26,009,000	12,000,000	-	-	160,000	1,158,604
1999	17,395,000	830,000	-	11,295	305,000	79,324
1998	8,960,000	910,000	-	20,374	440,000	1,316,669
1997	11,330,000	975,000	-	41,241	565,000	935,938

Business-Type Activities

<u>Port Bonds</u>	<u>Other Loans</u>	<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
\$ 2,680,000	\$ 1,000,000	72,148,037	Not Available	Not Available
3,370,000	-	68,728,183	0.04%	0.07%
4,050,000	-	71,810,245	0.04%	0.07%
-	-	61,736,217	0.04%	0.08%
-	-	35,487,843	0.07%	0.14%
-	-	37,713,458	0.07%	0.13%
-	-	39,327,604	0.06%	0.13%
-	-	18,620,619	0.12%	0.26%
-	-	11,647,043	0.19%	0.41%
-	-	13,847,179	0.15%	0.34%

Schedule 10
City of Biloxi
Ratios of General Bonded
Debt Outstanding
Last Ten Fiscal Years

Fiscal Year Ended 9/30	Estimated Population	Actual Value (3)	Gross General Obligation Debt (4)	Less Debt Service Fund	Net Bonded Debt	Percentage of Actual Taxable Value of Property	Net Bonded Debt Per Capita
2006	Not available	3,669,091,583	35,115,160	3,651,761	31,463,399	0.86%	Not available
2005	50,209	3,537,265,945	31,662,672	4,421,727	27,240,945	0.77%	543
2004	50,279	3,459,519,243	32,766,849	5,549,995	27,216,854	0.79%	541
2003	49,673	3,569,916,250	25,504,357	5,588,664	19,915,693	0.56%	401
2002	49,576	3,552,127,288	21,736,865	3,926,622	17,810,243	0.50%	359
2001	49,811	3,475,207,019	23,994,373	3,920,177	20,074,196	0.58%	403
2000	50,644	1,987,944,880	26,169,000	3,817,572	22,351,428	1.12%	441
1999	47,759	1,830,087,770	17,395,000	3,914,477	13,480,523	0.74%	282
1998	47,448	1,713,627,476	8,960,000	2,607,639	6,352,361	0.37%	134
1997	47,199	1,666,949,587	11,330,000	2,310,637	9,019,363	0.54%	191

(1) 2000 Census

(2) Source: Population Estimates Program, Population Division, US Census Bureau, Washington, DC 20233

(3) Schedule "Assessed and Actual Value of Property"

(4) Includes notes; excludes debt paid from Enterprise Fund revenues

Schedule 11
City of Biloxi
Direct and Overlapping
General Obligation Debt
As of September 30, 2006

	Net General Obligation Bonded Debt Outstanding	Applicable Percentage	Amount Applicable to City of Biloxi
Jurisdiction			
Direct:			
City of Biloxi	\$ 31,463,399	100.00%	\$ 31,463,399
Overlapping:			
Biloxi School District	23,845,000	100.00%	23,845,000
Harrison County	155,400,000	31.86%	49,510,440
City of Biloxi Limited Tax Port Bonds (2)	<u>2,680,000</u>	31.86%	<u>853,848</u>
Total overlapping	<u>181,925,000</u>		<u>74,209,288</u>
Totals	<u>\$ 213,388,399</u>		<u>\$ 105,672,687</u>

- (1) Outstanding general obligation bonded debt less amount available in Debt Service Fund.
(2) Secured by the pledge of the avails of a continuing tax by Harrison County.

Schedule 12
City of Biloxi
Legal Debt Margin Information
Last Ten Fiscal Years

	2006	2005	2004	2003
Debt Limit	\$ 81,279,530	\$ 77,922,131	\$ 78,301,512	\$ 76,764,019
Total net debt applicable to limit	31,995,000	31,662,672	32,766,849	25,504,357
Legal debt margin	<u>\$ 49,284,530</u>	<u>\$ 46,259,459</u>	<u>\$ 45,534,663</u>	<u>\$ 51,259,662</u>
Total net debt applicable to the limit as a percentage of the debt limit	39.36%	40.63%	41.85%	33.22%

Fiscal Year					
2002	2001	2000	1999	1998	1997
\$ 79,622,455	\$ 78,393,382	\$ 79,954,366	\$ 42,331,542	\$ 41,133,750	\$ 38,845,805
21,736,865	23,994,373	26,009,000	16,820,000	7,860,000	9,755,000
<u>\$ 57,885,590</u>	<u>\$ 54,399,009</u>	<u>\$ 53,945,366</u>	<u>\$ 25,511,542</u>	<u>\$ 33,273,750</u>	<u>\$ 29,090,805</u>
27.30%	30.61%	32.53%	39.73%	19.11%	25.11%

**Legal Debt Margin Calculated
for Fiscal Year 2006**

Assessed Value	\$ 541,863,536
Debt Limit (15% of assessed value)	81,279,530
Debt applicable to limit:	
General obligation bonds	<u>31,995,000</u>
Total debt applicable to limit	<u>31,995,000</u>
Legal debt margin	<u>\$ 49,284,530</u>

Schedule 13
City of Biloxi
Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year Ended 9/30	Gross Revenues	Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements (1)			
				Principal	Interest	Total	Coverage
2006	7,212,180	9,925,146	(2,712,966)	-	-	-	N/A
2005	9,002,050	12,450,570	(3,448,520)	118,210	58,531	176,741	-1951.17%
2004	9,672,172	10,600,079	(927,907)	114,298	62,537	176,835	-524.73%
2003	9,545,558	10,158,286	(612,728)	110,510	66,335	176,845	-346.48%
2002	9,484,598	9,986,717	(502,119)	98,108	62,742	160,850	-312.17%
2001	8,857,508	9,630,775	(773,267)	235,698	55,346	291,044	-265.69%
2000	8,925,287	9,579,252	(653,965)	218,282	68,492	286,774	-228.04%
1999	8,676,964	8,031,633	645,331	207,474	52,958	260,432	247.79%
1998	7,581,089	6,987,718	593,371	178,164	68,965	247,129	240.11%
1997	7,716,226	6,472,490	1,243,736	161,713	78,227	239,940	518.35%

(1) State Pollution Control loans.

Schedule 14
City of Biloxi
Demographic and
Economic Statistics
Last Ten Calander Years

Year	Estimated Population (1)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)
2006	Not available	Not available	4,711	8.8
2005	50,209	\$ 26,288	6,051	8.9
2004	50,279	27,300	6,132	5.4
2003	49,673	26,580	6,009	4.4
2002	49,576	25,370	5,854	5.1
2001	49,811	24,581	5,791	3.7
2000	50,644	24,418	5,895	4.2
1999	47,759	23,087	5,991	3.5
1998	47,448	21,836	6,053	3.9
1997	47,199	20,123	6,219	4.6

- (1) 2000 population is US Census data; intervening years are taken from "Population Estimates for Places..., Annual Time Series; April 1, 1990 Population Estimates Base". Area annexed in 1999 is excluded.
- (2) US Department of Commerce, Bureau of Economic Analysis "Local Area Personal Income"
- (3) Biloxi School District
- (4) Annual average monthly figures for calendar year, Harrison County, Mississippi Employment Security Commission

Schedule 15
City of Biloxi
Principal Employers
Current Year

2006

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>
Keesler Air Force Base	16,000	1
Beau Rivage Casino & Resort	3,600	2
Imperial Palace Casino Resort Spa	2,900	3
Grand Casino Biloxi	1,500	4
Isle of Capri Casino	1,200	5
Boomtown Biloxi Casino	700	6
New Palace Casino	600	7
Lockheed Martin	300	8
Wal-Mart	300	9
Treasure Bay Casino	200	10

Total

27,300

The City did not prepare this schedule or accumulate this data prior to 2006.

Schedule 16
City of Biloxi
Full-Time Equivalent City Government
Employees by Function/Program
Last Fiscal Year

Function/Program	<u>Full-Time Equivalent Employees</u>	
	<u>as of September 30</u>	
	<u>2006</u>	
General Government		
Management Services	1	
Finance	8	
Planning	6	
Building	11	
Other	28	
Police		
Officers	131	
Civilians	44	
Fire		
Firefighters and officers	163	
Civilians	6	
Refuse collection	-	
Other public works		
Engineering	13	
Other	68	
Redevelopment	-	
Parks and recreation	61	
Library	-	
Water	18	
Wastewater	-	
Port	21	
Total	579	

The City did not prepare this schedule or accumulate this data prior to 2006.

Schedule 17
City of Biloxi
Operating Indicators by Function/Program
Last Seven Fiscal Years

Function/Program	Fiscal Year						
	2006	2005	2004	2003	2002	2001	2000
Police							
Physical arrests	10,171	16,351	10,772	10,087	10,120	9,151	11,533
Parking violations	245	441	308	269	351	687	507
Traffic violations	1,987	7,838	10,274	15,729	12,319	19,682	19,997
Fire							
Emergency responses	5,729	5,117	3,939	3,427	3,427	3,093	2,821
Inspections	4,056	3,270	3,500	3,106	3,106	986	2,125
Water							
Average daily consumption (thousands of gallons)	5,910	5,739	7,713	8,002	8,002	8,242	8,333
Wastewater							
Average daily sewage treatment (thousands of gallons)	7,398	10,859	11,111	11,870	11,485	12,651	9,806

The City did not prepare this schedule or accumulate this data prior to 2000.

Schedule 18
City of Biloxi
Capital Asset Statistics by Function/Program

Function/Program	Fiscal Year						
	2006	2005	2004	2003	2002	2001	2000
Police							
Stations	1	1	1	1	1	1	1
Patrol Units	135	136	165	150	135	134	174
Fire Stations	9	9	9	8	8	8	7
Other public works							
Streets (miles)	215						
Traffic signals	40						
Parks and recreation							
Acreage	258	161	170	170	170	170	170
Playgrounds	17						
Ballfields	25						
Community centers	2	2	4	5	5	5	5
Water							
Water mains	234	234	234	231	231	230	225
Fire Hydrants	1,729						
Storage Capacity (thousands of gallons)	14,793	14,793	14,793	13,066	13,066	13,066	12,000
Wastewater							
Sanitary sewers	235	235	235	235	235	200	200
Treatment capacity (thousands of gallons)	18,926	18,926	18,924	18,924	18,924	18,924	18,924

The City did not prepare this schedule or accumulate this data prior to 2000.

Section IV
Compliance Section

City of Biloxi
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Grantor Federal Agency/Pass-Through Agency/Program Title	Federal CFDA Number	Grant No. / Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct Programs:			
Community Development Block Grant	14.218	B-04-MC-28-001	<u>31,350</u>
Department of Justice			
Direct Programs:			
Public Safety Partnership and Community Policing Grants	16.710	2003-CKWX-0406	10,028
Pass-through Mississippi Department of Justice			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2005-DD-BX-0023	242,823
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2006-DH-BX-0438	1,404,879
Assistance Discretionary Grants Programs:			
HIDTA Tri-County Surveillance Grant	16.580	I5PGCP514Z	14,478
HIDTA Tri-County Surveillance Grant	16.580	I6PGCP514Z	<u>1,241</u>
Total			<u>1,673,449</u>
Department of the Interior			
Pass-through State of Mississippi			
Historic Preservation Fund Grants-In-Aid	15.904	28-28-90017	<u>2,544</u>
Department of Homeland Security			
Direct Programs:			
Community Disaster Loans	97.031		8,000,000
Pass-through Mississippi Emergency Management Agency			
Homeland Security Cooperative Agreement	97.067		124,587
Homeland Security Cooperative Agreement	97.067		200,000
Public Assistance Grants	97.036		109,786
Public Assistance Grants	97.036		37,403,189
Hazard Mitigation Grant	97.039	HMGP-1398-003	<u>16,729</u>
Total			<u>45,854,291</u>
Department of Transportation			
Pass-through Mississippi Department of Transportation			
Highway Planning and Construction	20.205		8,660,751
Highway Planning and Construction	20.205		180,120
Highway Planning and Construction	20.205		<u>2,453,977</u>
Total			<u>11,294,848</u>
Total Federal Financial Assistance			<u>\$ 58,856,482</u>

**Independent Auditors' Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

To the City Council
City of Biloxi
Biloxi, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Biloxi, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City of Biloxi, Mississippi's basic financial statements and have issued our report thereon dated March 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Biloxi, 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 over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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.

Compliance and Other Matters

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

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

Culumber, Fletcher, Harvey & associates, P.A.

Biloxi, Mississippi
March 15, 2007

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

To the City Council
City of Biloxi
Biloxi, Mississippi

Compliance

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

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

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

Internal Control Over Compliance

The management of the City of Biloxi, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Biloxi, 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 the 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 reportable 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 caused by error or fraud 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 City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Culumber, Fitch, Harvey & Associates, P.A.

Certified Public Accountants

Biloxi, Mississippi
March 15, 2007

The City of Biloxi, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

Section 1 – Summary of Auditors’ Results

1. An unqualified opinion was issued on the general purpose financial statements.
2. There were no reportable conditions in internal control disclosed by the audit of the general purpose financial statements.
3. The audit did not disclose any noncompliance which is material to the general purpose financial statements.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit disclosed an audit findings which is required to be reported under Section __.510(a) of OMB Circular A-133.
7. The major programs were:

Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580
Community Disaster Loans	97.031
Public Assistance Grants	97.036
Highway Planning and Construction	20.205

8. The dollar threshold used to distinguish between Type A and Type B Programs was \$1,525,694.
9. The auditee did qualify as a low-risk auditee.

Section 2 – Finding Relating to the Financial Statements

None

The City of Biloxi, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

Section 3 – Finding and Questioned Costs Relating to Major Federal Awards

06-01 Finding

Programs: 97.036 Public Assistance Grants
20.205 Highway Planning and Construction

Compliance requirement: Cash Management

According to 44 CFR 33.21(i), a sub-grantee shall promptly, but at least quarterly remit interest earned on advances. City officials acknowledged that interest was earned on the advances, but not remitted to the federal agencies.

Recommendation

The city needs to remit to the federal agencies the interest earned on the advances.

The City of Biloxi, Mississippi
Summary Schedule of Prior Audit Findings
For the Year ended September 30, 2006

There were no prior audit findings relative to federal awards.

Mayor

A. J. Holloway

Council Members

George Lawrence, Ward 1

William "Bill" Stallworth, Ward 2

Charles T. Harrison Jr., Ward 3

Mike Fitzpatrick, Ward 4

Tom Wall, Ward 5

Edward "Ed" Gemmill, Ward 6

David Fayard, Ward 7



P.O. Box 429
Biloxi, Mississippi 39533
(228) 435-6300

Corrective Action Plan

The City of Biloxi, Mississippi respectfully submits the following corrective action plan for the year ended September 30, 2006.

Accounting Firm:

Culumber, Fletcher, Harvey & Associates, P.A.
250 Beauvoir Road, Suite 6
Biloxi, MS 39531

Audit Period:

Year ended September 30, 2006

- 06-1 The City of Biloxi earned interest on the advanced FEMA grant money. City personnel are corresponding with FEMA and MEMA personnel to determine which receipts were advances of FEMA grant money, which City expenditures should be applied to reduce the balance of the advanced monies and to whom the interest earnings should be remitted.