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CITY OF LUCEDALE
Report on Audit of
Financial Statements

September 30, 2006

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EXHIBIT I

CITY OF LUCEDALE

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INDEPENDENT AUDITOR'S REPORT ON 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, 2006, which collectively comprise the basic financial statements 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 Lucedale, 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 January 9, 2007, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lucedale, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Windham and Lacey, PLLC
January 9, 2007

CITY OF LUCEDALE

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LUCEDALE

Management's Discussion and Analysis For the Year Ended September 30, 2006

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, 2006. 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

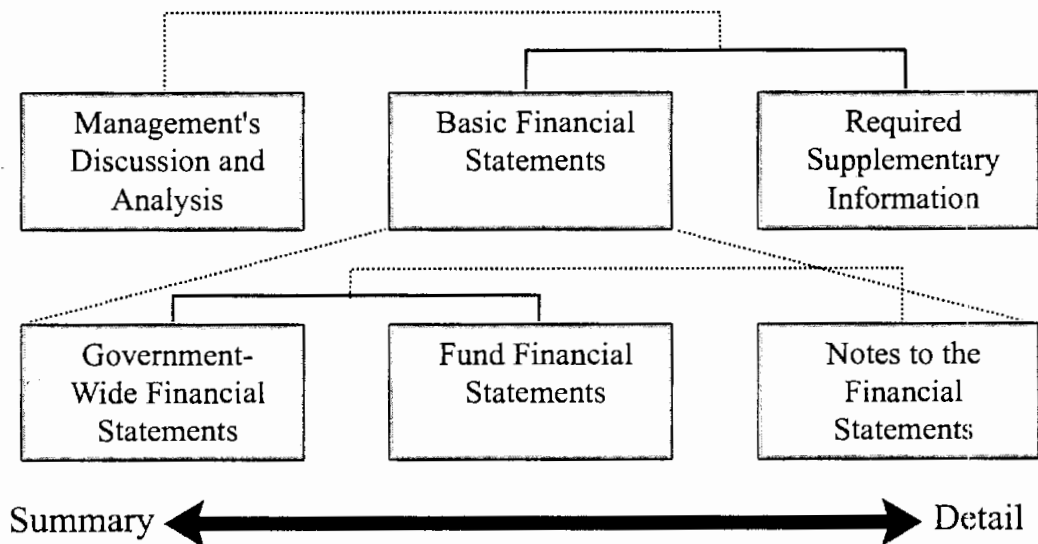


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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 	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 \$977,322. The City's ending cash balance increased by \$694,527, which represents a 50% increase from the prior fiscal year. This increase is due primarily to increases in sales tax collections.

The City had \$3,409,368 in total revenues in its governmental funds. Property tax revenues account for \$302,873 or 8.9% of total revenues. Federal, state and local revenues in the form of reimbursements, shared revenue or grants, account for \$2,601,275 or 76% of total revenues.

The City had \$2,877,356 in total expenses in its governmental funds, which represents an increase of \$23,084 or 0.8% increase from the prior fiscal year.

Among major funds, the General Fund had \$3,409,150 in revenues and \$2,877,356 in expenditures. The General Fund's fund balance increased \$583,074 over the prior year.

Among business-type major funds, the Water/Sewer Fund had \$937,557 in total revenues and \$460,152 in expenditures. The Water/Sewer Fund increased by \$477,405 over the prior year. The increase in revenues is due in part to federal and state grants for various water/sewer projects.

Capital assets of governmental activities, net of accumulated depreciation, decreased by \$14,921. Capital assets of business type activities, net of accumulated depreciation, increased by \$379,774.

Long-term debt decreased by \$79,389.

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 *Municipal Audit and Accounting Guide* 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 \$6,586,170 as of September 30, 2006 and \$5,550,777 as of September 30, 2005.

By far, the largest portion of the City's net assets (70%) 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, 2006 and 2005:

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Current assets	\$ 2,295,135	1,778,674	\$ 312,836	267,956
Restricted cash	52,061	38,514	212,245	204,948
Capital assets, net	2,657,934	2,672,855	1,941,193	1,561,419
Total assets	<u>\$ 5,005,130</u>	<u>4,490,043</u>	<u>\$ 2,466,274</u>	<u>2,034,323</u>
Current liabilities	\$ 389,908	432,809	\$ 126,591	92,838
Long-term debt outstanding			368,735	447,943
Total liabilities	<u>\$ 389,908</u>	<u>432,809</u>	<u>\$ 495,326</u>	<u>540,781</u>
Net assets				
Invested in capital assets, net of related debt	\$ 2,657,934	2,672,855	\$ 1,520,316	1,061,153
Restricted	59,113	38,514	212,245	204,948
Unrestricted	1,898,175	1,345,865	238,387	227,442
Total net assets	<u>\$ 4,615,222</u>	<u>4,057,234</u>	<u>\$ 1,970,948</u>	<u>1,493,543</u>

Changes in Net Assets - The City of Lucedale's total revenues for the fiscal year ended September 30, 2006 was \$4,278,471. The total cost for all services provided was \$3,301,149. The increase in net assets was \$977,322. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2006 and 2005.

Revenues:	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services	\$ 703,712	738,446
Operating grants and contributions	374,143	327,293
Capital grants and contributions	423,259	320,732
General revenues:		
Taxes	2,630,990	2,110,153
Unrestricted grants and contributions	9,692	9,690
Interest	55,635	40,579
Other	81,040	9,752
Total Revenue	<u>\$ 4,278,471</u>	<u>3,556,645</u>
Expenses:		
General government	\$ 399,316	395,922
Public safety	1,070,159	1,053,029
Public works	1,143,214	1,056,561
Health and welfare	3,200	3,200
Culture and recreation	161,015	253,384
Urban and economic development	64,093	61,232
Water and sewer services	460,152	442,673
Total Expenses	<u>\$ 3,301,149</u>	<u>3,266,001</u>
Increase in net assets	<u>\$ 977,322</u>	<u>290,644</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	\$ 399,316	\$ 399,316
Public safety	1,070,159	1,005,315
Public works	1,143,214	609,349
Health and welfare	3,200	(17,045)
Culture and recreation	161,015	153,699
Urban and economic development	64,093	64,093

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 \$1,912,921, an increase of \$532,012.

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 \$531,794.

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 \$197,547.

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, 2006, the City of Lucedale's total capital assets were \$8,823,749. This includes streets, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, and water sewer infrastructure.

Total accumulated depreciation as of September 30, 2006 was \$4,224,622, including \$263,473 of depreciation expense for the year. The balance in total net capital assets was \$4,599,127 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, 2006, the City of Lucedale had \$420,876 long-term debt outstanding. This includes general obligation bonds and water/sewer revenue bonds. Of this debt \$80,752 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. 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, 2006**

Exhibit 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash	\$ 1,564,847	254,364	1,819,211
Property tax receivable	283,700		283,700
Fines receivable, net	44,367		44,367
Accounts receivable, net	66,243	58,472	124,715
Sales tax receivable	335,978		335,978
Total current assets	<u>2,295,135</u>	<u>312,836</u>	<u>2,607,971</u>
Noncurrent Assets:			
Restricted cash	52,061	212,245	264,306
Capital assets, net (Note 1)	2,657,934	1,941,193	4,599,127
Total noncurrent assets	<u>2,709,995</u>	<u>2,153,438</u>	<u>4,863,433</u>
 Total Assets	 <u>\$ 5,005,130</u>	 <u>2,466,274</u>	 <u>7,471,404</u>
LIABILITIES			
Current Liabilities:			
Claims payable	\$ 106,208	42,092	148,300
Accrued interest payable		1,816	1,816
Deferred revenue	283,700		283,700
Current portion of long-term debt		80,752	80,752
Other current liabilities		1,931	1,931
Total current liabilities	<u>389,908</u>	<u>126,591</u>	<u>516,499</u>
Noncurrent Liabilities:			
Long-term liabilities (Note 2)		340,125	340,125
Customer meter deposits payable		28,610	28,610
Total noncurrent liabilities	<u>0</u>	<u>368,735</u>	<u>368,735</u>
 Total Liabilities	 <u>389,908</u>	 <u>495,326</u>	 <u>885,234</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,657,934	1,520,316	4,178,250
Restricted for:			
Public safety	52,061		52,061
Unemployment compensation	7,052		7,052
Unrestricted (deficit)	1,898,175	450,632	2,348,807
Total Net Assets	<u>\$ 4,615,222</u>	<u>1,970,948</u>	<u>6,586,170</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, 2006

Exhibit 2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Fees, Fines & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:						
Governmental Activities:						
General government	\$ 399,316			(399,316)		(399,316)
Public safety	1,070,159	12,500	4,243	(1,005,315)		(1,005,315)
Public works	1,143,214	361,643	15,000	(609,349)		(609,349)
Health and welfare	3,200			17,045		17,045
Culture and recreation	161,015		7,316	(153,699)		(153,699)
Urban and economic development	64,093			(64,093)		(64,093)
Interest on long-term debt				0	(20,585)	(20,585)
Total Governmental Activities	<u>2,840,997</u>	<u>374,143</u>	<u>26,559</u>	<u>(2,214,727)</u>	<u>(20,585)</u>	<u>(2,235,312)</u>
Business-type Activities:						
Water/Sewer	439,567		396,700		435,277	435,277
Total Business-type Activities	<u>439,567</u>	<u>0</u>	<u>396,700</u>	<u>0</u>	<u>435,277</u>	<u>435,277</u>
Total Primary Government	<u>\$ 3,280,564</u>	<u>374,143</u>	<u>423,259</u>	<u>(2,214,727)</u>	<u>414,692</u>	<u>(1,800,035)</u>
General Revenues						
Taxes:						
Property taxes				\$ 302,873		302,873
Road & bridge privilege taxes				140,603		140,603
Sales tax				2,040,208		2,040,208
Franchise taxes				147,306		147,306
Grants and contributions not restricted to specific programs				9,692		9,692
Unrestricted investment income				44,202	11,433	55,635
Miscellaneous				81,040		81,040
Transfers				(51,280)	51,280	
Total General Revenues				<u>2,714,644</u>	<u>62,713</u>	<u>2,777,357</u>
Change in net assets				<u>499,917</u>	<u>477,405</u>	<u>977,322</u>
Net Assets - Beginning				4,057,234	1,493,543	5,550,777
Prior period adjustment				58,071		58,071
Net Assets - Beginning, restated				<u>4,115,305</u>	<u>1,493,543</u>	<u>5,608,848</u>
Net Assets - Ending				<u>\$ 4,615,222</u>	<u>1,970,948</u>	<u>6,586,170</u>

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

**City of Lucedale
Balance Sheet
Governmental Funds
September 30, 2006**

Exhibit 3

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 1,609,856	7,052	1,616,908
Property tax receivable	291,307		291,307
Fines receivable	44,367		44,367
Sales tax receivable	335,978		335,978
Other receivables	58,636		58,636
Total Assets	<u>\$ 2,340,144</u>	<u>7,052</u>	<u>2,347,196</u>
LIABILITIES & FUND BALANCES			
Liabilities:			
Claims payable	\$ 106,208		106,208
Deferred revenue	328,067		328,067
Total Liabilities	<u>434,275</u>	<u>0</u>	<u>434,275</u>
Fund Balances:			
Unreserved:			
General fund	1,853,808		1,853,808
Public safety	52,061		52,061
Unemployment compensation		7,052	7,052
Total Fund Balances	<u>1,905,869</u>	<u>7,052</u>	<u>1,912,921</u>
Total Liabilities and Fund Balances	<u>\$ 2,340,144</u>	<u>7,052</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, 2005	\$ 2,672,855		
Plus capital outlay expenditures made during the year	143,119		
Less depreciation expense recorded during the year	(158,040)		
Less net book value of capital assets sold during the year			2,657,934
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds			<u>44,367</u>
Net Assets of Governmental Activities			<u>\$ 4,615,222</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, 2006

Exhibit 4

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 302,873		302,873
Licenses and permits	167,550		167,550
Fines and forfeitures	63,082		63,082
Intergovernmental revenues	2,601,275		2,601,275
Charges for services	145,001		145,001
Interest income	43,983	218	44,201
Miscellaneous	85,386		85,386
Total Revenues	<u>3,409,150</u>	<u>218</u>	<u>3,409,368</u>
EXPENDITURES			
Current:			
General government	399,386		399,386
Public safety	1,103,948		1,103,948
Public works	1,140,213		1,140,213
Health and welfare	3,200		3,200
Culture and recreation	115,166		115,166
Urban and economic development	64,163		64,163
Total Expenditures	<u>2,826,076</u>	<u>0</u>	<u>2,826,076</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>583,074</u>	<u>218</u>	<u>583,292</u>
Other Financing Sources (Uses)			
Transfers in (out)	<u>(51,280)</u>		<u>(51,280)</u>
Total Other Financing Sources and Uses	<u>(51,280)</u>	<u>0</u>	<u>(51,280)</u>
Net Change in Fund Balances	-531,794	218	532,012
Fund Balances - Beginning	<u>1,374,075</u>	<u>6,834</u>	<u>1,380,909</u>
Fund Balances - Ending	<u>\$ 1,905,869</u>	<u>7,052</u>	<u>1,912,921</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, 2006**

Exhibit 5

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4)	\$ 532,012
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 (\$158,040) exceeded capital outlays (\$143,119) in the current period.	(14,921)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Fine revenue.	<u>(17,174)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	<u>\$ 499,917</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

	Business-type Activity
	<u>Water/Sewer</u>
ASSETS	
Current Assets:	
Cash	\$ 254,364
Accounts receivable, net	58,472
Total current assets	<u>312,836</u>
Noncurrent assets:	
Restricted cash and cash equivalents	212,245
Capital assets, net	1,941,193
Total noncurrent assets	<u>2,153,438</u>
 Total Assets	 \$ <u>2,466,274</u>
LIABILITIES	
Current Liabilities:	
Claims payable	\$ 42,092
Accrued interest payable	1,816
Current portion of long-term debt	80,752
Other current liabilities	1,931
Total current liabilities	<u>126,591</u>
Noncurrent Liabilities:	
Long-term liabilities	340,125
Customer meter deposits payable	28,610
Total noncurrent liabilities	<u>368,735</u>
 Total Liabilities	 <u>495,326</u>
NET ASSETS	
Invested in capital assets net of related debt	1,520,316
Restricted for debt service	212,245
Unrestricted	238,387
Total Net Assets	\$ <u>1,970,948</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, 2006

Exhibit 7

	Business-type
	Activity
	Water/Sewer
OPERATING REVENUES	
Charges for services	\$ 478,144
Total Operating Revenues	<u>478,144</u>
OPERATING EXPENSES	
Personal services	142,344
Contractual services	112,406
Materials and supplies	69,064
Depreciation expense	105,433
Other operating expenses	10,320
Total Operating Expenses	<u>439,567</u>
Operating Income (Loss)	<u>38,577</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	11,433
Interest expense	(20,585)
Capital contribution - federal and state grants	396,700
Transfers in (out)	51,280
Total Nonoperating Revenue (Expenses)	<u>438,828</u>
Change in Net Assets	477,405
Total Net Assets - Beginning	<u>1,493,543</u>
Total Net Assets - Ending	<u>\$ 1,970,948</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, 2006

Exhibit 8

	Business-type Activity
	<u>Water/Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 499,500
Payments to suppliers	(301,108)
Net Cash Provided (Used) by Operating Activities	<u>198,392</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(485,206)
Principal paid on long-term debt	(79,389)
Interest expense paid	(21,277)
Receipts from (payments to) other funds	51,280
Receipts from other governments	396,700
Net Cash Provided (Used) by Capital Financing Activities	<u>(137,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>11,433</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>71,933</u>
Cash and Cash Equivalents - Beginning of Year	394,676
Cash and Cash Equivalents - End of Year	\$ <u><u>466,609</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ <u>38,577</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation	105,433
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	19,756
Increase (decrease) in claims payable	32,320
Increase (decrease) in customer deposits	1,600
Other, net	706
Total adjustments	<u>159,815</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>198,392</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, 2006

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, 2006

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.

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.

CITY OF LUCEDALE

Notes to Financial Statements For the Year Ended September 30, 2006

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.

State law authorizes the county 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 city did not invest in any governmental securities during the fiscal year.

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, 2006

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, 2006

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. *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, constructions 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.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved with unreserved classified as designated and undesignated.

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.

8. *Property Tax Revenues.*

Numerous statutes exist under which the City may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. 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.

CITY OF LUCEDALE

Notes to Financial Statements For the Year Ended September 30, 2006

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 vehicle 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.

9. *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.

2. **Changes in Accounting Standards.**

For the fiscal year ended September 30, 2006, the city implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of this new statement have been incorporated into the financial statements and the accompanying notes.

For the fiscal year ended September 30, 2006, the city implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 requires governments to report the effects of capital asset impairment in their financial statements when impairment occurs.

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2006

3. Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Fine revenues deferred in governmental funds in the prior year were not recognized as revenue in prior year net assets under full-accrual basis of accounting	\$ <u>58,071</u>

4. Detailed Notes on All Funds.

A. Cash.

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.

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.

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2006

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	Total
Receivables:			
Sales tax	\$ 335,978		335,978
Property taxes	291,307		291,307
Accounts		95,727	95,727
Garbage charges	18,513		18,513
Franchise fees	40,123		40,123
Fines	485,081		485,081
Gross receivables	1,171,002	95,727	1,266,729
Less: allowance for uncollectibles	(440,714)	(37,255)	(477,969)
Net total receivables	\$ 730,288	58,472	788,760

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:

Property taxes receivable: General fund	\$	269,550
Fines receivable: General Fund		58,072
Total deferred for governmental funds	\$	327,622

C. Transfers In/Out.

	Transfer in: Water/Sewer Fund
Transfer out:	
General Fund	\$ 51,280
Total transfers out	\$ 51,280

The principal purpose of the transfers was for the matching portion of grants for various water/sewer construction projects.

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2006

D. Capital Assets.

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

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 145,169	10,000		155,169
Total capital assets, not being depreciated	<u>145,169</u>	<u>10,000</u>	<u>0</u>	<u>155,169</u>
Capital assets, being depreciated:				
Buildings	1,310,725	14,987		1,325,712
Improvements other than buildings	144,208			144,208
Streets	1,916,463			1,916,463
Bridges	9,920			9,920
Machinery and equipment	<u>1,523,848</u>	<u>118,132</u>		<u>1,641,980</u>
Total capital assets being depreciated	<u>4,905,164</u>	<u>133,119</u>	<u>0</u>	<u>5,038,283</u>
Less: Accumulated depreciation for:				
Buildings	(150,345)	(26,214)		(176,559)
Improvements other than buildings	(31,306)	(5,768)		(37,074)
Streets	(968,102)	(28,050)		(996,152)
Bridges	(9,920)			(9,920)
Machinery and equipment	<u>(1,217,805)</u>	<u>(98,008)</u>		<u>(1,315,813)</u>
Total accumulated depreciation	<u>(2,377,478)</u>	<u>(158,040)</u>	<u>0</u>	<u>(2,535,518)</u>
Total capital assets, being depreciated, net	<u>2,527,686</u>	<u>(24,921)</u>	<u>0</u>	<u>2,502,765</u>
Governmental activities capital assets, net	<u>\$ 2,672,855</u>	<u>(14,921)</u>	<u>0</u>	<u>2,657,934</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 0	309,150		309,150
Total capital assets, not being depreciated	<u>0</u>	<u>309,150</u>	<u>0</u>	<u>309,150</u>
Capital assets, being depreciated:				
Water system	777,938	37,227		815,165
Sewer system	<u>2,367,152</u>	<u>138,830</u>		<u>2,505,982</u>
Total capital assets, being depreciated	<u>3,145,090</u>	<u>176,057</u>	<u>0</u>	<u>3,321,147</u>
Less: Accumulated depreciation	<u>(1,583,671)</u>	<u>(105,433)</u>		<u>(1,689,104)</u>
Total capital assets, being depreciated, net	<u>1,561,419</u>	<u>70,624</u>	<u>0</u>	<u>1,632,043</u>
Business-type activities capital assets, net	<u>\$ 1,561,419</u>	<u>379,774</u>	<u>0</u>	<u>1,941,193</u>

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2006

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

Governmental activities:	
General government	\$ 11,726
Public safety	34,218
Public works	62,068
Culture and recreation	49,498
Urban and economic development	<u>530</u>
Total depreciation expense - governmental activities	<u>\$ 158,040</u>
Business-type activities:	
Water and sewer	<u>\$ 105,433</u>
Total depreciation expense - business-type activities	<u>\$ 105,433</u>

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>155,000</u>
Total		<u>\$ 155,000</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>
2007	\$ 50,000	5,448
2008	55,000	3,255
2009	<u>50,000</u>	<u>1,050</u>
Total	<u>\$ 155,000</u>	<u>9,753</u>

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2006

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.

Revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities		\$ 0
Business-type activities:		
2002 Water system rural development bond	4.5%	138,305
1977 Revenue bonds	5.0%	127,572
Total		\$ <u>265,877</u>

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 30,752	12,392
2008	32,240	10,904
2009	33,800	9,344
2010	35,436	7,708
2011	37,152	5,992
2012-2016	96,496	12,935
Total	\$ <u>265,877</u>	<u>59,274</u>

Changes in Long-term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Governmental activity long-term liabilities	\$ <u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 205,000		(50,000)	155,000	50,000
Revenue bonds	<u>295,266</u>	<u>0</u>	<u>(29,390)</u>	<u>265,876</u>	<u>30,752</u>
Business-type activity long-term liabilities	\$ <u>500,266</u>	<u>0</u>	<u>(79,390)</u>	<u>420,876</u>	<u>80,752</u>

CITY OF LUCEDALE

Notes to Financial Statements
For the Year Ended September 30, 2006

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, 2006, 2005 and 2004 were \$117,604, \$105,325 and \$100,390 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, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes	\$ 269,550	285,981	285,981	
Licenses and permits	138,200	167,550	167,550	
Fines and forfeitures	65,000	63,082	63,082	
Intergovernmental revenues	1,669,000	2,265,262	2,265,262	
Charges for services	138,250	145,001	145,001	
Interest earned	30,000	43,983	43,983	
Miscellaneous revenues	53,188	85,386	85,386	
Total Revenues	<u>2,363,188</u>	<u>3,056,245</u>	<u>3,056,245</u>	<u>0</u>
EXPENDITURES				
General government	427,525	399,386	399,386	
Public safety	1,204,969	1,103,948	1,103,948	
Public works	798,040	1,140,213	1,140,213	
Health and welfare	3,200	3,200	3,200	
Culture and recreation	123,695	115,166	115,166	
Urban and economic development	71,100	64,163	64,163	
Total Expenditures	<u>2,628,529</u>	<u>2,826,076</u>	<u>2,826,076</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(265,341)</u>	<u>230,169</u>	<u>230,169</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Fire insurance proceeds				
Transfers out		(51,280)	(51,280)	
Federal assistance		365,886	365,886	
Total Other Financing Sources and Uses	<u>0</u>	<u>314,606</u>	<u>314,606</u>	<u>0</u>
Net Change in Fund Balance	(265,341)	544,775	544,775	0
Fund Balances - Beginning	<u>265,341</u>	<u>987,481</u>	<u>987,481</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>1,532,256</u>	<u>1,532,256</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, 2006

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, 2006

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

	<u>Governmental</u> <u>Fund Types</u>
	<u>General</u> <u>Fund</u>
Net Change in Fund Balance – Budget (Cash Basis)	\$ 544,775
Increase (decrease):	
Net adjustments for revenue accruals	<u>(12,981)</u>
Net Change in Fund Balance GAAP Basis	<u>\$ 531,794</u>

CITY OF LUCEDALE

SUPPLEMENTAL INFORMATION

City of Lucedale
 Schedule of Expenditures of Federal Awards
 September 30, 2006

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
Major Programs:				
U. S. Department of Homeland Security/Federal Emergency Management Agency/Mississippi Emergency Management Agency/Hurricane Disaster Assistance	97.036	FEMA-1604-DR-MS	FEMA-1604-DR-MS	\$ <u>337,758</u>
Total Major Programs				<u>337,758</u>
Non-Major Programs:				
U.S. Department of Homeland Security/ MS Department of Public Safety/ ODP Homeland Security Grant Program	97.067	05HS239	05HS239	11,089
U.S. Dept. of Justice/MS Dept. of Public Safety Hurricane Relief Grant	16.738	2006-DH-BX-0438	2006-DH-BX-0438	4,243
U.S. Department of Housing and Urban Dev./MS Development Authority/Community Development Block Grant/Water Tank Cleaning & Painting	14.228	1122-05-239-PF-01	1122-05-239-PF-01	<u>296,700</u>
Total Non-Major Programs				<u>312,032</u>
Total Major and Non-Major Programs				\$ <u><u>649,790</u></u>

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Lucedale and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF LUCEDALE

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

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

Members:
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Mississippi Society of CPAs

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

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of 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 9, 2007

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
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Mississippi Society of CPAs

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 Lucedale, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Lucedale, Mississippi, as of and for the year ended September 30, 2006 which collectively comprise City of Lucedale, Mississippi's basic financial statements and have issued our report thereon dated January 9, 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 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 is not intended to be and should not be used by anyone other than this specified party.


Windham & Lacey, PLLC
January 9, 2007

Windham and Lacey, PLLC

Certified Public Accountants

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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 Lucedale, Mississippi

We have audited the 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, 2006, and have issued our report thereon dated January 9, 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 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 9, 2007

CITY OF LUCEDALE

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the financial statements: | Unqualified |
| 2. Material noncompliance relating to the financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Reportable conditions identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. Any audit findings reported as required by Section __.510(a) of Circular A-133? | No |

CITY OF LUCEDALE

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

7. Federal programs identified as major programs:

Department of Homeland Security/Federal Emergency
Management Agency
Hurricane Disaster Assistance, CFDA #97.036

The dollar threshold used to distinguish between type A and type B
programs: \$300,000

Auditee qualified as a low-risk auditee? No

8. Prior fiscal year audit findings and questioned cost relative to federal
awards which would require the auditee to prepare a summary
schedule of prior audit findings as discussed in Section ____ .315(b)
of OMB Circular A-133? No

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required
to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.