



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

**City of Lucedale
Report on Audit of
Financial Statements**

September 30, 2005

City of Lucedale

Table of Contents

INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-13
BASIC FINANCIAL STATEMENTS	14
Government-wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenues, Expenses and Changes in Fund Net Assets	21
Statement of Cash Flows	22
Notes to Financial Statements	23-34
REQUIRED SUPPLEMENTARY INFORMATION	35
Budget Comparison Schedule	
General Fund	36
Notes to the Required Supplementary Information	37-38
SPECIAL REPORTS	39
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of the Primary Government Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41
Limited Internal Control and Compliance Review Management Report	42-43

Windham and Lacey, PLLC

Certified Public Accountants

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

Members
American Institute of CPAs
Mississippi Society of CPAs

INDEPENDENT AUDITOR'S REPORT ON THE PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Lucedale, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county'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 for the primary government of City of Lucedale, Mississippi, as of September 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2006, on our consideration of City of Lucedale, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. -

Windham and Lacey, PLLC
January 13, 2006

CITY OF LUCEDALE

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LUCEDALE

Management's Discussion and Analysis For the Year Ended September 30, 2005

INTRODUCTION

The discussion and analysis of the City of Lucedale's financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2005. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the City's financial performance.

The City of Lucedale is located in south Mississippi on Highway 98 and Highway 63 approximately 60 miles southeast of Hattiesburg and 140 miles southeast of Jackson. The population, according to the 2000 Census, is 2,458. The local economic base is driven mainly by the manufacturing and retail industries as well as government employment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Figure 1 – Required Components of the City's Annual Report

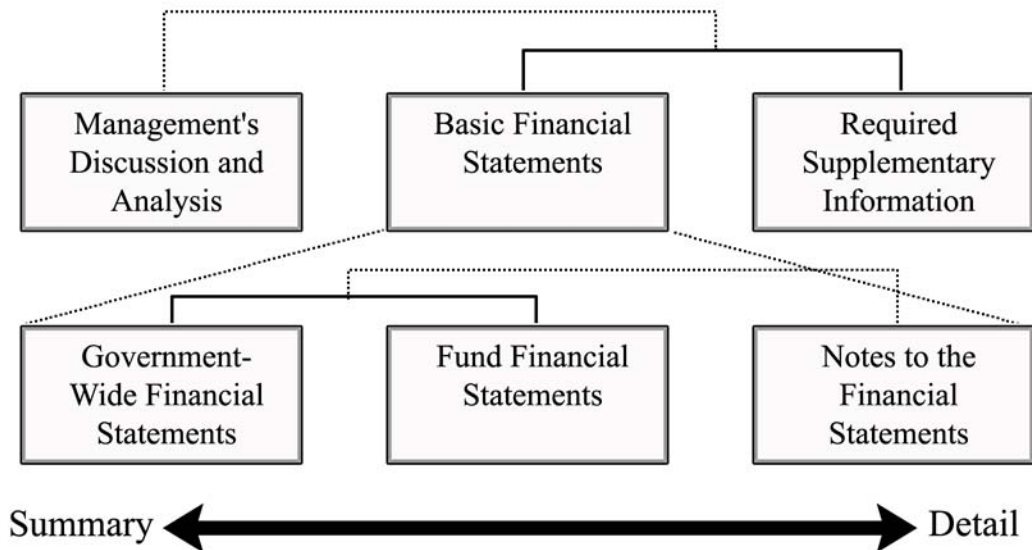


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

Figure 2 – Major Features of the City’s Government-Wide and Fund Financial Statements			
	Government-Wide Financial Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and component units	All activities of the City that are not business-type or fiduciary in nature	Activities of the City that operate similar to private businesses
Required financial statements	<ul style="list-style-type: none"> ● Statement of net assets Statement of activities 	<ul style="list-style-type: none"> Balance sheet ● Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> Statement of net assets ● Statement of revenues, expenses and changes in net assets Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short and long term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

FINANCIAL HIGHLIGHTS

The City of Lucedale is financially stable. The City has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The City is committed to maintaining sound fiscal management to meet the challenges of the future.

The City of Lucedale continues to grow both economically and in population. This has allowed the City to maintain a steady growth in tax revenues without a significant tax increase.

Total net assets increased \$290,644. The City's ending cash balance decreased by \$200,873, which represents a 12.6% decrease from the prior fiscal year. This decrease is due primarily to costs associated with two major hurricanes in the fiscal year.

The City had \$2,877,091 in total revenues in its governmental funds. Property tax revenues account for \$280,174 or 9.7% of total revenues. State and local revenues in the form of reimbursements, shared revenue or grants, account for \$1,754,173 or 61% of total revenues. Federal source revenues account for \$315,714 or 11% of total revenues.

The City had \$2,854,272 in total expenses in its governmental funds, which represents an increase of \$304,834 or 12% increase from the prior fiscal year. Most of this increase was due to hurricane related expenditures.

Among major funds, the General Fund had \$2,876,907 in revenues and \$2,854,272 in expenditures. The General Fund's fund balance increased \$22,635 over the prior year.

Among business-type major funds, the Water/Sewer Fund had \$751,109 in total revenues and \$442,673 in expenditures. The Water/Sewer Fund increased by \$308,436 over the prior year. The increase in revenues is due in part to a grant from George County of \$64,633 and a donation from a private company of \$129,266 toward the construction of water and sewer services to a commercial development on the Hwy. 98 bypass.

Capital assets of governmental activities, net of accumulated depreciation, decreased by \$44,081. Capital assets of business type activities, net of accumulated depreciation, increased by \$173,825.

Long-term debt decreased by \$96,633.

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

The **statement of net assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

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

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate finance-related legal compliance. All the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

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

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

Proprietary funds are used to account for resources used to operate the City's water and sewer systems. The accrual basis of accounting is used for fiduciary funds.

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

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the City's budget process.

The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets - Net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Lucedale, assets exceeded liabilities by \$5,550,777 as of September 30, 2005 and \$5,260,133 as of September 30, 2004.

By far, the largest portion of the City's net assets (67.3%) reflects its investment in capital assets, (e.g. streets, bridges, land, buildings, mobile equipment, water/sewer infrastructure, furniture & equipment) less related outstanding debt used to acquire such assets. The City uses these capital assets to provide services to its citizens.

The City's financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the City's net assets for the fiscal years ended September 30, 2005 and 2004.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 1,778,674	1,607,156	\$ 267,956	240,774
Restricted cash	38,514	223,943	204,948	199,888
Capital assets, net	<u>2,672,855</u>	<u>2,716,936</u>	<u>1,561,419</u>	<u>1,387,594</u>
Total assets	<u>\$ 4,490,043</u>	<u>4,548,035</u>	<u>\$ 2,034,323</u>	<u>1,828,256</u>
Current liabilities	\$ 432,809	473,009	\$ 92,838	98,573
Long-term debt outstanding	<u>0</u>	<u></u>	<u>447,943</u>	<u>544,576</u>
Total liabilities	<u>\$ 432,809</u>	<u>473,009</u>	<u>\$ 540,781</u>	<u>643,149</u>
Net assets				
Invested in capital assets, net of related debt	\$ 2,672,855	2,716,936	\$ 1,061,153	792,575
Restricted	38,514	223,943	204,948	199,888
Unrestricted	<u>1,345,865</u>	<u>1,134,147</u>	<u>227,442</u>	<u>192,644</u>
Total net assets	<u>\$ 4,057,234</u>	<u>4,075,026</u>	<u>\$ 1,493,543</u>	<u>1,185,107</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- During the fiscal year, two major hurricanes damaged the City. Direct expenditures for damage recovery, including clean-up and debris removal costs, were \$348,134.

Changes in Net Assets - The City of Lucedale's total revenues for the fiscal year ended September 30, 2005 was \$3,556,645. The total cost for all services provided was \$3,266,001. The increase in net assets was \$290,644. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2005 and 2004.

Revenues:	<u>2005</u>	<u>2004</u>
Program revenues:		
Charges for services	\$ 738,446	654,564
Operating grants and contributions	327,293	16,240
Capital grants and contributions	320,732	261,793
General revenues:		
Taxes	2,110,153	2,071,913
Unrestricted grants and contributions	9,690	17,535
Interest	40,579	33,157
Other	9,752	22,821
Total Revenue	<u>\$ 3,556,645</u>	<u>3,078,023</u>
Expenses:		
General government	\$ 395,922	390,982
Public safety	1,053,029	1,020,961
Public works	1,056,561	704,040
Health and welfare	3,200	3,200
Culture and recreation	253,384	147,547
Urban and economic development	61,232	80,404
Water and sewer services	442,673	431,487
Total Expenses	<u>\$ 3,266,001</u>	<u>2,778,621</u>
Increase in net assets	<u>\$ 290,644</u>	<u>299,402</u>

Governmental Activities -The following table presents the cost of six major functional activities of the City: General Government, Public Safety, Public Works, Health and Welfare, Culture and Recreation, and Urban and Economic Development.

	<u>Total</u>	<u>Net</u>
	<u>Costs</u>	<u>Costs</u>
General government	\$ 395,922	\$ 395,922
Public safety	1,053,029	964,231
Public works	1,056,561	585,990
Health and welfare	3,200	(19,159)
Culture and recreation	253,384	126,551
Urban and economic development	61,232	61,232

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds - At the close of the fiscal year, the City of Lucedale's governmental funds reported a combined fund balance of \$1,380,909, an increase of \$22,819.

The General Fund is the principal operating fund of the City. The increase in the fund balance of the General Fund for the fiscal year was \$22,635.

BUDGETARY HIGHLIGHTS (of General Fund and Major Funds only)

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

- Amendments were made to transfer money from the fund from which expenditures were paid to funds where the expenditures were actually budgeted. Additionally, changes were made to reflect increases and decreases in revenues and expenditures.

Even with these adjustments, actual disbursements exceeded original budget amounts by \$100,388.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - As of September 30, 2005, the City of Lucedale's total capital assets were \$8,195,423. This includes streets, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, and water sewer infrastructure.

Total accumulated depreciation as of September 30, 2005 was \$3,961,149, including \$248,512 of depreciation expense for the year. The balance in total net capital assets was \$4,234,274 at year-end.

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

Debt Administration - On September 30, 2005, the City of Lucedale had \$500,266 long-term debt outstanding. This includes general obligation bonds and water/sewer revenue bonds. Of this debt \$79,333 is due within one year.

The State of Mississippi limits the amount of debt a City can issue to generally 15% of the total assessed value. Debt issued to fund water and sewer projects is exempted from these limits; as a result, the City's entire legal debt capacity is available.

Additional information on the City of Lucedale’s long-term debt can be found in “Notes to Financial Statements” of this report.

CURRENT/FUTURE ITEMS OF IMPACT

Currently, various government entities including the school district and George County are the City’s largest employers. Manufacturing is the second largest provider of jobs; however, retail is fast becoming a major employer and force in the local economy. There is new retail development planned on Hwy 98 just outside the City limits. The City will provide water to this development and will most likely annex it into the City in the near future. The impact of retail development in the City is significant. According to one source, Lucedale has the fifth highest per capita sales tax rebate of the state’s approximately three hundred municipalities.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the City’s finances and to demonstrate the City’s accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the City Clerk’s Office at 5126 Main Street, Lucedale, Mississippi 39452.

CITY OF LUCEDALE

BASIC FINANCIAL STATEMENTS

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

Government-wide financial statements

Fund financial statements

Governmental funds

Proprietary (enterprise) fund

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

**City of Lucedale
Statement of Net Assets
September 30, 2005**

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 955,800	189,728	1,145,528
Property tax receivable	275,516		275,516
Fines receivable, net	61,543		61,543
Accounts receivable, net	197,460	78,228	275,688
Sales tax receivable	288,355		288,355
Total current assets	<u>1,778,674</u>	<u>267,956</u>	<u>2,046,630</u>
Noncurrent Assets:			
Restricted cash	38,514	204,948	243,462
Capital assets, net (Note 1)	2,672,855	1,561,419	4,234,274
Total noncurrent assets	<u>2,711,369</u>	<u>1,766,367</u>	<u>4,477,736</u>
 Total Assets	 <u>\$ 4,490,043</u>	 <u>2,034,323</u>	 <u>6,524,366</u>
LIABILITIES			
Current Liabilities:			
Claims payable	\$ 105,187	9,772	114,959
Accrued interest payable		2,508	2,508
Deferred revenue	327,622		327,622
Current portion of long-term debt		79,333	79,333
Other current liabilities		1,225	1,225
Total current liabilities	<u>432,809</u>	<u>92,838</u>	<u>525,647</u>
Noncurrent Liabilities:			
Long-term liabilities (Note 2):		420,933	420,933
Customer meter deposits payable		27,010	27,010
Total noncurrent liabilities	<u>0</u>	<u>447,943</u>	<u>447,943</u>
 Total Liabilities	 <u>432,809</u>	 <u>540,781</u>	 <u>973,590</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,672,855	1,061,153	3,734,008
Restricted for:			
Public safety	38,514		38,514
Unemployment compensation	6,833		6,833
Unrestricted (deficit)	1,339,032	432,390	1,771,422
Total Net Assets	<u>\$ 4,057,234</u>	<u>1,493,543</u>	<u>5,550,777</u>

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

City of Lucedale
Statement of Activities
For the Year Ended September 30, 2005

Exhibit 2

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government:							
Governmental Activities:							
General government	\$ 395,922				(395,922)		(395,922)
Public safety	1,053,029	77,219	11,579		(964,231)		(964,231)
Public works	1,056,561	154,857	315,714		(585,990)		(585,990)
Health and welfare	3,200	22,359			19,159		19,159
Culture and recreation	253,384			126,833	(126,551)		(126,551)
Urban and economic development	61,232				(61,232)		(61,232)
Interest on long-term debt					0	(24,070)	(24,070)
Total Governmental Activities	<u>2,823,328</u>	<u>254,435</u>	<u>327,293</u>	<u>126,833</u>	<u>(2,114,767)</u>	<u>(24,070)</u>	<u>(2,138,837)</u>
Business-type activities:							
Water/Sewer	<u>418,603</u>	<u>484,011</u>		<u>193,899</u>		<u>259,307</u>	<u>259,307</u>
Total Business-type Activities	<u>418,603</u>	<u>484,011</u>	<u>0</u>	<u>193,899</u>	<u>0</u>	<u>259,307</u>	<u>259,307</u>
Total Primary Government	<u>3,241,931</u>	<u>738,446</u>	<u>327,293</u>	<u>320,732</u>	<u>(2,114,767)</u>	<u>235,237</u>	<u>(1,879,530)</u>
General Revenues							
Taxes:							
Property taxes					280,174		280,174
Road & bridge privilege taxes					136,038		136,038
Sales tax					1,574,977		1,574,977
Franchise taxes					118,964		118,964
Grants and contributions not restricted to specific programs					9,690		9,690
Unrestricted investment income					31,513	9,066	40,579
Miscellaneous					17,811		17,811
Loss on sale of assets					(8,059)		(8,059)
Transfers					(64,133)	64,133	0
Total General Revenues					<u>2,096,975</u>	<u>73,199</u>	<u>2,170,174</u>
Change in net assets					(17,792)	308,436	290,644
Net Assets - Beginning					<u>4,075,026</u>	<u>1,185,107</u>	<u>5,260,133</u>
Net Assets - Ending					<u>\$ 4,057,234</u>	<u>1,493,543</u>	<u>5,550,777</u>

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

**City of Lucedale
Balance Sheet
Governmental Funds
September 30, 2005**

Exhibit 3

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 987,481	6,834	994,315
Property tax receivable	275,516		275,516
Fines receivable	61,543		61,543
Sales tax receivable	288,355		288,355
Other receivables	197,460		197,460
Total Assets	<u>\$ 1,810,355</u>	<u>6,834</u>	<u>1,817,189</u>
LIABILITIES & FUND BALANCES			
Liabilities:			
Claims payable	\$ 105,187		105,187
Deferred revenue	331,093		331,093
Total Liabilities	<u>436,280</u>	<u>0</u>	<u>436,280</u>
Fund Balances:			
Unreserved:			
General fund	1,335,560		1,335,560
Public safety	38,515		38,515
Unemployment compensation		6,834	6,834
Total Fund Balances	<u>1,374,075</u>	<u>6,834</u>	<u>1,380,909</u>
Total Liabilities and Fund Balances	<u>\$ 1,810,355</u>	<u>6,834</u>	

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (Note 1):			
Capital assets net of depreciation as of Oct. 1, 2004		2,716,936	
Plus capital outlay expenditures made during the year		111,732	
Less depreciation expense recorded during the year		(144,920)	
Less net book value of capital assets sold during the year		<u>(10,893)</u>	2,672,855
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds			<u>3,470</u>
	Net Assets of Governmental Activities	\$	<u><u>4,057,234</u></u>

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

City of Lucedale
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2005

Exhibit 4

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 280,174		280,174
Licenses and permits	141,323		141,323
Fines and forfeitures	71,888		71,888
Intergovernmental revenues	1,754,173		1,754,173
Charges for services	143,848		143,848
Interest income	31,329	184	31,513
Federal assistance	315,714		315,714
Fire insurance reimbursements	104,943		104,943
Miscellaneous	33,515		33,515
Total Revenues	<u>2,876,907</u>	<u>184</u>	<u>2,877,091</u>
EXPENDITURES			
Current:			
General government	385,262		385,262
Public safety	1,058,550		1,058,550
Public works	1,042,721		1,042,721
Health and welfare	3,200		3,200
Culture and recreation	237,857		237,857
Urban and economic development	62,549		62,549
Capital projects			0
Total Expenditures	<u>2,790,139</u>	<u>0</u>	<u>2,790,139</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>86,768</u>	<u>184</u>	<u>86,952</u>
Other Financing Sources (Uses)			
Transfers in (out)	<u>(64,133)</u>		<u>(64,133)</u>
Total Other Financing Sources and Uses	<u>(64,133)</u>	<u>0</u>	<u>(64,133)</u>
Net Change in Fund Balances	22,635	184	22,819
Fund Balances - Beginning	<u>1,351,440</u>	<u>6,650</u>	<u>1,358,090</u>
Fund Balances - Ending	<u>\$ 1,374,075</u>	<u>6,834</u>	<u>1,380,909</u>

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

**City of Lucedale
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Year Ended September 30, 2005**

Exhibit 5

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4)	\$ 22,819
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation (\$144,920) exceeded capital outlays (\$111,732) in the current period.	(33,188)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(10,893)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Fine revenue.	<u>3,470</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	<u>\$ (17,792)</u>

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

**City of Lucedale
Statement of Net Assets
Proprietary Fund
September 30, 2005**

Exhibit 6

	<u>Business-type Activity</u>
	<u>Water/Sewer</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 189,728
Accounts receivable, net	78,228
Total current assets	<u>267,956</u>
Noncurrent assets:	
Restricted cash and cash equivalents	204,948
Capital assets, net	1,561,419
Total noncurrent assets	<u>1,766,367</u>
Total Assets	<u>\$ 2,034,323</u>
LIABILITIES	
Current Liabilities:	
Claims payable	\$ 9,772
Accrued interest payable	2,508
Current portion of long-term debt	79,333
Other current liabilities	1,225
Total current liabilities	<u>92,838</u>
Noncurrent Liabilities:	
Long-term liabilities	420,933
Customer meter deposits payable	27,010
Total noncurrent liabilities	<u>447,943</u>
Total Liabilities	<u>540,781</u>
NET ASSETS	
Invested in capital assets net of related debt	1,061,153
Restricted for debt service	204,948
Unrestricted	227,442
Total Net Assets	<u>\$ 1,493,543</u>

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

City of Lucedale
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2005

Exhibit 7

	Business-type Activity
	<u>Water/Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 484,011
Total Operating Revenues	<u>484,011</u>
OPERATING EXPENSES	
Personal services	146,406
Contractual services	110,648
Materials and supplies	53,983
Capital expenditures	369
Depreciation expense	103,591
Other operating expenses	3,606
Total Operating Expenses	<u>418,603</u>
 Operating Income (Loss)	 <u>65,408</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	9,066
Interest expense	(24,070)
Capital contribution - non-government	129,266
Capital contribution - other government	64,633
Transfers in (out)	64,133
Total Nonoperating Revenue (Expenses)	<u>243,028</u>
 Change in Net Assets	 <u>308,436</u>
 Total Net Assets - Beginning	 <u>1,185,107</u>
 Total Net Assets - Ending	 \$ <u><u>1,493,543</u></u>

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

**City of Lucedale
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2005**

Exhibit 8

	Business-type Activity
	<u>Water/Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 457,968
Payments to suppliers	<u>(314,009)</u>
Net Cash Provided (Used) by Operating Activities	<u>143,959</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from (payments to) other funds	0
Other receipts	<u>0</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>0</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(277,416)
Principal paid on long-term debt	(94,753)
Interest expense paid	(32,965)
Receipts from (payments to) other funds	64,133
Receipts from other governments	64,633
Receipts from non-government entities	129,266
Net Cash Provided (Used) by Capital Financing Activities	<u>(147,102)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>9,066</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>5,923</u>
Cash and Cash Equivalents - Beginning of Year	<u>388,753</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>394,676</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ <u>65,408</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation	103,591
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(26,319)
Increase (decrease) in claims payable	754
Increase (decrease) in customer deposits	276
Other, net	<u>249</u>
Total adjustments	<u>78,551</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>143,959</u></u>

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

CITY OF LUCEDALE

Notes to Financial Statements For the Year Ended September 30, 2005

1. Summary of Significant Accounting Policies.

Reporting Entity.

The City of Lucedale (City) is a code-charter municipality governed by an elected mayor and five aldermen. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP.

There are no component units required to be included in these financial statements.

Government-wide and Fund Financial Statements.

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

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

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

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2005

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

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the water and sewer system.

CITY OF LUCEDALE

Notes to Financial Statements For the Year Ended September 30, 2005

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity.

1. Deposits and Investments.

The City's cash and cash equivalents are considered to be cash on hand and certificates of deposit.

2. Receivables and Payables.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF LUCEDALE

Notes to Financial Statements For the Year Ended September 30, 2005

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

3. *Restricted Assets.*

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

4. *Capital Assets.*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	n/a
Infrastructure	20-50
Buildings	40
Improvements other than buildings	20
Machinery & equipment	5-10

5. *Compensated Absences.*

There is no liability for unpaid accumulated sick leave or vacation since the City does not have a policy to pay any amounts when employees separate from service with the City.

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2005

6. *Long-term Obligations.*

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

7. *Fund Equity.*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. Stewardship, Compliance and Accountability.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Budgets are adopted on a basis prescribed by state law (cash basis).

CITY OF LUCEDALE

Notes to Financial Statements For the Year Ended September 30, 2005

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing these proposed expenditures.
2. Prior to October 1, the budget is legally enacted through passage of an order.
3. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.
4. Formal budgetary integration is employed as a management control device during the year for the various funds, except for Debt Service Funds, because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
5. Budgets for the various funds are adopted on a cash basis as required by state law.

It is the City's policy to prepare the budget on the cash basis for revenues and expenditures to the extent that they are paid within 30 days following year-end.

3. Detailed Notes on All Funds.

A. Cash and investments.

At year-end, the City's carrying amount of deposits was \$1,388,990 and the bank balance was \$1,483,617. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2005

B. Receivables.

Receivables as of year-end for the City’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water and Sewer Fund	Nonmajor and Other Funds	Total
Receivables:				
Sales tax	\$ 288,355			288,355
Property taxes	275,516			275,516
Accounts		105,164		105,164
Garbage charges	18,424			18,424
Franchise fees	28,072			28,072
Fines	463,182			463,182
FEMA reimbursements	150,964			150,964
Gross receivables	<u>1,224,513</u>	<u>105,164</u>	<u>0</u>	<u>1,329,677</u>
Less: allowance for uncollectibles	<u>(401,639)</u>	<u>(26,936)</u>	<u>0</u>	<u>(428,575)</u>
Net total receivables	<u>\$ 822,874</u>	<u>78,228</u>	<u>0</u>	<u>901,102</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Unearned revenue	\$	-
Property taxes receivable: General fund	269,550	
Fines receivable: General Fund	<u>58,072</u>	
Total deferred/unearned revenue for governmental funds	<u>\$ 327,622</u>	<u>-</u>

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2005

C. Capital Assets.

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

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 145,169			145,169
Construction in progress				0
Total capital assets, not being depreciated	<u>145,169</u>	<u>0</u>	<u>0</u>	<u>145,169</u>
Capital assets, being depreciated:				
Buildings	1,310,725			1,310,725
Improvements other than buildings	133,787	10,421		144,208
Streets	1,916,463			1,916,463
Bridges	9,920			9,920
Machinery and equipment	<u>1,487,545</u>	<u>101,311</u>	<u>(65,008)</u>	<u>1,523,848</u>
Total capital assets being depreciated	<u>4,858,440</u>	<u>111,732</u>	<u>(65,008)</u>	<u>4,905,164</u>
Less: Accumulated depreciation for:				
Buildings	(124,131)	(26,214)		(150,345)
Improvements other than buildings	(25,746)	(5,560)		(31,306)
Streets	(940,052)	(28,050)		(968,102)
Bridges	(9,920)			(9,920)
Machinery and equipment	<u>(1,186,823)</u>	<u>(85,097)</u>	<u>54,115</u>	<u>(1,217,805)</u>
Total accumulated depreciation	<u>(2,286,672)</u>	<u>(144,921)</u>	<u>54,115</u>	<u>(2,377,478)</u>
Total capital assets, being depreciated, net	<u>2,571,768</u>	<u>(33,189)</u>	<u>(10,893)</u>	<u>2,527,686</u>
Governmental activities capital assets, net	<u>\$ 2,716,937</u>	<u>(33,189)</u>	<u>(10,893)</u>	<u>2,672,855</u>

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2005

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	0			0
Total capital assets, not being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital assets, being depreciated:				
Water system	760,054	19,384	(1,500)	777,938
Sewer system	2,109,120	258,032		2,367,152
Total capital assets, being depreciated	<u>2,869,174</u>	<u>277,416</u>	<u>(1,500)</u>	<u>3,145,090</u>
Less: Accumulated depreciation	<u>(1,481,580)</u>	<u>(103,591)</u>	<u>1,500</u>	<u>(1,583,671)</u>
Total capital assets, being depreciated, net	<u>1,387,594</u>	<u>173,825</u>	<u>0</u>	<u>1,561,419</u>
Business-type activities capital assets, net	\$ <u>1,387,594</u>	<u>173,825</u>	<u>0</u>	<u>1,561,419</u>

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

Governmental activities:	
General government	\$ 11,394
Public safety	31,571
Public works	54,569
Culture and recreation	47,058
Urban and economic development	<u>328</u>
Total depreciation expense - governmental activities	\$ <u>144,921</u>
Business-type activities:	
Water and sewer	\$ <u>103,591</u>
Total depreciation expense - business-type activities	\$ <u>103,591</u>

D. Leases.

Operating Leases

The City has no material operating leases.

Capital Leases

The City currently has no capital lease agreements.

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2005

E. Long-term Debt.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities		\$ 0
Business-type activities: 1999 refunding bonds	4.0 - 6.0%	<u>205,000</u>
		<u>\$ 205,000</u>

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

<u>Year Ending September 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 50,000	7,523
2007	50,000	5,448
2008	55,000	3,255
2009	<u>50,000</u>	<u>1,050</u>
Total	<u>\$ 205,000</u>	<u>17,276</u>

Revenue Bonds

The City also issued water and sewer revenue bonds in 1977 and 2002 to provide funds for the construction of water and sewer infrastructure. These bonds will be repaid from revenues generated from operations of the water and sewer systems.

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2005

Revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities		\$ 0
Business-type activities:		
2002 water system rural development bond	4.5%	149,941
1977 revenue bonds	5.0%	145,325
		\$ 295,266

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

Year Ending September 30	Governmental Activities	
	Principal	Interest
2006	\$ 29,333	13,811
2007	30,752	12,392
2008	32,240	10,904
2009	33,800	9,344
2010	35,436	7,708
2011-2015	126,279	14,511
2016	7,425	851
Total	\$ 295,266	69,520

Changes in long-term liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Governmental activity long-term liabilities	\$ 0	0	0	0	0
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 255,000		(50,000)	205,000	50,000
Revenue bonds	340,019	0	(44,753)	295,266	29,333
Business-type activity long-term liabilities	\$ 595,019	0	(94,753)	500,266	79,333

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2005

5. Other Information

A. Contingent Liabilities.

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

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

B. Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Lucedale is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature. The City of Lucedale's contributions to PERS for the years ending September 30, 2005, 2004 and 2003 were \$105,325, \$100,390 and \$95,728 respectively, equal to the required contributions for each year.

C. Risk Management.

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

CITY OF LUCEDALE

REQUIRED SUPPLEMENTARY INFORMATION

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

Budgetary Comparison Schedule

Notes to the Required Supplementary Information

City of Lucedale
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 278,750	265,224	265,224	
Licenses and permits	129,100	141,323	141,323	
Fines and forfeitures	65,000	71,888	71,888	
Intergovernmental revenues	1,579,200	1,698,307	1,698,307	
Charges for services	139,250	143,848	143,848	
Interest earned	29,215	31,329	31,329	
Miscellaneous revenues	81,400	55,404	55,404	
Total Revenues	<u>2,301,915</u>	<u>2,407,323</u>	<u>2,407,323</u>	<u>0</u>
EXPENDITURES				
General government	439,425	385,262	385,262	
Public safety	1,222,081	1,058,550	1,058,550	
Public works	805,090	1,042,721	1,042,721	
Health and welfare	3,200	3,200	3,200	
Culture and recreation	148,855	237,857	237,857	
Urban and economic development	71,100	62,549	62,549	
Total Expenditures	<u>2,689,751</u>	<u>2,790,139</u>	<u>2,790,139</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(387,836)</u>	<u>(382,816)</u>	<u>(382,816)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Fire insurance proceeds		104,943	104,943	
Transfers out	(74,500)	(64,133)	(64,133)	
Federal assistance		315,714	315,714	
Total Other Financing Sources and Uses	<u>(74,500)</u>	<u>356,524</u>	<u>356,524</u>	<u>0</u>
Net Change in Fund Balance	(462,336)	(26,292)	(26,292)	0
Fund Balances - Beginning	<u>462,336</u>	<u>1,229,881</u>	<u>1,229,881</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>1,203,589</u>	<u>1,203,589</u>	<u>0</u>

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

CITY OF LUCEDALE

Notes to the Required Supplementary Information For the Year Ended September 30, 2005

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

CITY OF LUCEDALE

Notes to the Required Supplementary Information
For the Year Ended September 30, 2005

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

	Governmental Fund Types
	<u>General Fund</u>
Net Change in Fund Balance - Budget (Cash Basis)	\$ (26,292)
Increase (decrease):	
Net adjustments for revenue accruals	48,927
Net adjustments for expenditure accruals	<u>0</u>
Net Change in Fund Balance GAAP Basis	<u>\$ 22,635</u>

CITY OF LUCEDALE

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

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

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

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

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of City of Lucedale, Mississippi, as of and for the year ended September 30, 2005 which collectively comprise City of Lucedale, Mississippi's basic financial statements and have issued our report thereon dated January 13, 2006. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the city's component units. Except for the limitation referred to above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Lucedale, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government 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 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 City of Lucedale, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than this specified party.

Windham & Lacey, PLLC
January 13, 2006

Windham and Lacey, PLLC

Certified Public Accountants

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

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

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

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information City of Lucedale, Mississippi, as of and for the year ended September 30, 2005, and have issued our report thereon dated January 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

Windham and Lacey, PLLC
January 13, 2006