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STATE AUDITOR'S OFFICE

City of Carthage

**Report on Audit of
Financial Statements
September 30, 2006**

CITY OF CARTHAGE

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1-2
BASIC FINANCIAL STATEMENTS.....	3
Government-wide Financial Statements	
Statement of Net Assets.....	4
Statement of Activities.....	5
Fund Financial Statements	
Governmental Funds:	
Balance Sheet.....	6
Statement of Revenues, Expenditures and Changes in Fund Balances.....	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	8
Proprietary Fund:	
Statement of Net Assets.....	9
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	10
Statement of Cash Flows.....	11
Notes to Financial Statements.....	12-24
REQUIRED SUPPLEMENTARY INFORMATION.....	25
Budgetary Comparison Schedule - General Fund.....	26
Notes to the Required Supplementary Information.....	27-28
SPECIAL REPORTS.....	29
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Primary Government Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30-31
Independent Auditor's Report on Compliance with State Laws and Regulations.....	32
SCHEDULE OF FINDINGS.....	33

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

Honorable Mayor and
Members of the Board of Aldermen
City of Carthage, 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 Carthage, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of City of Carthage, Mississippi, as of September 30, 2006, 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 February 23 2007, on our consideration of City of Carthage, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City of Carthage, Mississippi has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Windham and Lacey, PLLC
February 23, 2007

CITY OF CARTHAGE

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 Carthage
Statement of Net Assets
September 30, 2006**

Exhibit 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash	\$ 494,413	1,676,296	2,170,709
Property tax receivable	410,000		410,000
Fines receivable, net	59,500		59,500
Accounts receivable, net	50,860	96,431	147,291
Internal balances	(63,500)	63,500	
Other receivables		4,298	4,298
Sales tax receivable	265,738		265,738
Total current assets	<u>1,217,011</u>	<u>1,840,525</u>	<u>3,057,536</u>
Noncurrent Assets:			
Restricted cash	116,458	166,217	282,675
Capital assets, net (Note 1)	1,817,665	4,388,618	6,206,283
Total noncurrent assets	<u>1,934,123</u>	<u>4,554,835</u>	<u>6,488,958</u>
Total Assets	<u>\$ 3,151,134</u>	<u>6,395,360</u>	<u>9,546,494</u>
LIABILITIES			
Current Liabilities:			
Claims payable	\$ 151,668	123,949	275,617
Customer deposits		106,829	106,829
Deferred revenue	409,940		409,940
Current portion of long-term debt	69,016	186,096	255,112
Total current liabilities	<u>630,624</u>	<u>416,874</u>	<u>1,047,498</u>
Noncurrent Liabilities:			
Long-term liabilities (Note 2):	<u>174,568</u>	<u>1,992,857</u>	<u>2,167,425</u>
Total noncurrent liabilities	<u>174,568</u>	<u>1,992,857</u>	<u>2,167,425</u>
Total Liabilities	<u>805,192</u>	<u>2,409,731</u>	<u>3,214,923</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,574,081	2,209,665	3,783,746
Restricted for:			
Debt service		53,898	53,898
Public safety	116,458		116,458
Unrestricted	<u>655,403</u>	<u>1,722,066</u>	<u>2,377,469</u>
Total Net Assets	<u>\$ 2,345,942</u>	<u>3,985,629</u>	<u>6,331,571</u>

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

City of Carthage
Statement of Activities
For the Year Ended September 30, 2006

Exhibit 2

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	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	\$ 797,371			(797,371)		(797,371)
Public safety	1,446,516	13,788	616	(1,249,339)		(1,249,339)
Public works	1,070,491	11,467		(836,157)		(836,157)
Health and welfare	13,832			5,031		5,031
Culture and recreation	579,132	930		(469,296)		(469,296)
Economic development and assistance	26,000			(26,000)		(26,000)
Interest on long-term debt	10,000			(10,000)		(10,000)
Total Governmental Activities	3,943,342	26,185	616	(3,383,132)	0	(3,383,132)
Business-type activities:						
Water/sewer	910,334		290,800		205,004	205,004
Interest on long-term debt	54,738				(54,738)	(54,738)
Total Business-type Activities	965,072	0	290,800	0	150,266	150,266
Total Primary Government	\$ 4,908,414	26,185	291,416	(3,383,132)	150,266	(3,232,866)
General Revenues						
Taxes:						
Property taxes				474,953		474,953
Road & bridge privilege taxes				181,809		181,809
Sales tax				1,720,752		1,720,752
Franchise taxes				149,448		149,448
Grants and contributions not restricted to specific programs				52,368		52,368
Unrestricted investment income				22,259	48,514	70,773
Miscellaneous				191,634		191,634
Sales of assets				64,500		64,500
Transfers				71,947	(71,947)	
Total General Revenues				2,929,670	(23,433)	2,906,237
Change in net assets				(453,462)	126,833	(326,629)
Net Assets - Beginning				2,799,404	3,858,796	6,658,200
Net Assets - Ending				2,345,942	3,985,629	6,331,571

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

**City of Carthage
Balance Sheet -
Governmental Funds
September 30, 2006**

Exhibit 3

	<u>Major Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>		
ASSETS			
Cash	\$ 221,636	389,235	610,871
Property tax receivable	410,000		410,000
Fines receivable	59,500		59,500
Sales tax receivable	265,738		265,738
Other receivables	(28,122)	15,481	(12,641)
Total Assets	\$ 928,752	404,716	1,333,468
LIABILITIES & FUND BALANCES			
Liabilities:			
Claims payable	\$ 136,943	14,724	151,667
Deferred revenue	469,500		469,500
Total Liabilities	606,443	14,724	621,167
Fund Balances:			
Unreserved:			
General fund	322,309	317,780	640,089
Capital projects funds		537	537
Special revenue funds		71,675	71,675
Total Fund Balances	322,309	389,992	712,301
Total Liabilities and Fund Balances	\$ 928,752	404,716	

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, 2005	\$ 1,763,065	
Plus capital outlay expenditures made during the year	870,478	
Less depreciation expense recorded during the year	(285,420)	
Less net book value of capital assets sold during the year	(530,458)	1,817,665

Long-term debt are not financial resources and, therefore, are not reported in the funds:

(243,584)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Fines receivable		59,560
------------------	--	--------

Net Assets of Governmental Activities

\$ 2,345,942

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

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

Exhibit 4

	<u>Major Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>		
REVENUES			
Property taxes	\$ 392,989	81,964	474,953
Licenses and permits	18,863		18,863
Fines and forfeitures	158,148	20,720	178,868
Intergovernmental revenues	1,905,764	51,559	1,957,323
Charges for services	222,867	59,965	282,832
Interest income	12,641	9,618	22,259
Miscellaneous	411,277	49,449	460,726
Total Revenues	<u>3,122,549</u>	<u>273,275</u>	<u>3,395,824</u>
EXPENDITURES			
General government	769,922	39,301	809,223
Public safety	1,401,882	45,840	1,447,722
Public works	982,939	11,070	994,009
Health and welfare	18,632		18,632
Culture and recreation	284,388	291,805	576,193
Urban and economic development	26,000		26,000
Total Expenditures	<u>3,483,763</u>	<u>388,016</u>	<u>3,871,779</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(361,214)</u>	<u>(114,741)</u>	<u>(475,955)</u>
Other Financing Sources (Uses)			
Federal assistance	12,940	11,467	24,407
Transfers in (out)	(106,053)	178,000	71,947
Total Other Financing Sources and Uses	<u>(93,113)</u>	<u>189,467</u>	<u>96,354</u>
Net Change in Fund Balances	(454,327)	74,726	(379,601)
Fund Balances - Beginning	<u>776,636</u>	<u>315,267</u>	<u>1,091,903</u>
Fund Balances - Ending	<u>\$ 322,309</u>	<u>389,993</u>	<u>712,302</u>

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

**City of Carthage
 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, 2006**

Exhibit 5

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4) \$ (379,601)

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 capital outlays
 (\$340,020) exceeded depreciation (\$285,420) in the current period. 54,600

Governmental Funds report payments on long-term debt as expenditures. However, in the
 Statement of Activities, the payments are subtracted from the balance of the long-term
 debt accounts. Debt proceeds provide current financial resources to governmental fund,
 but the issuing debt increases long-term liabilities in the Statement of Net Assets.
 Thus, the change in net assets differs from the change in fund balance by the amount that
 debt repayment (\$122,777) is less than debt proceeds (\$255,858). (133,081)

Fine revenue recognized on the modified accrual basis in the funds during the current year
 is reduced because prior year recognition would have been required on the Statement of
 Activities using the full-accrual basis of accounting. 4,620

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (453,462)

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

City of Carthage
Statement of Net Assets
Proprietary Fund
September 30, 2006

Exhibit 6

	<u>Business-type Activity</u>
	<u>Water/Sewer</u>
Current Assets:	
Cash and cash equivalents	\$ 1,676,296
Accounts receivable, net	96,431
Internal balances	67,798
Total current assets	<u>1,840,525</u>
Noncurrent assets:	
Restricted cash and cash equivalents	166,217
Capital assets, net	4,388,618
Total noncurrent assets	<u>4,554,835</u>
 Total Assets	 \$ <u><u>6,395,360</u></u>
 LIABILITIES	
Current Liabilities:	
Claims payable	\$ 123,949
Customer deposits	106,829
Current portion of long-term debt	186,096
Other current liabilities	
Total current liabilities	<u>416,874</u>
Noncurrent Liabilities:	
Long-term liabilities	1,992,857
Customer meter deposits payable	
Total noncurrent liabilities	<u>1,992,857</u>
 Total Liabilities	 <u>2,409,731</u>
 NET ASSETS	
Invested in capital assets net of related debt	2,209,665
Restricted for debt service	53,898
Unrestricted	1,722,066
Total Net Assets	\$ <u><u>3,985,629</u></u>

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

City of Carthage
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2006

Exhibit 7

	Business-type
	Activity
	<u>Water/Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 824,538
Total Operating Revenues	<u>824,538</u>
OPERATING EXPENSES	
Personal services	276,992
Contractual services	239,842
Materials and supplies	184,812
Depreciation expense	135,950
Other operating expenses	<u>72,738</u>
Total Operating Expenses	<u>910,334</u>
Operating Income (Loss)	<u>(85,796)</u>
NONOPERATING REVENUES (EXPENSES)	
Capital grants and contributions	290,800
Interest income	48,514
Interest expense and fiscal fees	(54,738)
Transfers in (out)	(71,947)
Other income	
Total Nonoperating Revenue (Expenses)	<u>212,629</u>
Change in Net Assets	126,833
Total Net Assets - Beginning	<u>3,858,796</u>
Total Net Assets - Ending	\$ <u><u>3,985,629</u></u>

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

City of Carthage
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2006

Exhibit 8

	Business-type Activity
	<u>Water/Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 882,623
Payments to suppliers	(390,270)
Payments to employees	<u>(276,992)</u>
Net Cash Provided (Used) by Operating Activities	<u>215,361</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from (payments to) other funds	(109,350)
Transfers in/out	(71,947)
Federal and state grants	<u>290,800</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>109,503</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Proceeds from capital debt	288,797
Acquisition and construction of capital assets	(581,236)
Principal paid on long-term debt	(171,949)
Interest expense paid	<u>(54,738)</u>
Net Cash Provided (Used) by Capital Financing Activities	<u>(519,126)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>48,514</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(145,748)
Cash and Cash Equivalents - Beginning of Year	<u>1,988,261</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>1,842,513</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ <u>(85,796)</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation	135,950
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	55,027
Increase (decrease) in claims payable	107,122
Increase (decrease) in customer deposits	<u>3,058</u>
Total adjustments	<u>301,157</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>215,361</u></u>

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

City of Carthage
Notes to the Financial Statements
September 30, 2006

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Carthage (City) is a special-charter municipality governed by an elected mayor and four aldermen. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

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.

B. Government-wide and Fund Financial Statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

City of Carthage
Notes to the Financial Statements
September 30, 2006

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

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

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

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 Carthage
Notes to the Financial Statements
September 30, 2006

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.

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

D. Assets, Liabilities and Net Assets or Equity.

1. Deposits.

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

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the county did not invest in any governmental securities during the fiscal year.

2. Receivables.

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

3. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City of Carthage
Notes to the Financial Statements
September 30, 2006

4. *Restricted Assets.*

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

5. *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.

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

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

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

City of Carthage
Notes to the Financial Statements
September 30, 2006

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	500	5-10 years
Furniture and equipment	500	3-7 years

6. *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.

7. *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.

8. *Equity Classifications.*

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

City of Carthage
Notes to the Financial Statements
September 30, 2006

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved. Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

9. *Property Tax Revenues.*

Statutes exist under which the Board of Aldermen may levy property taxes. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Aldermen, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicles and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

10. *Intergovernmental Revenues in Governmental Funds.*

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

City of Carthage
Notes to the Financial Statements
September 30, 2006

2. Detailed Notes on All Funds.

A. Deposits.

At year end, the City's carrying amount of deposits was \$2,453,384 and the bank balance was \$2,455,950. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

B. Receivables.

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

	<u>General</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:			
Sales tax	\$ 265,738		265,738
Property taxes	410,000		410,000
Accounts	50,860	96,431	147,291
Fines	148,900		148,900
Other receivables		4,298	4,298
Internal balances	(63,500)	63,500	
Gross receivables	811,998	164,229	971,929
Less: Allowance for uncollectibles	(89,400)		(89,400)
Net total receivables	\$ <u>722,598</u>	<u>164,229</u>	<u>882,529</u>

City of Carthage
Notes to the Financial Statements
September 30, 2006

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. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>
Property taxes receivable: General fund	\$ 410,000
Fines receivable: General Fund	59,500
Total deferred revenue for governmental funds	\$ 469,500

C. Capital Assets.

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

Primary Government

Governmental activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 161,309	530,458		691,767
Total capital assets, not being depreciated	161,309	530,458	0	691,767
Capital assets, being depreciated:				
Buildings	3,750,148		(736,362)	3,013,786
Improvements other than buildings	2,413,620			2,413,620
Streets	416,532			416,532
Machinery and equipment	2,509,421	340,020		2,849,441
Total capital assets being depreciated	9,089,721	340,020	(736,362)	8,693,379
Less: Accumulated depreciation for:				
Buildings	(2,938,313)	(9,210)	205,904	(2,741,619)
Improvements other than buildings	(2,349,324)	(2,803)		(2,352,127)
Streets	(41,382)	(21,639)		(63,021)
Machinery and equipment	(2,158,946)	(251,768)		(2,410,714)
Total accumulated depreciation	(7,487,965)	(285,420)	205,904	(7,567,481)
Total capital assets, being depreciated, net	1,601,756	54,600	(530,458)	1,125,898
Governmental activities capital assets, net	\$ 1,763,065	585,058	(530,458)	1,817,665

City of Carthage
Notes to the Financial Statements
September 30, 2006

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 88,321	579,597		667,918
Total capital assets, not being depreciated	<u>88,321</u>	<u>579,597</u>	<u>0</u>	<u>667,918</u>
Capital assets, being depreciated:				
Water system	2,346,354	1,640	(4,550)	2,343,444
Sewer system	3,381,128			3,381,128
Total capital assets, being depreciated	<u>5,727,482</u>	<u>1,640</u>	<u>(4,550)</u>	<u>5,724,572</u>
Less: Accumulated depreciation	<u>(1,872,472)</u>	<u>(135,150)</u>	<u>3,750</u>	<u>(2,003,872)</u>
Total capital assets, being depreciated, net	<u>3,855,010</u>	<u>(133,510)</u>	<u>(800)</u>	<u>3,720,700</u>
Business-type activities capital assets, net	<u>\$ 3,943,331</u>	<u>446,087</u>	<u>(800)</u>	<u>4,388,618</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
General government	\$ 34,446
Public safety	104,558
Public works	111,159
Culture and recreation	<u>35,257</u>
Total depreciation expense - governmental activities	<u>\$ 285,420</u>
Business-type activities:	
Water and sewer	<u>\$ 135,950</u>
Total depreciation expense - business-type activities	<u>\$ 135,950</u>

D. Interfund Transfers.

The composition of interfund transfers as of September 30, 2006, is as follows

	Transfer In:		
	General Fund	Nonmajor Governmental	Total
Transfer out:			
Water and sewer fund	\$ 6,646	65,301	71,947
Total transfers out	<u>\$ 6,646</u>	<u>65,301</u>	<u>71,947</u>

City of Carthage
Notes to the Financial Statements
September 30, 2006

E. Leases.

Capital Leases

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

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2006 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Water and Sewer Fund</u>
2007	\$ 78,573	5,774
2008	55,564	
2009	<u>128,576</u>	
Total minimum lease payments	262,713	5,774
Less: amount representing interest	<u>(19,129)</u>	<u>(78)</u>
Present value of minimum lease payments	<u>\$ 243,584</u>	<u>5,696</u>

F. Long-term Debt.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City has no general obligation bonds outstanding.

Revenue Bonds

The City also issued water and sewer revenue bonds in 1992 and 1996 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 Carthage
Notes to the Financial Statements
September 30, 2006

Revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities		\$ 0
Business-type activities:		
1992 Water and Sewer Revenue Bonds	5.9 - 6.1%	65,000
1996 Water & Sewer Revenue Bonds	4.6 - 5.25%	110,000
		<u>\$ 175,000</u>

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

Year Ending September 30	Governmental Activities	
	Principal	Interest
2007	\$ 85,000	9,019
2008	20,000	4,084
2009	20,000	3,094
2010	25,000	1,953
2011	25,000	656
Total	<u>\$ 175,000</u>	<u>18,806</u>

Loans Payable

The City has received several loans to finance various projects including building acquisition and water/sewer improvements. Most of these loans are made under various state programs some of which have federal participation. There were no new loans made during the current year. Loans currently outstanding are as follows:

Loan Type	Interest Rates	Amount
Business-type activities		
State of Mississippi Capital Improvement (CAP)	3.7%	\$ 142,134
State of Mississippi Capital Improvement (CAP)	3.7%	39,672
Drinking water systems improvement revolving loan fund (DWSIRLF)	3.0%	499,177
State of Mississippi Capital Improvement (CAP)	2.00%	64,658
State of Mississippi Capital Improvement (CAP)	2.00%	303,460
Water Pollution Control revolving loan fund (WPCRLF)	2.00%	949,157
		<u>\$ 1,998,258</u>

City of Carthage
Notes to the Financial Statements
September 30, 2006

Loan debt service requirements to maturity are as follows:

Year Ending September 30	Business-type Activities	
	Principal	Interest
2007	\$ 95,400	39,482
2008	98,066	36,814
2009	100,813	34,069
2010	103,642	31,239
2011-2015	460,171	116,051
2016-2020	443,820	63,189
2021-2025	328,118	14,634
Sub-total	1,630,030	335,478
Debt on uncompleted projects	368,118	
	\$ 1,998,148	

Changes in Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Loans payable	\$ 37,376	0	(37,376)	0	0
Capital leases	73,128	255,858	(85,403)	243,583	69,016
Governmental activity long-term liabilities	\$ 110,504	255,858	(122,779)	243,583	69,016
Business-type Activities:					
Bonds payable:					
Revenue bonds	\$ 255,000		(80,000)	175,000	85,000
Loans payable	1,791,954	288,797	(82,493)	1,998,258	95,400
Capital leases	15,152		(9,456)	5,696	5,696
Business-type activity long-term liabilities	\$ 2,062,106	288,797	(171,949)	2,178,954	186,096

4. Other Information.

A. Contingencies.

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

City of Carthage
Notes to the Financial Statements
September 30, 2006

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. Defined Benefit Pension Plan.

Plan Description. The City of Carthage 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 Carthage is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% 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 Carthage's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005 and 2004 were \$168,088, \$149,140, and \$131,509, 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 CARTHAGE

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 Carthage
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 500,000	684,322	684,322	
Licenses and permits	26,000	18,863	18,863	
Fines and forfeitures	261,000	158,146	158,146	
Intergovernmental revenues	4,027,600	1,763,210	1,763,210	
Charges for services	280,500	222,867	222,867	
Interest earned		12,641	12,641	
Miscellaneous revenues	630,000	185,989	185,989	
Total Revenues	<u>5,725,100</u>	<u>3,046,038</u>	<u>3,046,038</u>	<u>0</u>
EXPENDITURES				
General government	1,013,475	772,496	772,496	
Public safety	1,873,801	1,399,308	1,399,308	
Support services	2,500			
Public works	2,196,822	982,938	982,938	
Health and welfare	97,162	18,632	18,632	
Culture and recreation	1,198,500	284,389	284,389	
Urban and economic development	27,000	26,000	26,000	
Total Expenditures	<u>6,409,260</u>	<u>3,483,763</u>	<u>3,483,763</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(684,160)</u>	<u>(437,725)</u>	<u>(437,725)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued				
Transfers out		(106,053)	(106,053)	
Federal assistance		12,940	12,940	
Sale of assets		64,500	64,500	
Total Other Financing Sources and Uses	<u>0</u>	<u>(28,613)</u>	<u>(28,613)</u>	<u>0</u>
Net Change in Fund Balance	(684,160)	(466,338)	(466,338)	0
Fund Balances - Beginning	<u>741,639</u>	<u>613,745</u>	<u>613,745</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 57,479</u>	<u>147,407</u>	<u>147,407</u>	<u>0</u>

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

City of Carthage

Notes to the Required Supplementary Information For the Year Ended September 30, 2006

A. Budgetary Information.

Statutory requirements dictate how and when the city's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the City, using historical and anticipated fiscal data and proposed budgets submitted by the various department managers for their respective departments, 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.

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 Carthage

Notes to the Required Supplementary Information
For the Year Ended September 30, 2006

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

	<u>General Fund</u>
Net Change in Fund Balance - Budget (Cash Basis)	\$ (466,338)
Increase (decrease):	
Net adjustments for revenue accruals	12,011
Net adjustments for expenditure accruals	<u>0</u>
Net Change in Fund Balance GAAP Basis	<u>\$ (454,327)</u>

CITY OF CARTHAGE

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS 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 Carthage, 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 of City of Carthage, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 23, 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 City of Carthage, 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 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 several matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Those material weaknesses are described in the attached schedule of findings.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Carthage, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC
February 23, 2007

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

Honorable Mayor and
Members of the Board of Aldermen
City of Carthage, 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 of City of Carthage, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC
February 23, 2007

CITY OF CARTHAGE

SCHEDULE OF FINDINGS

City of Carthage
Schedule of Findings
September 30, 2006

1. Finding

Bank accounts are not being reconciled in a timely manner.

Recommendation

Bank accounts should be reconciled monthly.

Response

Procedures have been developed to assure reconciliation of bank statements monthly.

2. Finding

Receipt of concession stand collections by the City Clerk was not properly documented. The Parks Director was not given a receipt for concession collections when they were remitted to the City Clerk.

Recommendation

Policies should be developed requiring receipts be issued any time money is transferred from one person or department to another.

Response

The Mayor is developing such a policy.

3. Finding

Transfers between funds and bank accounts were routinely made without documentation or authorization by the Board of Aldermen, especially to and from the water department.

Recommendation

All transfers between funds should require Board approval.

Response

The Mayor and City Clerk will monitor transfers and will seek Board approval before transferring money between funds.

City of Carthage
Schedule of Findings
September 30, 2006

4. Finding

Internal control over purchases is lax with some expenditures made without supporting documentation, purchase orders or other evidence of approval.

Recommendation

Internal control should be strengthened with the development of written policies and procedures for authorization of expenditures and the proper use of purchase orders.

Response

The Mayor is developing written policies and procedures over expenditures.

5. Finding

Some travel reimbursements were not properly documented.

Recommendation

Reimbursement for travel costs should be documented using travel vouchers recommended by the Department of Audit.

Response

The Mayor is developing travel reimbursement policies and procedures.

6. Finding

There is inadequate separation of duties in water department functions and some financial functions.

Recommendation

Internal control over financial functions can be strengthened by the development of job descriptions that will prevent one employee from performing all of the duties required of a certain function. For example, an employee who is responsible for posting customer payments to accounts receivable should not also be allowed to post adjustments to customer accounts or to issue refunds.

Response

The Mayor and City Clerk will develop job descriptions to maximize separation of duties given the small number of employees.

City of Carthage
Schedule of Findings
September 30, 2006

7. Finding

There are no written policies and procedures for any City operations.

Recommendation

There should be policies and procedures developed for all City operations such as financial management, personnel, water and sewer operations, parks and recreation operations, and police department operations.

Response

The Mayor is committed to developing written policies and procedures.