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**CITY OF LUMBERTON, MISSISSIPPI**

**AUDITED STATEMENT OF CASH RECEIPTS  
AND DISBURSEMENTS,  
SUPPLEMENTAL INFORMATION AND  
AUDITORS' REPORTS ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING,  
COMPLIANCE AND OTHER MATTERS**

**YEAR ENDED SEPTEMBER 30, 2006**

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**CITY OF LUMBERTON, MISSISSIPPI**  
**AUDITED STATEMENT OF CASH RECEIPTS  
AND DISBURSEMENTS,  
SUPPLEMENTAL INFORMATION AND  
AUDITORS' REPORTS ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING,  
COMPLIANCE AND OTHER MATTERS**  
**YEAR ENDED SEPTEMBER 30, 2006**

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Mayor and Board of Aldermen  
City of Lumberton, Mississippi

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### Independent Auditors' Report

We have audited the accompanying statement of cash receipts and disbursements of the City of Lumberton, Mississippi for the year ended September 30, 2006. This financial statement is the responsibility of the City of Lumberton, Mississippi's management. Our responsibility is to express an opinion on this financial statement 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Lumberton's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

As described more fully in Note 1, the City of Lumberton, Mississippi has prepared the financial statement using accounting practices prescribed or permitted by the State of Mississippi, whose practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Lumberton, Mississippi as of September 30, 2006, or the changes in its financial position.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balances of each fund of the City of Lumberton, Mississippi as of

September 30, 2006, and its respective cash receipts and disbursements on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2007, on our consideration of the City of Lumberton, Mississippi's internal control over financial reporting and on 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the statement of cash receipts and disbursements of the City of Lumberton, Mississippi. The accompanying supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statement of the City of Lumberton. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

*Smith, Turner & Reeves, P.A.*

Natchez, Mississippi  
December 3, 2007

**FINANCIAL STATEMENT**

**CITY OF LUMBERTON, MISSISSIPPI**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2006**

	Governmental Activities		
	General Fund	Aggregate Nonmajor Governmental Funds	Total Governmental Activities
<b>REVENUES:</b>			
Ad valorem taxes	\$ 514,435	\$ -	\$ 514,435
Sales taxes	211,751	-	211,751
Fees and fines	60,102	511	60,613
Licenses and permits	9,985	-	9,985
Intergovernmental	263,108	75,289	338,397
Charges for services	42	-	42
Investment earnings	11,690	174	11,864
Miscellaneous	12,823	-	12,823
Franchise fees	136,123	-	136,123
Total revenues	<u>1,220,059</u>	<u>75,974</u>	<u>1,296,033</u>
<b>EXPENDITURES:</b>			
Current:			
General government	569,147	-	569,147
Public safety	476,328	-	476,328
Public works	236,461	-	236,461
Health and sanitation	-	-	-
Culture and recreation	82,080	-	82,080
Economic development	3,300	-	3,300
Miscellaneous	-	30	30
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay	105,597	77,945	183,542
Total expenditures	<u>1,472,913</u>	<u>77,975</u>	<u>1,550,888</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(252,854)</b>	<b>(2,001)</b>	<b>(254,855)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Other sources	303,958	-	303,958
Total other financing sources (uses)	<u>303,958</u>	<u>-</u>	<u>303,958</u>
<b>NET CHANGE IN CASH</b>	<b>51,104</b>	<b>(2,001)</b>	<b>49,103</b>
<b>FUND BALANCE - CASH BASIS, BEGINNING OF YEAR</b>	<b>404,611</b>	<b>5,461</b>	<b>410,072</b>
<b>FUND BALANCE - CASH BASIS, END OF YEAR</b>	<b>\$ 455,715</b>	<b>\$ 3,460</b>	<b>\$ 459,175</b>

See accompanying Notes to Financial Statements.

Business-type Activities			Internal Service Fund
Water and Sewer Fund	Solid Waste Services Fund	Total Business-type Activities	Unemployment Compensation
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
496,647	122,892	619,539	-
10,881	1,017	11,898	25
22,627	-	22,627	-
-	-	-	-
<u>530,155</u>	<u>123,909</u>	<u>654,064</u>	<u>25</u>
-	-	-	-
-	-	-	-
-	-	-	-
249,850	121,157	371,007	-
-	-	-	-
-	-	-	-
-	-	-	-
136,159	-	136,159	-
72,373	-	72,373	-
12,590	11,721	24,311	-
<u>470,972</u>	<u>132,878</u>	<u>603,850</u>	<u>-</u>
59,183	(8,969)	50,214	25
-	-	-	-
-	-	-	-
59,183	(8,969)	50,214	25
<u>350,771</u>	<u>41,493</u>	<u>392,264</u>	<u>877</u>
<u>\$ 409,954</u>	<u>\$ 32,524</u>	<u>\$ 442,478</u>	<u>\$ 902</u>

**CITY OF LUMBERTON, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENT**  
**SEPTEMBER 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Lumberton, Mississippi (the City) was incorporated in 1895. The City operates under a Mayor-Aldermen form of government and provides the following services as authorized by its charter: general administration, public safety (police and fire), public works, parks and recreation, and the water and sewer utility.

The accounting policies of the City conform to the cash basis of accounting, which is an other comprehensive basis of accounting as permitted by accounting practices prescribed by the Office of the State Auditor of the State of Mississippi. This method of accounting is permitted for Mississippi municipalities with a population of less than 3,000. The cash basis method differs from generally accepted accounting principles in that revenues and expenses are recorded when received or paid rather than when earned or incurred, respectively. These statements also do not include certain reporting elements and required supplemental information mandated by Governmental Accounting Standards Board (GASB) Statement No. 34. The following is a summary of the more significant policies.

**A. Reporting Entity**

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the City's Board of Aldermen. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the reporting entity.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- City of Lumberton Housing Authority

The City of Lumberton appoints members to serve on the governing board of the Housing Authority and pays their monthly per diem of \$40. The City has no authority or control over the Housing Authority's budget or operations. As a result, this entity is excluded from the reporting entity.

### **B. Financial Reporting**

The only financial statement presented is a combined statement of cash receipts and disbursements. It is prepared on the cash basis, which is the basis of accounting prescribed by the Office of the State Auditor. Consequently, revenues are recognized when received, and expenditures are recognized when legally charged to the budget (when issued up to 30 days after year end).

### **C. Basis of Accounting**

Financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into major and nonmajor funds and four broad fund categories, when applicable, as follows:

- **Governmental Funds (Governmental Activities)**

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The primary revenue source is local property taxes levied specifically for debt service.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **Proprietary Funds (Business-type Activities)**

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses of providing goods and services to the general public on a continuing basis be financed and recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City follows Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. 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. 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.

- **Internal Service Funds**

Unemployment Fund - The City uses an internal service fund to account for its unemployment benefits.

- **Fiduciary Funds**

Agency Funds - Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. For reporting purposes, the agency funds have been grouped with the fund they support.

In keeping with GAAP governmental accounting principles, the emphasis for the financial statements is on major funds within the governmental and propriety fund types. The general fund is always to be reported as a major fund. Other major funds are determined annually based on the following criteria:

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental funds and enterprise funds combined.

For the current year, the City reports the following major governmental fund:

- General Fund - to account for resources traditionally associated with governments which are not required to be accounted for in another fund.

For the current year, the City reports the following major enterprise funds:

- Water and Sewer - to account for the provision for water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and debt related service, and billing and collection.
- Solid Waste - to account for the collection and disposal of solid waste to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and debt related service, and billing and collection.

All nonmajor funds are reported in the aggregate on the financial statements.

### **D. Fixed Assets and Long-Term Liabilities**

Ordinarily, capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds, and capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis. However, under the cash basis of accounting, all capital outlays are reported as expenditures irrespective of the fund type. For internal tracking, all fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. The City does not capitalize historical treasures or works of art. The City maintains many items and buildings of historical significance. The City does not require that the proceeds from the sale of historical treasures or works of art be used to acquire other items for the collection.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts, and any resulting gain or loss is included in the results of operations.

Similarly, debt principal payments of both government and business-type activities are reported as expenditures when paid. Under generally accepted accounting principles, debt principal payments should be reflected as a reduction of the associated liability for proprietary funds.

### **E. Budgets and Budgetary Accounting**

In accordance with Mississippi State Law, the City budgets for the upcoming year on a cash basis, which includes liabilities that will be paid within 30 days of the fiscal year end. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to September 1, the City Clerk submits to the Mayor and Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1.
- Public hearings are conducted at the City Hall to obtain taxpayer comments.
- The budget, as submitted, is reviewed by the Mayor and Board of Aldermen, and necessary revisions are made to the budget. Then the budget is approved prior to September 15.
- The budget is formally revised during July of each year or anytime a deficit is indicated.
- Budgetary comparisons are employed by management as a management control device during the year. The budget and actual comparisons are formally presented to the Mayor and Board of Aldermen throughout the year.
- The budgets adopted are on a modified cash (non-GAAP) basis. Revenues are recognized when receipted (cash basis) from October 1 through September 30. Expenditures are recognized when legally budgeted and disbursed throughout the fiscal year or within 30 days thereafter. However, expenditures for uncompleted improvements in progress of construction may be charged to the budget at any time.

All annual appropriations lapse at fiscal year end.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### F. Cash and Investments

The City does not have a formal policy on managing credit risks. The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with state statutes. Furthermore, the City invests excess funds in various investment instruments that are allowed by statutes.

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

- Cash - All deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC), or any successors to such insurance corporations must be collateralized in an amount equal to 105% of the uninsured amount.
- Investments - The City is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved or interest-bearing time certificates of deposit or interest-bearing accounts with any financial institution have been approved for the deposit of state funds.

Investments are stated at cost or amortized cost.

### G. Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers.

## NOTE 2 - CASH, OTHER DEPOSITS AND INVESTMENTS

### Cash and Other Deposits

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC.

NOTE 2 - CASH, OTHER DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying amount of the City's deposits with financial institutions was \$923,823, and the bank balance was \$1,051,241, including one certificate of deposit for \$1,766 held in the City's name.

NOTE 3 - LONG-TERM DEBT

Debt outstanding as of September 30, 2006, consists of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>
Business-type Activities:			
1979 Water and Sewer Bonds	<u>\$ 139,596</u>	5.00%	02/27/2014
State Revolving Fund Loan - Water and Sewer	<u>\$ 1,378,028</u>	4.50%	09/08/2015

Annual debt service requirements to maturity for the following debt reported as business-type activities are as follows:

<u>Year Ending September 30</u>	<u>1979 Water &amp; Sewer Bonds</u>	<u>Interest</u>
2007	\$ 15,990	\$ 6,510
2008	16,808	5,692
2009	17,668	4,832
2010	18,582	3,928
2011	19,522	2,978
2012-2014	<u>51,026</u>	<u>2,975</u>
Total at present value	<u>\$ 139,596</u>	<u>\$ 26,915</u>

<u>Year Ending September 30</u>	<u>State Revolving Fund Loan</u>	<u>Interest</u>
2007	\$ 128,042	\$ 59,862
2008	133,925	53,980
2009	144,077	47,827
2010	146,512	41,392
2011	153,243	34,662
2012-2015	<u>672,229</u>	<u>63,043</u>
Total at present value	<u>\$ 1,378,028</u>	<u>\$ 300,766</u>

NOTE 3 - LONG-TERM DEBT (CONTINUED)

Limitations and Restrictions

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

The following is a schedule of limitation of the bonded indebtedness of the City at September 30, 2006:

Assessed valuation for fiscal year ended September 30, 2006	\$ 10,404,320
Percent limitation	<u>15%</u>
Authorized debt limit	1,560,648
Present debt service subject to 15% limitation	<u>-</u>
Margin for further indebtedness under 15% limitation	<u>\$ 1,560,648</u>

NOTE 4 - PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied in September and payable on or before February 1. All property taxes are collected and remitted to the City by the appropriate county tax collectors (the City of Lumberton resides in Lamar, Forest, and Pearl River Counties). The millage rate for the City for January through December 2006 was 44.00 mills.

Restrictions associated with property tax levies are established by state law, which provides that the tax levy for general purposes shall produce no more than 110% of the amount which resulted from those levies' assessments of the previous year.

NOTE 5 - RETIREMENT PLANS

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

#### NOTE 5 - RETIREMENT PLANS (CONTINUED)

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The rate in effect for the fiscal year ended September 30, 2006 was 10.75% until June 30 and 11.30% after that date 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's contributions to PERS for the years ended September 30, 2006, 2005, and 2004 were \$62,620, \$53,103 and \$43,725, respectively, equal to or greater than the required contributions for each year.

#### NOTE 6 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the following two risk pools to provide coverage for possible losses due to these risks.

- Mississippi Municipal Workers' Compensation Group - This pool was formed under the Mississippi Worker's Compensation Act to provide coverage for claims arising from injuries to employees. The City is jointly and severable liable for obligations of the group.
- Mississippi Municipal Liability Plan - This pool was formed under inter-local agreements for the purpose of providing the liability coverage prescribed by the Plan for member municipalities. The pool uses a service company to manage the Plan's day-to-day activities.

The City pays premiums based upon an actuarial assessment of the City's loss experience rate and the Plan's overall financial condition. The City may be assessed if, at any time, the assets of the Plan, in the opinion of the Board of Trustees, are insufficient to discharge its obligations.

**SUPPLEMENTAL INFORMATION**

**CITY OF LUMBERTON, MISSISSIPPI**  
**BUDGET AND ACTUAL WITH VARIANCES**  
**GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2006**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Ad valorem taxes	\$ 459,589	\$ 459,589	\$ 514,435	\$ 54,846
Fees and fines	45,000	45,000	60,102	15,102
Licenses and permits	121,100	121,100	146,150	25,050
Intergovernmental	278,200	278,200	474,859	196,659
Investment earnings	-	-	11,690	11,690
Miscellaneous	27,500	27,500	12,823	(14,677)
Total revenues	931,389	931,389	1,220,059	288,670
<b>EXPENDITURES:</b>				
Current:				
General government	351,969	351,969	569,147	(217,178)
Public safety	391,823	391,823	476,328	(84,505)
Public works	199,852	199,852	236,461	(36,609)
Culture and recreation	67,745	67,745	82,080	(14,335)
Economic development	-	-	3,300	(3,300)
Capital outlay	270,000	270,000	105,597	164,403
Total expenditures	1,281,389	1,281,389	1,472,913	(191,524)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	(350,000)	(350,000)	(252,854)	97,146
<b>OTHER FINANCING SOURCES (USES):</b>				
Other sources	-	-	303,958	303,958
Total other financing sources and uses	-	-	303,958	303,958
<b>NET CHANGE IN CASH</b>	(350,000)	(350,000)	51,104	401,104
<b>CASH, BEGINNING OF YEAR</b>	450,000	450,000	404,611	(45,389)
<b>CASH, END OF YEAR</b>	\$ 100,000	\$ 100,000	\$ 455,715	\$ 355,715

**CITY OF LUMBERTON, MISSISSIPPI**  
**SCHEDULE OF LONG-TERM DEBT**  
**SEPTEMBER 30, 2006**

	<u>Balance at</u> <u>10/1/05</u>	<u>Proceeds</u>	<u>Redemptions</u>	<u>Balance at</u> <u>9/30/06</u>
<u>Revenue Bonds</u>				
1979 Water & Sewer Bond	\$ 152,875	\$ -	\$ 13,279	\$ 139,596
<u>Other Long-term Debt</u>				
State Revolving Loan Fund - Water & Sewer	<u>1,500,908</u>	<u>-</u>	<u>122,880</u>	<u>1,378,028</u>
	<u>\$ 1,653,783</u>	<u>\$ -</u>	<u>\$ 136,159</u>	<u>\$ 1,517,624</u>

**CITY OF LUMBERTON, MISSISSIPPI**  
**SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS**  
**SEPTEMBER 30, 2006**

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Amount</u>
Aaron Lott	Mayor	St. Paul's St. Paul's	\$ 78,000 50,000
Leonette Wynne	City Clerk	St. Paul's St. Paul's	78,000 50,000
Eva Nell Busby	Alderman	St. Paul's	25,000
Terry Cannaday	Alderman	St. Paul's	25,000
Miriam Holder	Alderman	St. Paul's	25,000
Stanley Rayborn	Alderman	St. Paul's	25,000
Quincy Rogers	Alderman	St. Paul's	25,000
Leonette Wynne	Deputy Clerk	St. Paul's	10,000
Stephanie Mullins	Deputy Court Clerk	St. Paul's	10,000
Thomas M. Childress	Chief of Police	St. Paul's	50,000
Dale Turner	Assistant Chief of Police	St. Paul's	25,000
Various	Police Officers	St. Paul's	25,000

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Mayor and Board of Aldermen  
City of Lumberton, Mississippi

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

We have audited the statement of cash receipts and disbursements of the City of Lumberton, Mississippi (the City) for the year ended September 30, 2006, and have issued our report thereon dated December 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Lumberton, Mississippi's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Responses as Items 2006-1, 2006-2 and 2006-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Mayor, the Board of Aldermen, management, 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.

*Smith, Turner & Reeves, P.A.*

Natchez, Mississippi  
December 3, 2007

**CITY OF LUMBERTON, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**SEPTEMBER 30, 2006**

REPORTABLE CONDITION, MATERIAL WEAKNESS

**2006-1: Lack of Bank Reconciliations**

Criteria - A well-developed system of internal controls includes checks and balances in the area of cash. This ensures that all transactions are recorded properly.

Condition - Our audit indicated that formal, written bank reconciliations were not being performed in a timely manner. There were attempts at reconciliations in the early months but not all were completed. This year's reconciliations were completed after the audit was started, and material adjustments resulted from that process.

Cause - Management has not, in the past, seen a need to prepare formal reconciliations. The personnel in charge of the cash accounts were very involved in the daily operations and had a working knowledge of all transfers and regular transactions, and, therefore, an informal process was deemed adequate. Due to changes in the accounting personnel towards the end of the fiscal year, that working knowledge was lost and formal process was not established. The formal process should encompass monthly reports to the Board and Mayor as an oversight mechanism.

Effect - During the audit, several material journal entries were necessary to correct cash balances and cash transactions during the year. We believe none of these would have been necessary had the monthly bank reconciliations been performed and reviewed. Management cannot make informed decisions regarding the City's activities if accurate information is not presented to them.

Recommendation - A process should be considered where all cash accounts are reconciled to the general ledger monthly, and these reconciliations should be reviewed and approved by someone outside of the daily operations.

Management's Response - Auditor's recommendations will be implemented, and monthly reconciliations will be performed for all accounts, reviewed and approved.

## REPORTABLE CONDITION, MATERIAL WEAKNESS

### 2006-2 Financial Statement Preparation

Criteria - The City of Lumberton relies on its external auditors to prepare the external financial statements. The City does not otherwise have any controls in place that would allow management or employees, in the normal course of performing their assigned duties, to prevent or detect misstatements in these financial statements in a timely manner. This situation is considered a reportable condition and a material weakness since an organization's external auditors cannot be considered part of its internal controls over financial reporting.

Condition - The design of internal controls over financial reporting is a decision that must be evaluated from a cost-benefit perspective by management.

Cause - Management decision in the design of the internal control structure.

Effect - Financial statements produced by the City might contain material errors.

Recommendation - Management should continue to assess the cost benefits of improving internal controls over financial reporting.

#### Management's Responses:

Mayor's Response – Management should follow the auditor's recommendations and continue to assess the cost-benefits of improving internal controls over financial reporting. Expense reductions may be necessary in other areas to allow for aggressive improvement in this area which is of utmost importance.

City Clerk's Response – We will not be making any changes because it is not financially feasible to do so.

## REPORTABLE CONDITION, MATERIAL WEAKNESS

### 2006-3: Retention of Accounting Documentation

Criteria - A well-developed accounting system includes a means of locating and supporting all transactions recorded during the period.

Condition - Our audit indicated support was not maintained for all journal entries, documentation could not be located to explain differences in interfund activity, and accounting personnel could not be relied upon to answer questions about transactions that had missing or inadequate support.

Cause - A formal system of documenting routine and non-routine transactions has not been established. Worksheets for journal entries were developed by a prior employee, but support is

not attached to the journal entries, nor are they approved by anyone. While vendor files and receipt books are kept, anything that is processed outside of the normal activity, i.e., manual checks issued, interfund transfers, is not always supported in a manner that is easily followed.

Effect - During the audit, of the journal entries necessary to cash, several of them affected interfund activity and clearing accounts. Adequate documentation did not exist for all the questions that were raised. The journal entries posted were based on management's recollection of the event and not on any tangible evidence of the original transaction.

Recommendation - A process should be considered where all significant interfund and clearing accounts are reconciled to the general ledger monthly and a system implemented to support the monthly journal entries and other non-routine transactions.

### Management's Responses

Mayor's Response - Management should implement the auditor's recommendations and consider a process where all significant interfund and clearing accounts are reconciled to the general ledger monthly. A system should also be implemented to support the monthly journal entries and other non-routine transactions. The system that has been in place is not sufficient. There should be tangible documentation to support every transaction. Accounting personnel should be responsible and held accountable for transactions that do not have adequate supporting documentation.

City Clerk's Response - There is currently a system in place.

## AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2005-1

Finding:

Management has not, in the past, seen a need to prepare formal reconciliations since the informal notes were serving the purpose for them. The personnel in charge of the cash accounts were very involved in the daily operations and had a working knowledge of all transfers and regular transactions, and, therefore, the informal process was deemed adequate.

Recommendation:

A process should be considered where all cash accounts are reconciled to the general ledger monthly, and these reconciliations should be reviewed and approved by someone outside of the daily operations.

Current Status:

A process was implemented and a start was made on doing monthly reconciliations; however, the process was not followed consistently throughout the entire year. See current year finding 2006-1.

2005-2

Finding:

The State of Mississippi Code 1972 (Annotated), Section 23-71-1 lists specific requirements for the documentation of travel-related expenses.

Recommendation:

The City should consider using a voucher to track how mileage and per diem were calculated, to whom the check was given, and the purpose of the travel.

Current Status:

The recommended process was implemented, and the finding was not repeated in the current year.

Mayor and Board of Aldermen  
City of Lumberton, Mississippi

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**Independent Auditors' Report on Compliance  
With State Laws and Regulations**

We have audited the statement of cash receipts and disbursements of the City of Lumberton, Mississippi (the City) as of and for the year ended September 30, 2006, and have issued our report dated November 30 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*.

We have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the basic financial statements disclosed the following material instance of noncompliance with state laws and regulations.

1. Finding

State law allows for the operating budget to be amended during the year as circumstances warrant an amendment and requires it to be amended any time a deficit is indicated. The City of Lumberton did not amend its budget during the year, and, therefore, the actual expenditures exceeded the budgeted expenditures. As the revenues also exceeded expectations, no deficit resulted from the excess expenditures, but the budget should have been amended prior to year end to reflect the changes.

Recommendation

Management should take the necessary steps to ensure all state guidelines are followed.

Response

Additional training has been received by those charged with fiscal responsibility, and the state guidelines will be followed in the future with respect to the budgeting process.

This report is intended solely for the information and use of the Mayor, the Board of Aldermen, management, and the State Auditor's Office 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.

*Smith, Turner & Reeves, P.A.*

Natchez, Mississippi  
December 3, 2007