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CITY OF CARTHAGE

**Audited Financial Statements
And
Special Reports
For the Year Ended September 30, 2009**

CITY OF CARTHAGE

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Carthage, Mississippi, as of and for the year ended September 30, 2009, 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.

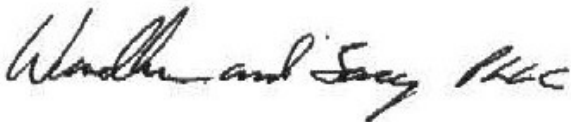
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the City of Carthage, Mississippi, as of September 30, 2009, 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 December 28, 2009, on our consideration of City of Carthage, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Carthage, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds for Municipal Officials is presented for purposes of additional analysis 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.

A handwritten signature in cursive script that reads "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
December 28, 2009

CITY OF CARTHAGE

BASIC FINANCIAL STATEMENTS

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

Government-wide financial statements

Fund financial statements:

Governmental funds

Proprietary (enterprise) fund

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

**City of Carthage
Statement of Net Assets
September 30, 2009**

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 1,017,077	1,187,889	2,204,966
Property tax receivable	379,987		379,987
Fines receivable, net	235,527		235,527
Accounts receivable, net	39,243	120,757	160,000
Internal balances	20,949	(20,949)	
Sales tax receivable	241,442		241,442
Total current assets	<u>1,934,225</u>	<u>1,287,697</u>	<u>3,221,922</u>
Noncurrent Assets:			
Restricted cash	282,001	146,098	428,099
Capital assets, net (Note 1)	2,361,069	4,422,133	6,783,202
Total noncurrent assets	<u>2,643,070</u>	<u>4,568,231</u>	<u>7,211,301</u>
 Total Assets	 <u>\$ 4,577,295</u>	 <u>5,855,928</u>	 <u>10,433,223</u>
LIABILITIES			
Current Liabilities:			
Claims payable	\$ 102,712	120,680	223,392
Customer deposits		125,666	125,666
Deferred revenue	379,987		379,987
Other current liabilities	30,141		30,141
Compensated absences payable	61,984	9,247	71,231
Current portion of long-term debt (Note 2f)	10,346	169,212	179,558
Total current liabilities	<u>585,170</u>	<u>424,805</u>	<u>1,009,975</u>
Noncurrent Liabilities:			
Long-term liabilities (Note 2f):	<u>94,686</u>	<u>1,804,167</u>	<u>1,898,853</u>
Total noncurrent liabilities	<u>94,686</u>	<u>1,804,167</u>	<u>1,898,853</u>
 Total Liabilities	 <u>679,856</u>	 <u>2,228,972</u>	 <u>2,908,828</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,256,037	2,448,754	4,704,791
Restricted for:			
Debt service		20,432	20,432
Public safety	282,001		282,001
Unrestricted	1,359,401	1,157,770	2,517,171
Total Net Assets	<u>\$ 3,897,439</u>	<u>3,626,956</u>	<u>7,524,395</u>

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

City of Carthage
Statement of Activities
For the Year Ended September 30, 2009

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 689,959	1,670	60,659		(627,630)		(627,630)
Public safety	1,387,804	334,138	59,320		(994,346)		(994,346)
Public works	722,372	281,930	180,500		(259,942)		(259,942)
Health and welfare	13,881	25,321			11,440		11,440
Culture and recreation	390,848	82,742			(308,106)		(308,106)
Interest on long-term debt	1,446				(1,446)		(1,446)
Total Governmental Activities	<u>3,206,310</u>	<u>725,801</u>	<u>300,479</u>	<u>0</u>	<u>(2,180,030)</u>	<u>0</u>	<u>(2,180,030)</u>
Business-type activities:							
Water/Sewer	947,408	897,502		116,277		66,371	66,371
Interest on long-term debt	6,910					(6,910)	(6,910)
Total Business-type Activities	<u>954,318</u>	<u>897,502</u>	<u>0</u>	<u>116,277</u>	<u>0</u>	<u>59,461</u>	<u>59,461</u>
Total Primary Government	<u>\$ 4,160,628</u>	<u>1,623,303</u>	<u>300,479</u>	<u>116,277</u>	<u>(2,180,030)</u>	<u>59,461</u>	<u>(2,120,569)</u>
General Revenues							
Taxes:							
Property taxes					\$ 545,246		545,246
Road & bridge privilege taxes					173,459		173,459
Sales tax					1,537,050		1,537,050
Franchise taxes					122,275		122,275
Unrestricted investment income					47,646	47,818	95,464
Miscellaneous					102,513	38,772	141,285
Transfers					(93)	93	
Total General Revenues					<u>2,528,096</u>	<u>86,683</u>	<u>2,614,779</u>
Change in net assets					348,066	146,144	494,210
Net Assets - Beginning					<u>3,549,373</u>	<u>3,480,812</u>	<u>7,030,185</u>
Net Assets - Ending					<u>\$ 3,897,439</u>	<u>3,626,956</u>	<u>7,524,395</u>

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

**City of Carthage
Balance Sheet
Governmental Funds
September 30, 2009**

Exhibit 3

	Major Funds			
	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 724,441	376,818	197,819	1,299,078
Property tax receivable	379,987			379,987
Fines receivable	235,527			235,527
Sales tax receivable	241,442			241,442
Due from other funds	20,949			20,949
Other receivables	51,171		14,447	65,618
Total Assets	<u>\$ 1,653,517</u>	<u>376,818</u>	<u>212,266</u>	<u>2,242,601</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Claims payable	\$ 95,150		5,170	100,320
Due to other funds	20,949			20,949
Other current liabilities	37,959			37,959
Deferred revenue	615,514			615,514
Total Liabilities	<u>769,572</u>	<u>0</u>	<u>5,170</u>	<u>774,742</u>
Fund Balances:				
Unreserved:				
General fund	883,945	376,818	85,747	1,346,510
Capital projects funds			310	310
Special revenue funds			121,039	121,039
Total Fund Balances	<u>883,945</u>	<u>376,818</u>	<u>207,096</u>	<u>1,467,859</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,653,517</u>	 <u>376,818</u>	 <u>212,266</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, 2008			\$ 2,086,633	
Plus capital outlay expenditures and donations made during the year			456,138	
Less depreciation expense recorded during the year			(181,702)	
Less net book value of capital assets transferred during the year				<u>2,361,069</u>
 Long-term debt are not financial resources and, therefore, are not reported in the funds.				 (167,016)
 Other Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:				
Fines receivable				<u>235,527</u>
 Net Assets of Governmental Activities			 <u>\$ 3,897,439</u>	

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

City of Carthage
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended September 30, 2009

Exhibit 4

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Other Governmental Funds	
REVENUES				
Property taxes	\$ 463,619		81,627	545,246
Licenses and permits	25,386			25,386
Fines and forfeitures	222,420		24,402	246,822
Intergovernmental revenues	1,843,611		230,547	2,074,158
Charges for services	281,930		81,619	363,549
Interest income	24,719	13,419	9,508	47,646
Miscellaneous	154,015	4,771	7,905	166,691
Total Revenues	<u>3,015,700</u>	<u>18,190</u>	<u>435,608</u>	<u>3,469,498</u>
EXPENDITURES				
Current:				
General government	661,495			661,495
Public safety	1,288,661		266,418	1,555,079
Public works	682,053	2,400	23,640	708,093
Health and welfare	13,881			13,881
Culture and recreation	157,933		381,953	539,886
Total Expenditures	<u>2,804,023</u>	<u>2,400</u>	<u>672,011</u>	<u>3,478,434</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>211,677</u>	<u>15,790</u>	<u>(236,403)</u>	<u>(8,936)</u>
Other Financing Sources (Uses)				
Proceeds from long-term debt			111,877	111,877
Transfers in	83	72,000	47,717	119,800
Transfers out	(119,810)		(83)	(119,893)
Total Other Financing Sources and Uses	<u>(119,727)</u>	<u>72,000</u>	<u>159,511</u>	<u>111,784</u>
Net Change in Fund Balances	91,950	87,790	(76,892)	102,848
Fund Balances - Beginning	<u>791,995</u>	<u>289,028</u>	<u>283,988</u>	<u>1,365,011</u>
Fund Balances - Ending	<u>\$ 883,945</u>	<u>376,818</u>	<u>207,096</u>	<u>1,467,859</u>

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

City of Carthage
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2009

Exhibit 5

	<u>Amount</u>
Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4)	\$ 102,848
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays (\$456,138) exceeded depreciation (\$181,702) in the current period.	274,436
Governmental funds report payments on long-term debt as expenditures. However, in the Statement of Activities the payments are subtracted from the balance of the long-term debt accounts. Debt proceeds provide current financial resources to governmental fund, but the issuing debt increases long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balance by the amount that debt repayment (\$6,845) is less than debt proceeds (\$111,877).	(105,032)
Governmental funds do not report expenditures not recognized for transactions that are normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. Thus, the change in net assets differs from the change in fund balances by the amount of increase in accrued compensated absences.	(13,928)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	89,742
Change in Net Assets of Governmental Activities (Exhibit 2)	\$ <u>348,066</u>

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

**City of Carthage
Statement of Net Assets
Proprietary Fund
September 30, 2009**

Exhibit 6

	<u>Business-type Activity Water/Sewer</u>
Current Assets:	
Cash and cash equivalents	\$ 1,187,889
Accounts receivable, net	120,757
Total current assets	<u>1,308,646</u>
Noncurrent assets:	
Restricted cash and cash equivalents	146,098
Capital assets, net	4,422,133
Total noncurrent assets	<u>4,568,231</u>
 Total Assets	 \$ <u><u>5,876,877</u></u>
 LIABILITIES	
Current Liabilities:	
Claims payable	\$ 120,680
Due to other funds	20,949
Customer deposits	125,666
Compensated absences payable	9,247
Current portion of long-term debt	169,212
Total current liabilities	<u>445,754</u>
Noncurrent Liabilities:	
Long-term liabilities	<u>1,804,167</u>
Total noncurrent liabilities	<u>1,804,167</u>
 Total Liabilities	 <u>2,249,921</u>
 NET ASSETS	
Invested in capital assets net of related debt	2,448,754
Restricted for debt service	20,432
Unrestricted	1,157,770
Total Net Assets	\$ <u><u>3,626,956</u></u>

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

City of Carthage
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2009

Exhibit 7

	Business-type Activity
	<u>Water/Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 897,502
Total Operating Revenues	<u>897,502</u>
OPERATING EXPENSES	
Personal services	199,501
Contractual services	516,680
Materials and supplies	57,219
Depreciation expense	171,676
Other operating expenses	<u>(7,444)</u>
Total Operating Expenses	<u>937,632</u>
Operating Income (Loss)	<u>(40,130)</u>
NONOPERATING REVENUES (EXPENSES)	
Gain on disposal of assets	38,772
Grant	116,277
Interest income	47,818
Interest expense and fiscal fees	(16,686)
Transfers in (out)	<u>93</u>
Total Nonoperating Revenue (Expenses)	<u>186,274</u>
Change in Net Assets	146,144
Total Net Assets - Beginning	<u>3,480,812</u>
Total Net Assets - Ending	<u>\$ 3,626,956</u>

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

City of Carthage
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2009

Exhibit 8

	Business-type Activity
	<u>Water/Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 883,763
Payments to suppliers	(557,874)
Payments to employees	(196,682)
Net Cash Provided (Used) by Operating Activities	<u>129,207</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from (payments to) other funds	482
Transfers in/out	93
Sale of capital assets	70,000
Federal and state grants	116,277
Net Cash Provided (Used) by Noncapital Financing Activities	<u>186,852</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Proceeds from capital debt	123,817
Acquisition and construction of capital assets	(141,441)
Principal paid on long-term debt	(216,299)
Interest expense paid	(16,686)
Net Cash Provided (Used) by Capital Financing Activities	<u>(250,609)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>47,818</u>
Net Increase (Decrease) in Cash and Cash Equivalents	113,268
Cash and Cash Equivalents - Beginning of Year	<u>1,220,719</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,333,987</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ <u>(40,130)</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation	171,676
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(16,755)
Increase (decrease) in claims payable	8,581
Increase (decrease) in compensated absences payable	2,819
Increase (decrease) in customer deposits	3,016
Total adjustments	<u>169,337</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 129,207</u>

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

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

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

The following component unit's balances and transactions are blended with the balances and transactions of the primary government.

The Carthage Preservation Commission members are appointed by the city and shall serve at the will and pleasure of the city and shall serve staggered terms. The Commission is comprised of not fewer than five (5) or more than nine (9) members who are residents of the city. Although it is created legally separate from the city under *Section 39-13-3, Mississippi Code of 1972, as amended*, the commission is reported as if it were part of the primary government because its sole purpose is to develop the city's historical resources and to advise the city on the designation of historic districts, landmarks, and landmark sites and perform such other functions as may be provided by law.

B. Government-wide and Fund Financial Statements.

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

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

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.

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

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

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 funds:

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 *capital projects fund* accounts for financial resources to be used for capital expenditures and improvements.

The City reports the following major proprietary fund:

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity.

1. Deposits.

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

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

2. Receivables.

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

3. *Interfund Transactions and Balances.*

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

4. *Restricted Assets.*

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

5. *Capital Assets.*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

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

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	1,000	5-10 years
Furniture and equipment	1,000	3-7 years

6. *Compensated Absences.*

The City's policy allows employees to accumulate vacation time and carry over a maximum of 120 hours of vacation leave from year to year. Upon leaving employment with the city, an employee that has earned vacation time may request up to but not exceeding 120 hours of paid vacation. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. Accordingly, all unused vacation is accrued when incurred in the government-wide and proprietary fund financial statements.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours and compensatory hours are multiplied by the employee's hourly rate at September 30, 2009.

7. *Long-term Obligations.*

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

8. *Equity Classifications.*

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

9. *Property Tax Revenues.*

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

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

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

10. Intergovernmental Revenues in Governmental Funds.

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

2. Detailed Notes on all Funds.

A. Deposits.

At year-end, the City’s carrying amount of deposits was \$2,633,065 and the bank balance was \$2,671,589. 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 Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

B. Receivables.

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

	<u>General</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:			
Sales tax	\$ 241,442		241,442
Property taxes	379,987		379,987
Accounts	39,243	120,757	160,000
Fines	392,545		392,545
Internal balances	<u>20,949</u>	<u>(20,949)</u>	
Gross receivables	1,074,166	99,808	1,173,974
Less: allowance for uncollectibles	<u>(157,018)</u>		<u>(157,018)</u>
Net total receivables	<u>\$ 917,148</u>	<u>99,808</u>	<u>1,016,956</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds are as follows:

	<u>Unavailable</u>
Property taxes receivable: General Fund	\$ 379,987
Fines receivable: General Fund	235,527
Total deferred revenue for governmental funds	<u>\$ 615,514</u>

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

C. Capital Assets.

Capital asset activity for the year ended September 30, 2009, are as follows:

Primary Government

Governmental activities:

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 691,767				691,767
Construction in progress	19,525		180,497	(200,022)	
Total capital assets, not being depreciated	<u>711,292</u>	<u>0</u>	<u>180,497</u>	<u>(200,022)</u>	<u>691,767</u>
Capital assets, being depreciated:					
Buildings	3,519,784	(118)	200,022		3,719,688
Improvements other than buildings	2,455,354				2,455,354
Streets	416,532				416,532
Machinery and equipment	2,834,040	(30,091)	275,641		3,079,590
Total capital assets being depreciated	<u>9,225,710</u>	<u>(30,209)</u>	<u>475,663</u>	<u>0</u>	<u>9,671,164</u>
Less: Accumulated depreciation for:					
Buildings	(2,772,839)	118	(26,961)		(2,799,682)
Improvements other than buildings	(2,367,585)		(5,703)		(2,373,288)
Streets	(100,622)		(20,826)		(121,448)
Machinery and equipment	(2,609,323)	30,091	(128,212)		(2,707,444)
Total accumulated depreciation	<u>(7,850,369)</u>	<u>30,209</u>	<u>(181,702)</u>	<u>0</u>	<u>(8,001,862)</u>
Total capital assets, being depreciated, net	<u>1,375,341</u>	<u>0</u>	<u>293,961</u>	<u>0</u>	<u>1,669,302</u>
Governmental activities capital assets, net	<u>\$ 2,086,633</u>	<u>0</u>	<u>474,458</u>	<u>(200,022)</u>	<u>2,361,069</u>

Adjustments are made for equipment transferred from governmental activities to business-type activities.

Business-type activities:

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:					
Capital assets, not being depreciated:					
Construction in progress	\$ 0				0
Total capital assets, not being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital assets, being depreciated:					
Water and Sewer System	6,837,461	(11,688)	141,441	(104,094)	6,863,120
Total capital assets, being depreciated	<u>6,837,461</u>	<u>(11,688)</u>	<u>141,441</u>	<u>(104,094)</u>	<u>6,863,120</u>
Less: Accumulated depreciation	<u>(2,353,865)</u>	<u>11,688</u>	<u>(171,676)</u>	<u>72,866</u>	<u>(2,440,987)</u>
Total capital assets, being depreciated, net	<u>4,483,596</u>	<u>0</u>	<u>(30,235)</u>	<u>(31,228)</u>	<u>4,422,133</u>
Business-type activities capital assets, net	<u>\$ 4,483,596</u>	<u>0</u>	<u>(30,235)</u>	<u>(31,228)</u>	<u>4,422,133</u>

Adjustments are made for equipment transferred from governmental activities to business-type activities and to move assets from construction in progress to completed projects.

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

Depreciation expense was charged to the following functions:

Governmental activities:		
General government	\$	31,440
Public safety		74,795
Public works		52,851
Culture and recreation		<u>22,616</u>
Total depreciation expense - governmental activities	\$	<u><u>181,702</u></u>
Business-type activities:		
Water and sewer	\$	<u>171,676</u>
Total depreciation expense - business-type activities	\$	<u><u>171,676</u></u>

D. Interfund Transfers.

The composition of interfund transfers as of September 30, 2009, is as follows

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Statement of Revenues, Expenditures and Changes in Fund Balances:		
Other Governmental Funds	General Fund	\$ 47,717
Capital Projects	General Fund	72,000
General Fund	Other Governmental Funds	83
Water and Sewer Fund	General Fund	<u>93</u>
Total		\$ <u><u>119,893</u></u>

The purpose of these transfers were routine allocations between funds for capital projects.

E. Leases.

Capital Leases

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, are as follows:

Year Ending September 30	Business-type Activities
2010	\$ 21,910
2011	21,911
2012	80,780
Total minimum lease payments	124,601
Less: amount representing interest	(8,232)
Present value of minimum lease payments	\$ 116,369

F. Long-term Debt.

General Obligation Bonds

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

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

Revenue Bonds

The City also issued water and sewer revenue bonds in 1996 to provide funds for the construction of water and sewer infrastructure. These bonds will be repaid from revenues generated from operations of the water and sewer systems.

Revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental Activities		\$ 0
Business-type Activities:		
1996 Water & Sewer Revenue Bonds	4.6 - 5.25%	50,000
		\$ 50,000

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

Year Ending September 30	Business-type Activities	
	Principal	Interest
2010	\$ 25,000	1,953
2011	25,000	656
Total	\$ 50,000	2,609

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

Loans Payable

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

<u>Loan Type</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:		
State of Mississippi Capital Improvement (CAP)	2.0%	\$ <u>105,032</u>
Total Governmental Activities		\$ <u><u>105,032</u></u>
Business-type Activities:		
State of Mississippi Capital Improvement (CAP)	3.7%	\$ 71,937
State of Mississippi Capital Improvement (CAP)	3.7%	20,285
Drinking water systems improvement revolving loan fund (DWSIRLF)	3.0%	418,672
State of Mississippi Capital Improvement (CAP)	2.00%	197,212
State of Mississippi Capital Improvement (CAP)	2.00%	278,761
Water pollution control revolving loan fund (WPCRLF)	2.00%	<u>820,143</u>
Total Business-type Activities		\$ <u><u>1,807,010</u></u>

Loan debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 10,346	2,007
2011	10,554	1,799
2012	10,768	1,586
2013	10,985	1,368
2014	11,207	1,146
2015-2019	<u>51,172</u>	<u>2,295</u>
Total	\$ <u><u>105,032</u></u>	<u><u>10,201</u></u>

<u>Year Ending September 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 125,910	40,549
2011	129,274	37,205
2012	130,351	33,746
2013	102,325	30,675
2014	104,709	28,290
2015-2019	561,384	103,612
2020-2024	517,594	38,990
2025	<u>135,463</u>	<u>2,776</u>
Total	\$ <u><u>1,807,010</u></u>	<u><u>315,843</u></u>

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2009, is as follows:

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Due Within One Year
Governmental Activities:						
Loans payable	\$ 0	111,877	(6,845)	—	105,032	10,346
Governmental activity long-term liabilities	\$ 0	111,877	(6,845)	0	105,032	10,346
Business-type Activities:						
Bonds payable:						
Revenue bonds	\$ 70,000	—	(20,000)	—	50,000	25,000
Loans payable	1,927,693	—	(120,683)	—	1,807,010	125,910
Capital leases	68,168	123,817	(75,616)	—	116,369	18,302
Business-type activity long-term liabilities	\$ 2,065,861	123,817	(216,299)	0	1,973,379	169,212

Adjustments are made for capital leases on equipment transferred from governmental activities to business-type activities.

4. Other Information.

A. Contingencies.

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

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

City of Carthage
Notes to the Financial Statements
For the Year Ended September 30, 2009

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Carthage is required to contribute at an actuarially determined rate. The rate at September 30, 2009 was 12.00% of annual covered payroll. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature. The City of Carthage's contributions (employer share only) to PERS for the years ending September 30, 2009, 2008 and 2007 were \$181,264, \$192,153 and \$183,669, respectively, equal to the required contributions for each year.

C. Risk Management.

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

CITY OF CARTHAGE

REQUIRED SUPPLEMENTARY INFORMATION

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

Budgetary Comparison Schedule

Notes to the Required Supplementary Information

City of Carthage
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 420,964	637,078	637,078	
Licenses and permits	32,000	25,386	25,386	
Fines and forfeitures	200,000	222,420	222,420	
Intergovernmental revenues	1,815,000	1,625,666	1,625,666	
Charges for services	266,200	283,600	283,600	
Interest earned		24,719	24,719	
Miscellaneous revenues	243,175	132,404	132,404	
Total Revenues	<u>2,977,339</u>	<u>2,951,273</u>	<u>2,951,273</u>	<u>0</u>
EXPENDITURES				
General government	592,025	661,495	661,495	
Public safety	1,558,181	1,288,661	1,288,661	
Public works	740,634	682,053	682,053	
Health and welfare	23,000	13,881	13,881	
Culture and recreation	197,457	157,933	157,933	
Urban and economic development	26,000			
Total Expenditures	<u>3,137,297</u>	<u>2,804,023</u>	<u>2,804,023</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(159,958)</u>	<u>147,250</u>	<u>147,250</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued				
Transfers out		(119,727)	(119,727)	
Federal assistance		60,659	60,659	
Sale of assets		19,941	19,941	
Total Other Financing Sources and Uses	<u>0</u>	<u>(39,127)</u>	<u>(39,127)</u>	<u>0</u>
Net Change in Fund Balance	(159,958)	108,123	108,123	
Fund Balances - Beginning	<u>501,640</u>	<u>616,318</u>	<u>616,318</u>	
Fund Balances - Ending	<u>\$ 341,682</u>	<u>724,441</u>	<u>724,441</u>	<u>0</u>

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

City of Carthage
Notes to the Required Supplementary Information
For the Year Ended September 30, 2009

A. Budgetary Information.

Statutory requirements dictate how and when the city's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the City, using historical and anticipated fiscal data and proposed budgets submitted by the various department managers for their respective 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 Carthage
Notes to the Required Supplementary Information
For the Year Ended September 30, 2009

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

		<u>General Fund</u>
Net Change in Fund Balance - Budget (Cash Basis)	\$	108,123
Increase (decrease):		
Net adjustments for revenue accruals		(16,173)
Net adjustments for expenditure accruals		<u> </u>
Net Change in Fund Balance GAAP Basis	\$	<u><u>91,950</u></u>

CITY OF CARTHAGE

SUPPLEMENTAL INFORMATION

City of Carthage
Schedule of Surety Bonds For Municipal Officials
For the Year Ended September 30, 2009

<u>Position</u>	<u>Surety Agency</u>	<u>Bond Amount</u>
Aldermen	Scott Insurance	\$ 50,000
Mayor	Cox & Powers	75,000
City Clerk	Cox & Powers	75,000
Chief of Police	Cox & Powers	50,000
Court Clerk/Asst. City Clerk	Cox & Powers	50,000
Police Officers	Cox & Powers	50,000
Dispatchers	Cox & Powers	50,000
Court Clerk/Water	Cox & Powers	50,000
Payroll Clerk	Cox & Powers	50,000
Water Clerk	Cox & Powers	50,000
Parks	Cox & Powers	50,000

CITY OF CARTHAGE

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

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

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Carthage, Mississippi, as of and for the year ended September 30, 2009 which collectively comprise City of Carthage, Mississippi's basic financial statements and have issued our report thereon dated December 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Carthage, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

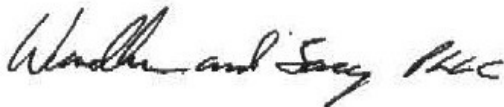
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Carthage, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 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
December 28, 2009

Windham and Lacey, PLLC

Certified Public Accountants

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

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

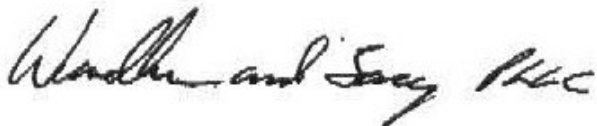
Honorable Mayor and
Members of the Board of Aldermen
City of Carthage, Mississippi

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 Carthage, Mississippi, as of and for the year ended September 30, 2009, and have issued our report thereon dated December 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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



Windham and Lacey, PLLC
December 28, 2009

CITY OF CARTHAGE

SCHEDULE OF FINDINGS

City of Carthage
Schedule of Findings
For the Year Ended September 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|---|-------------|
| 1. Type of auditor's report issued on the primary government financial statements: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 3. Noncompliance material to the financial statements? | 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*.