



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

CITY OF LUCEDALE

**Report on Audit of
Basic Financial Statements**

September 30, 2009

CITY OF LUCEDALE

Table of Contents

INDEPENDENT AUDITOR’S REPORT.....	1-2
BASIC FINANCIAL STATEMENTS.....	3
Government-wide Financial Statements	
Statement of Net Assets.....	4
Statement of Activities.....	5
Fund Financial Statements	
Governmental Funds:	
Balance Sheet.....	6
Statement of Revenues, Expenditures and Changes in Fund Balances.....	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	8
Proprietary Fund:	
Statement of Net Assets.....	9
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	10
Statement of Cash Flows.....	11
Notes to Financial Statements.....	12-22
REQUIRED SUPPLEMENTARY INFORMATION.....	23
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) General Fund.....	24
Notes to the Required Supplementary Information.....	25-26
SUPPLEMENTAL INFORMATION.....	27
Schedule of Expenditures of Federal Awards.....	28
SCHEDULE OF SURETY BONDS.....	29
SPECIAL REPORTS.....	31
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 <i>Government Auditing Standards</i>	32-33
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	34-35
Independent Auditor’s Report on Compliance With State Laws and Regulations.....	36
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	37-39

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 BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

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

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

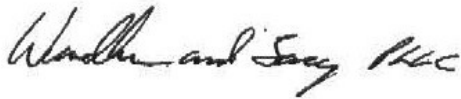
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the City of Lucedale, Mississippi, as of 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 Lucedale, 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 Lucedale, 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Windham and Lacey, PLLC
December 28, 2009

CITY OF LUCEDALE

BASIC FINANCIAL STATEMENTS

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

Government-wide financial statements

Fund financial statements

Governmental funds

Proprietary (enterprise) fund

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

CITY OF LUCEDALE
Statement of Net Assets
September 30, 2009

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash	\$ 2,810,106	354,104	3,164,210
Property tax receivable	264,016		264,016
Fines receivable, net	27,519		27,519
Accounts receivable, net	68,515	107,401	175,916
Intergovernmental receivables	207,118		207,118
Sales tax receivable	305,477		305,477
Total current assets	<u>3,682,751</u>	<u>461,505</u>	<u>4,144,256</u>
Noncurrent Assets:			
Restricted cash	97,282	239,487	336,769
Capital assets, net	5,065,282	2,087,382	7,152,664
Total noncurrent assets	<u>5,162,564</u>	<u>2,326,869</u>	<u>7,489,433</u>
 Total Assets	 \$ <u>8,845,315</u>	 <u>2,788,374</u>	 <u>11,633,689</u>
LIABILITIES			
Current Liabilities:			
Claims payable	\$ 127,989	34,470	162,459
Accrued interest payable		4,526	4,526
Deferred revenue	258,785		258,785
Current portion of long-term debt		35,437	35,437
Other current liabilities		1,920	1,920
Total current liabilities	<u>386,774</u>	<u>76,353</u>	<u>463,127</u>
Noncurrent Liabilities:			
Long-term liabilities		160,487	160,487
Customer meter deposits payable		35,239	35,239
Total noncurrent liabilities	<u>0</u>	<u>195,726</u>	<u>195,726</u>
 Total Liabilities	 <u>386,774</u>	 <u>272,079</u>	 <u>658,853</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,065,282	1,891,458	6,956,740
Restricted for:			
Public safety	97,282		97,282
Unemployment compensation	7,844		7,844
Capital projects	174,799		174,799
Unrestricted (deficit)	3,113,334	624,837	3,738,171
Total Net Assets	<u>\$ 8,458,541</u>	<u>2,516,295</u>	<u>10,974,836</u>

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

CITY OF LUCEDALE
Statement of Activities
For the Year Ended September 30, 2009

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 551,368				(551,368)		(551,368)
Public safety	1,283,546	57,194	12,988		(1,213,364)		(1,213,364)
Public works	818,361	201,692		2,430,868	1,814,199		1,814,199
Health and welfare	3,200	21,512			18,312		18,312
Culture and recreation	433,544			343,400	(90,144)		(90,144)
Urban and economic development	52,681				(52,681)		(52,681)
Total Governmental Activities	<u>3,142,700</u>	<u>280,398</u>	<u>12,988</u>	<u>2,774,268</u>	<u>(75,046)</u>	<u>0</u>	<u>(75,046)</u>
Business-type activities:							
Water/Sewer	<u>501,066</u>	<u>520,831</u>				<u>19,765</u>	<u>19,765</u>
Total Business-type Activities	<u>501,066</u>	<u>520,831</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>19,765</u>	<u>19,765</u>
Total	<u>\$ 3,643,766</u>	<u>801,229</u>	<u>12,988</u>	<u>2,774,268</u>	<u>(75,046)</u>	<u>19,765</u>	<u>(55,281)</u>
General Revenues							
Taxes:							
Property taxes					\$ 348,091		348,091
Road & bridge privilege taxes					168,191		168,191
Sales tax					1,892,116		1,892,116
Franchise taxes					168,326		168,326
Grants and contributions not restricted to specific programs					17,202		17,202
Unrestricted investment income					76,470	15,887	92,357
Miscellaneous					45,675		45,675
Transfers					(6,647)	6,647	
Total General Revenues					<u>2,709,424</u>	<u>22,534</u>	<u>2,731,958</u>
Change in net assets					2,634,378	42,299	2,676,677
Net Assets - Beginning					<u>5,824,163</u>	<u>2,473,996</u>	<u>8,298,159</u>
Net Assets - Ending					<u>\$ 8,458,541</u>	<u>2,516,295</u>	<u>10,974,836</u>

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

CITY OF LUCEDALE
Balance Sheet
Governmental Funds
September 30, 2009

Exhibit 3

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 2,881,073		26,315	2,907,388
Property tax receivable	264,016			264,016
Fines receivable	27,519			27,519
Sales tax receivable	305,477			305,477
Grants receivable	49,941	157,177		207,118
Other receivables	68,515			68,515
Total Assets	<u>\$ 3,596,541</u>	<u>157,177</u>	<u>26,315</u>	<u>3,780,033</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Claims payable	\$ 127,140		849	127,989
Deferred revenue	286,304			286,304
Total Liabilities	<u>413,444</u>	<u>0</u>	<u>849</u>	<u>414,293</u>
Fund Balances:				
Unreserved:				
General Fund	3,085,815			3,085,815
Public safety	97,282			97,282
Capital projects		157,177	17,622	174,799
Unemployment compensation			7,844	7,844
Total Fund Balances	<u>3,183,097</u>	<u>157,177</u>	<u>25,466</u>	<u>3,365,740</u>
Total Liabilities and Fund Balances	<u>\$ 3,596,541</u>	<u>157,177</u>	<u>26,315</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			\$ 2,841,706	
Plus capital outlay expenditures made during the year			2,391,656	
Less depreciation expense recorded during the year			(167,855)	
Less net book value of capital assets salvaged during the year			<u>(225)</u>	5,065,282
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds				27,519
Net Assets of Governmental Activities			<u>\$ 8,458,541</u>	

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

CITY OF LUCEDALE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2009

Exhibit 4

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 348,091			348,091
Licenses and permits	189,838			189,838
Fines and forfeitures	90,021			90,021
Intergovernmental revenues	2,146,396	2,424,910	243,255	4,814,561
Charges for services	186,955			186,955
Interest income	76,108		362	76,470
Miscellaneous	62,440		50,204	112,644
Total Revenues	<u>3,099,849</u>	<u>2,424,910</u>	<u>293,821</u>	<u>5,818,580</u>
EXPENDITURES				
Current:				
General government	539,248			539,248
Public safety	1,313,973			1,313,973
Public works	762,465			762,465
Health and welfare	3,200			3,200
Culture and recreation	87,527	2,326,915	280,986	2,695,428
Urban and economic development	52,187			52,187
Total Expenditures	<u>2,758,600</u>	<u>2,326,915</u>	<u>280,986</u>	<u>5,366,501</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>341,249</u>	<u>97,995</u>	<u>12,835</u>	<u>452,079</u>
Other Financing Sources (Uses)				
Transfers in (out)	<u>(16,297)</u>	<u>4,650</u>	<u>5,000</u>	<u>(6,647)</u>
Total Other Financing Sources and Uses	<u>(16,297)</u>	<u>4,650</u>	<u>5,000</u>	<u>(6,647)</u>
Net Change in Fund Balances	324,952	102,645	17,835	445,432
Fund Balances - Beginning	<u>2,858,145</u>	<u>54,532</u>	<u>7,631</u>	<u>2,920,308</u>
Fund Balances - Ending	<u>\$ 3,183,097</u>	<u>157,177</u>	<u>25,466</u>	<u>3,365,740</u>

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

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

Exhibit 5

Amount

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4) \$ 445,432

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 (\$2,391,656) exceeded depreciation (\$167,855) in the current period. 2,223,801

In the Statement of Activities, gains and losses from the disposal of capital assets are recorded. In governmental funds, these disposals are not recorded. Thus, the change in net assets differs from the change in fund balances by the amount the cost of the assets exceeds the accumulated depreciation. (225)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:
 Fine Revenue (34,630)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,634,378

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

CITY OF LUCEDALE
Statement of Net Assets
Proprietary Fund
September 30, 2009

Exhibit 6

	Business-type Activity
	<u>Water/Sewer</u>
ASSETS	
Current Assets:	
Cash	\$ 354,104
Accounts receivable, net	107,401
Total current assets	<u>461,505</u>
Noncurrent assets:	
Restricted cash and cash equivalents	239,487
Capital assets, net	<u>2,087,382</u>
Total noncurrent assets	<u>2,326,869</u>
 Total Assets	 \$ <u><u>2,788,374</u></u>
LIABILITIES	
Current Liabilities:	
Claims payable	\$ 34,470
Accrued interest payable	4,526
Current portion of long-term debt	35,437
Other current liabilities	1,920
Total current liabilities	<u>76,353</u>
Noncurrent Liabilities:	
Long-term liabilities	160,487
Customer meter deposits payable	<u>35,239</u>
Total noncurrent liabilities	<u>195,726</u>
 Total Liabilities	 <u>272,079</u>
NET ASSETS	
Invested in capital assets net of related debt	1,891,458
Unrestricted	<u>624,837</u>
Total Net Assets	\$ <u><u>2,516,295</u></u>

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

CITY OF LUCEDALE
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2009

Exhibit 7

	Business-type Activity
	<u>Water/Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 520,831
Total Operating Revenues	<u>520,831</u>
OPERATING EXPENSES	
Personal services	149,532
Contractual services	121,881
Materials and supplies	80,356
Depreciation expense	139,254
Total Operating Expenses	<u>491,023</u>
Operating Income (Loss)	<u>29,808</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	15,887
Interest expense	(10,043)
Capital contribution - federal and state grants	
Transfers in (out)	6,647
Total Nonoperating Revenue (Expenses)	<u>12,491</u>
Change in Net Assets	42,299
Total Net Assets - Beginning	<u>2,473,996</u>
Total Net Assets - Ending	<u>\$ 2,516,295</u>

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

CITY OF LUCEDALE
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2009

Exhibit 8

	Business-type Activity
	<u>Water/Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 494,473
Payments to suppliers	(188,459)
Payments to employees	(149,532)
	<hr/>
Net Cash Provided (Used) by Operating Activities	156,482
	<hr/>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(35,351)
Principal paid on long-term debt	(83,800)
Interest expense paid	(5,867)
Receipts from (payments to) other funds	6,647
	<hr/>
Net Cash Provided (Used) by Capital Financing Activities	(118,371)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	15,887
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	53,998
	<hr/>
Cash and Cash Equivalents - Beginning of Year	539,593
	<hr/>
Cash and Cash Equivalents - End of Year	\$ 593,591
	<hr/> <hr/>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 29,808
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation	139,254
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(29,464)
Increase (decrease) in claims payable	13,839
Increase (decrease) in customer deposits	3,106
Other, net	(61)
	<hr/>
Total adjustments	126,674
	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ 156,482
	<hr/> <hr/>

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

CITY OF LUCEDALE

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

1. Summary of Significant Accounting Policies.

Financial Reporting Entity.

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

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

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

Government-wide and Fund Financial Statements.

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

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

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

CITY OF LUCEDALE

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation.

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

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

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

The City reports the following major governmental fund:

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

The *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.

The city's proprietary fund applies 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.

CITY OF LUCEDALE

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Assets, Liabilities and Net Assets or Equity.

1. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of 14 days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the city may invest in certain repurchase agreements.

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

2. Receivables and Payables.

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

CITY OF LUCEDALE

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

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

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

3. *Restricted Assets.*

Governmental activities – cash that is restricted by law to certain activities is shown as restricted cash on the Statement of Net Assets.

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

4. *Capital Assets.*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$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.

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

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

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

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

CITY OF LUCEDALE

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

5. *Compensated Absences.*

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

6. *Long-term Obligations.*

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

7. *Equity Classifications.*

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

CITY OF LUCEDALE

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

8. *Property Tax Revenues.*

Numerous statutes exist under which the City may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

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

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

9. *Intergovernmental Revenues in Governmental Funds.*

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

2. **Detailed Notes on All Funds.**

A. **Cash.**

At year-end, the City's carrying amount of deposits was \$3,500,979 and the bank balance was \$3,585,271. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

CITY OF LUCEDALE

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

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

B. Receivables.

Receivables as of year-end for the City’s individual major funds and nonmajor funds in the aggregate, 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	\$ 305,477		305,477
Property taxes	264,016		264,016
Accounts		114,132	114,132
Garbage charges	20,303		20,303
State of Mississippi	207,118		207,118
Franchise fees	48,212		48,212
Fines	<u>592,135</u>		<u>592,135</u>
Gross receivables	1,437,261	114,132	1,551,393
Less: allowance for uncollectibles	<u>(564,616)</u>	<u>(6,731)</u>	<u>(571,347)</u>
Net total receivables	<u>\$ 872,645</u>	<u>107,401</u>	<u>980,046</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:

Property taxes receivable: General Fund	\$ 258,785
Fines receivable: General Fund	<u>27,519</u>
Total deferred revenue for governmental funds	<u>\$ 286,304</u>

CITY OF LUCEDALE

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

C. Transfers In/Out.

	<u>Transfers in:</u>
	<u>Water/Sewer Fund</u>
Transfer out:	
General Fund	\$ <u>(6,647)</u>
 Total transfers out	 \$ <u><u>(6,647)</u></u>

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

D. Capital Assets.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers and Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 155,169			155,169
Construction in progress	270,311	2,005,783	(2,276,094)	
Total capital assets, not being depreciated	<u>425,480</u>	<u>2,005,783</u>	<u>(2,276,094)</u>	<u>155,169</u>
Capital assets, being depreciated:				
Buildings	1,325,712		1,312,211	2,637,923
Improvements other than buildings	144,208	272,243	963,883	1,380,334
Streets	1,916,463			1,916,463
Bridges	9,920			9,920
Machinery and equipment	1,832,186	113,630	(2,250)	1,943,566
Total capital assets being depreciated	<u>5,228,489</u>	<u>385,873</u>	<u>2,273,844</u>	<u>7,888,206</u>
Less: Accumulated depreciation for:				
Buildings	(229,289)	(26,515)		(255,804)
Improvements other than buildings	(48,608)	(5,767)		(54,375)
Streets	(1,052,252)	(28,050)		(1,080,302)
Bridges	(9,920)			(9,920)
Machinery and equipment	(1,472,194)	(107,523)	2,025	(1,577,692)
Total accumulated depreciation	<u>(2,812,263)</u>	<u>(167,855)</u>	<u>2,025</u>	<u>(2,978,093)</u>
Total capital assets, being depreciated, net	<u>2,416,226</u>	<u>218,018</u>	<u>2,275,869</u>	<u>4,910,113</u>
Governmental activities capital assets, net	\$ <u><u>2,841,706</u></u>	<u><u>2,223,801</u></u>	<u><u>(225)</u></u>	<u><u>5,065,282</u></u>

CITY OF LUCEDALE

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

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, being depreciated:				
Water system	\$ 1,601,083	35,351	(13,656)	1,622,778
Sewer system	2,514,877			2,514,877
Total capital assets, being depreciated	<u>4,115,960</u>	<u>35,351</u>	<u>(13,656)</u>	<u>4,137,655</u>
Less: Accumulated depreciation	<u>(1,924,675)</u>	<u>(139,254)</u>	<u>13,656</u>	<u>(2,050,273)</u>
Business-type activities capital assets, net	<u>\$ 2,191,285</u>	<u>(103,903)</u>	<u>0</u>	<u>2,087,382</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 12,120
Public safety	55,963
Public works	74,587
Culture and recreation	24,691
Urban and economic development	<u>494</u>
Total depreciation expense - governmental activities	<u>\$ 167,855</u>
Business-type activities:	
Water and sewer	<u>\$ 139,254</u>
Total depreciation expense - business-type activities	<u>\$ 139,254</u>

E. Long-term Debt.

Revenue Bonds

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

Revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Business-type activities:		
2002 water system rural development bond	4.5%	\$ 126,877
1977 revenue bonds	5.0%	<u>69,047</u>
Total		<u>\$ 195,924</u>

CITY OF LUCEDALE

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

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

Year Ending September 30	Governmental Activities	
	Principal	Interest
2010	\$ 35,436	7,708
2011	37,152	5,992
2012	40,226	4,194
2013	15,949	2,195
2014	16,620	1,524
2015-2018	50,541	5,022
Total	\$ 195,924	26,635

Changes in Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 50,000		(50,000)	0	0
Revenue bonds	229,724		(33,800)	195,924	35,437
Business-type activity long-term liabilities	\$ 279,724	0	(83,800)	195,924	35,437

3. Other Information.

A. Contingent Liabilities.

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

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

CITY OF LUCEDALE

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

B. Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Lucedale is required to contribute at an actuarially determined rate. The current rate is 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 Lucedale's contributions to PERS for the years ending September 30, 2009, 2008 and 2007 were \$146,295, \$143,001 and \$124,034 respectively, equal to the required contributions for each year.

C. Risk Management.

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

CITY OF LUCEDALE

REQUIRED SUPPLEMENTARY INFORMATION

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

Budgetary Comparison Schedule

Notes to the Required Supplementary Information

CITY OF LUCEDALE
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes	\$ 319,800	327,973	327,973	
Licenses and permits	169,000	189,838	189,838	
Fines and forfeitures	70,000	90,021	90,021	
Intergovernmental revenues	2,174,200	2,162,769	2,162,769	
Charges for services	190,800	186,955	186,955	
Interest earned	61,800	76,108	76,108	
Miscellaneous revenues	36,000	69,530	69,530	
Total Revenues	<u>3,021,600</u>	<u>3,103,194</u>	<u>3,103,194</u>	<u>0</u>
EXPENDITURES				
General government	594,035	539,248	539,248	
Public safety	1,509,843	1,313,973	1,313,973	
Public works	1,000,340	762,465	762,465	
Health and welfare	3,200	3,200	3,200	
Culture and recreation	118,180	87,527	87,527	
Urban and economic development	70,100	52,187	52,187	
Total Expenditures	<u>3,295,698</u>	<u>2,758,600</u>	<u>2,758,600</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(274,098)</u>	<u>344,594</u>	<u>344,594</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)		(16,297)	(16,297)	
Total Other Financing Sources and Uses	<u>0</u>	<u>(16,297)</u>	<u>(16,297)</u>	<u>0</u>
Net Change in Fund Balance	(274,098)	328,297	328,297	0
Fund Balances - Beginning	<u>274,098</u>	<u>2,552,776</u>	<u>2,552,776</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>2,881,073</u>	<u>2,881,073</u>	<u>0</u>

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

CITY OF LUCEDALE

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

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

CITY OF LUCEDALE

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

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

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
Net Change in Fund Balance - Budget (Cash Basis)	\$ 328,297
Increase (decrease):	
Net adjustments for revenue accruals	<u>(3,345)</u>
Net Change in Fund Balance GAAP Basis	<u>\$ 324,952</u>

CITY OF LUCEDALE

SUPPLEMENTAL INFORMATION

CITY OF LUCEDALE
Schedule of Expenditures of Federal Awards
September 30, 2009

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
MAJOR FEDERAL AWARDS:				
U.S. Department of Housing & Urban Development Mississippi Development Authority/Community Development Block Grants:				\$
Kiosk construction & pavilion improvements	14.228/14.219	R-103-06	R-103-239-01-KCR	1,234,411
Downtown landscaping & pedestrian access	14.228/14.219	R-103-06	R-103-239-02-KCR	623,439
Kate Havard Park renovation & tennis court improvements	14.228/14.219	R-103-06	R-109-239-03-KCR	147,933
Comprehensive water distribution and wastewater collection facilities plan	14.228/14.219	R-103-06	R-103-239-01-KP	<u>261,950</u>
Total Expenditures of Major Federal Awards				<u>2,267,733</u>
OTHER FEDERAL AWARDS:				
Department of Transportation/Mississippi Department of Transportation/ Federal Surface Transportation - Transportation Enhancement Funds/Land Trust Greenway	20.205	STP-TE	STP-TE	232,455
Department of Homeland Security/Mississippi Emergency Management Agency/Hazard Mitigation Grant Program - Warning Siren	97.039	1604-169	1604-169	37,436
Department of Homeland Security/Mississippi Emergency Management Agency/Hazard Mitigation Grant Program - Code Enforcement	97.039	1604-38	1604-38	<u>12,505</u>
Total Expenditures of Other Federal Awards				<u>282,396</u>
Total Expenditures of Federal Awards				<u>\$ 2,550,129</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

CITY OF LUCEDALE

SECHEDULE OF SURETY BONDS

**City of Lucedale
Surety Bonds for City Officials
September 30, 2009**

<u>Covered Position</u>	<u>Company</u>	<u>Amount</u>
Mayor	Travelers Casualty & Surety	\$ 50,000
Aldermen	Travelers Casualty & Surety	50,000
Aldermen	Travelers Casualty & Surety	50,000
Aldermen	Travelers Casualty & Surety	50,000
Aldermen	Travelers Casualty & Surety	50,000
Aldermen	Travelers Casualty & Surety	50,000
City clerk	Travelers Casualty & Surety	50,000
City clerk	FCCI Insurance	160,000
Police chief	Western Surety	50,000
Deputy clerks & dispatchers	Western Surety	50,000
Patrolmen	Western Surety	25,000
Bus driver	Western Surety	50,000
Deputy city clerk	Western Surety	50,000
Deputy city clerk	Old Republic Surety	50,000
Deputy city clerk	Western Surety	50,000

CITY OF LUCEDALE

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

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

Members:
American Institute of CPAs
Mississippi Society of CPAs

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
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 Lucedale, Mississippi

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

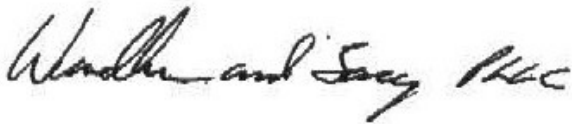
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

This report is intended solely for the information and use of management and 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.

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

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 REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of City of Lucedale, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. City of Lucedale, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Lucedale, Mississippi's management. Our responsibility is to express an opinion on City of Lucedale, Mississippi's compliance based on our audit.

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

In our opinion, City of Lucedale, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

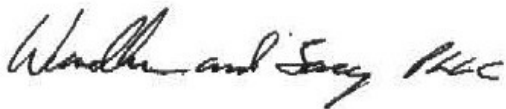
The management of City of Lucedale, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Lucedale, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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

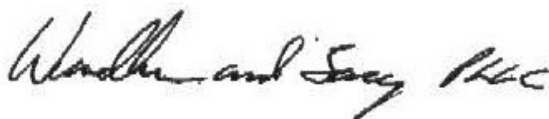
Honorable Mayor and
Members of the Board of Aldermen
City of Lucedale, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Lucedale, Mississippi, as of and for the year ended September 30, 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 basic financial statements disclosed no instances of noncompliance with state laws and regulations.

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



Windham and Lacey, PLLC
December 28, 2009

CITY OF LUCEDALE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF LUCEDALE

Schedule of Findings and Questioned Costs
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 |

Federal Awards:

- | | | |
|----|--|-------------|
| 4. | Internal control over major programs: | |
| a. | Material weaknesses identified? | No |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit findings reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |

U.S. Department of Housing and Urban Development/Community
Development Block Grants, CFDA #14.228

CITY OF LUCEDALE

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2009

- | | | |
|-----|---|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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