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**CITY OF LUCEDALE**

**Report on Audit of  
Basic Financial Statements**

**September 30, 2010**

**CITY OF LUCEDALE**

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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 Lucedale, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of City of Lucedale, Mississippi, as of and for the year ended September 30, 2010, 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.

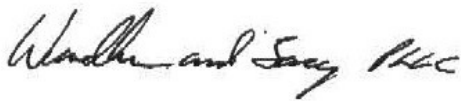
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information for the City of Lucedale, Mississippi, as of September 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2011, 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. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Windham and Lacey, PLLC  
February 23, 2011

**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, 2010**

**Exhibit 1**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$ 2,943,098	517,034	3,460,132
Property tax receivable	263,554		263,554
Fines receivable, net	39,808		39,808
Accounts receivable, net	70,292	64,496	134,788
Intergovernmental receivables	12,161		12,161
Sales tax receivable	296,779		296,779
Total current assets	<u>3,625,692</u>	<u>581,530</u>	<u>4,207,222</u>
<b>Noncurrent Assets:</b>			
Restricted cash	99,325	242,499	341,824
Capital assets, net	5,324,957	2,247,607	7,572,564
Total noncurrent assets	<u>5,424,282</u>	<u>2,490,106</u>	<u>7,914,388</u>
 Total Assets	 \$ <u>9,049,974</u>	 <u>3,071,636</u>	 <u>12,121,610</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Claims payable	\$ 124,832	40,302	165,134
Accrued interest payable		2,427	2,427
Deferred revenue	258,622		258,622
Current portion of long-term debt		37,152	37,152
Other current liabilities		2,019	2,019
Total current liabilities	<u>383,454</u>	<u>81,900</u>	<u>465,354</u>
<b>Noncurrent Liabilities:</b>			
Long-term liabilities		123,335	123,335
Customer meter deposits payable		33,629	33,629
Total noncurrent liabilities	<u>0</u>	<u>156,964</u>	<u>156,964</u>
 Total Liabilities	 <u>383,454</u>	 <u>238,864</u>	 <u>622,318</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,324,957	2,087,120	7,412,077
Restricted for:			
Public safety	99,325		99,325
Unemployment compensation	8,021		8,021
Capital projects	311,425		311,425
Unrestricted	2,922,792	745,652	3,668,444
Total Net Assets	<u>\$ 8,666,520</u>	<u>2,832,772</u>	<u>11,499,292</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, 2010**

**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
<b>Governmental Activities:</b>							
General government	\$ 534,594				(534,594)		(534,594)
Public safety	1,393,821	81,481	78,841		(1,233,499)		(1,233,499)
Public works	876,890	207,528	805	251,162	(417,395)		(417,395)
Health and welfare	3,200	23,945			20,745		20,745
Culture and recreation	246,578		42,504	28,545	(175,529)		(175,529)
Urban and economic development	41,749				(41,749)		(41,749)
Total Governmental Activities	<u>3,096,832</u>	<u>312,954</u>	<u>122,150</u>	<u>279,707</u>	<u>(2,382,021)</u>	<u>0</u>	<u>(2,382,021)</u>
<b>Business-type activities:</b>							
Water/Sewer	<u>499,518</u>	<u>521,050</u>		<u>280,923</u>		<u>302,455</u>	<u>302,455</u>
Total Business-type Activities	<u>499,518</u>	<u>521,050</u>	<u>0</u>	<u>280,923</u>	<u>0</u>	<u>302,455</u>	<u>302,455</u>
Total	<u>\$ 3,596,350</u>	<u>834,004</u>	<u>122,150</u>	<u>560,630</u>	<u>(2,382,021)</u>	<u>302,455</u>	<u>(2,079,566)</u>
<b>General Revenues</b>							
<b>Taxes:</b>							
Property taxes					\$ 376,842		376,842
Road & bridge privilege taxes					171,631		171,631
Sales tax					1,849,681		1,849,681
Franchise taxes					173,876		173,876
Grants and contributions not restricted to specific programs					19,692		19,692
Unrestricted investment income					68,202	14,022	82,224
Miscellaneous					87,253		87,253
Total General Revenues					<u>2,747,177</u>	<u>14,022</u>	<u>2,761,199</u>
Change in net assets					<u>365,156</u>	<u>316,477</u>	<u>681,633</u>
Net Assets - Beginning					8,458,541	2,516,295	10,974,836
Prior Period Adjustment					<u>(157,177)</u>		<u>(157,177)</u>
Restated Net Assets - Beginning					<u>8,301,364</u>	<u>2,516,295</u>	<u>10,817,659</u>
Net Assets - Ending					<u>\$ 8,666,520</u>	<u>2,832,772</u>	<u>11,499,292</u>

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

**CITY OF LUCEDALE**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2010**

**Exhibit 3**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash	\$ 3,020,515	21,908	3,042,423
Property tax receivable	263,554		263,554
Fines receivable	39,808		39,808
Sales tax receivable	296,779		296,779
Grants receivable	6,784	5,377	12,161
Interfund receivable/payable	2,738	(2,738)	
Other receivables	70,292		70,292
Total Assets	<u>\$ 3,700,470</u>	<u>24,547</u>	<u>3,725,017</u>
<b>LIABILITIES &amp; FUND BALANCES</b>			
Liabilities:			
Claims payable	\$ 104,286	20,546	124,832
Deferred revenue	298,430		298,430
Total Liabilities	<u>402,716</u>	<u>20,546</u>	<u>423,262</u>
Fund Balances:			
Unreserved:			
General Fund	3,198,429		3,198,429
Public safety	99,325	(34)	99,291
Capital projects		(3,986)	(3,986)
Unemployment compensation		8,021	8,021
Total Fund Balances	<u>3,297,754</u>	<u>4,001</u>	<u>3,301,755</u>
Total Liabilities and Fund Balances	<u>\$ 3,700,470</u>	<u>24,547</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, 2009		\$ 5,065,282	
Plus capital outlay expenditures made during the year		556,201	
Less depreciation expense recorded during the year		(296,526)	
		<u>5,324,957</u>	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds			39,808
Net Assets of Governmental Activities			<u>\$ 8,666,520</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, 2010**

**Exhibit 4**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	\$ 376,842		376,842
Licenses and permits	197,821		197,821
Fines and forfeitures	67,980		67,980
Intergovernmental revenues	2,142,584	298,127	2,440,711
Charges for services	188,812		188,812
Interest income	67,672	530	68,202
Miscellaneous	67,346	2,151	69,497
Total Revenues	<u>3,109,057</u>	<u>300,808</u>	<u>3,409,865</u>
<b>EXPENDITURES</b>			
Current:			
General government	524,758		524,758
Public safety	1,437,101	160,207	1,597,308
Public works	841,936		841,936
Health and welfare	3,200		3,200
Culture and recreation	109,223	198,756	307,979
Urban and economic development	41,492		41,492
Total Expenditures	<u>2,957,710</u>	<u>358,963</u>	<u>3,316,673</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>151,347</u>	<u>(58,155)</u>	<u>93,192</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in (out)	<u>(36,690)</u>	<u>36,690</u>	<u>0</u>
Total Other Financing Sources and Uses	<u>(36,690)</u>	<u>36,690</u>	<u>0</u>
Net Change in Fund Balances	<u>114,657</u>	<u>(21,465)</u>	<u>93,192</u>
Fund Balances - Beginning	3,183,097	182,643	3,365,740
Prior period adjustment	<u>0</u>	<u>(157,177)</u>	<u>(157,177)</u>
Restated Fund Balance - Beginning	<u>3,183,097</u>	<u>25,466</u>	<u>3,208,563</u>
Fund Balances - Ending	<u>\$ 3,297,754</u>	<u>4,001</u>	<u>3,301,755</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, 2010**

**Exhibit 5**

	<u><b>Amount</b></u>
Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4)	\$ 93,192
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 (\$556,201) exceeded depreciation (\$296,526) in the current period.	259,675
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Fine Revenue	<u>12,289</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	\$ <u><u>365,156</u></u>

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

**CITY OF LUCEDALE**  
**Statement of Net Assets**  
**Proprietary Fund**  
**September 30, 2010**

**Exhibit 6**

	<b>Business-type Activity</b>
	<b><u>Water/Sewer</u></b>
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 517,034
Accounts receivable, net	64,496
Total current assets	<u>581,530</u>
Noncurrent assets:	
Restricted cash and cash equivalents	242,499
Capital assets, net	2,247,607
Total noncurrent assets	<u>2,490,106</u>
 Total Assets	 \$ <u><u>3,071,636</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Claims payable	\$ 40,302
Accrued interest payable	2,427
Current portion of long-term debt	37,152
Other current liabilities	2,019
Total current liabilities	<u>81,900</u>
Noncurrent Liabilities:	
Long-term liabilities	123,335
Customer meter deposits payable	33,629
Total noncurrent liabilities	<u>156,964</u>
 Total Liabilities	 <u>238,864</u>
<b>NET ASSETS</b>	
Invested in capital assets net of related debt	2,087,120
Unrestricted	745,652
Total Net Assets	\$ <u><u>2,832,772</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, 2010**

**Exhibit 7**

	<b>Business-type Activity</b>
	<b><u>Water/Sewer</u></b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 521,050
Total Operating Revenues	<u>521,050</u>
<b>OPERATING EXPENSES</b>	
Personal services	132,940
Contractual services	163,397
Materials and supplies	70,348
Depreciation expense	122,698
Total Operating Expenses	<u>489,383</u>
Operating Income (Loss)	<u>31,667</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	14,022
Interest expense	(10,135)
Capital contribution - federal and state grants	280,923
Total Nonoperating Revenue (Expenses)	<u>284,810</u>
Change in Net Assets	316,477
Total Net Assets - Beginning	<u>2,516,295</u>
Total Net Assets - Ending	\$ <u><u>2,832,772</u></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, 2010**

**Exhibit 8**

	<b>Business-type Activity</b>
	<u>Water/Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 562,042
Payments to suppliers	(229,610)
Payments to employees	(132,940)
Net Cash Provided (Used) by Operating Activities	<u>199,492</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(282,923)
Principal paid on long-term debt	(35,437)
Interest expense paid	(10,135)
Receipts from grants	280,923
Net Cash Provided (Used) by Capital Financing Activities	<u>(47,572)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>14,022</u>
Net Increase (Decrease) in Cash and Cash Equivalents	165,942
Cash and Cash Equivalents - Beginning of Year	<u>593,591</u>
Cash and Cash Equivalents - End of Year	<u>\$ 759,533</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ <u>31,667</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation	122,698
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	42,905
Increase (decrease) in claims payable	4,036
Increase (decrease) in customer deposits	(1,913)
Other, net	<u>99</u>
Total adjustments	<u>167,825</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 199,492</u>

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

# CITY OF LUCEDALE

## Notes to Financial Statements For the Year Ended September 30, 2010

### 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, 2010

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

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

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, 2010

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, 2010

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, 2010

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, 2010

### 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 \$3,801,956 and the bank balance was \$4,050,165. 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, 2010

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	\$ 296,779		296,779
Property taxes	263,554		263,554
Accounts		112,850	112,850
Garbage charges	22,772		22,772
State of Mississippi	12,161		12,161
Franchise fees	47,520		47,520
Fines	<u>654,605</u>		<u>654,605</u>
Gross receivables	1,297,391	112,850	1,410,241
Less: Allowance for uncollectibles	<u>(614,797)</u>	<u>(48,354)</u>	<u>(663,151)</u>
Net total receivables	<u>\$ 682,594</u>	<u>64,496</u>	<u>747,090</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	\$ 258,622
Fines receivable: General Fund	<u>39,808</u>
Total deferred revenue for Governmental Funds	<u>\$ 298,430</u>

CITY OF LUCEDALE

Notes to Financial Statements  
For the Year Ended September 30, 2010

**C. Transfers In/Out.**

	<u>Transfers in:</u> Capital Projects Fund
Transfer out:	
General Fund	\$ <u>36,690</u>
 Total transfers out	 \$ <u><u>36,690</u></u>

The principal purpose of the transfers was for the matching portion of grants for various capital projects.

**D. Capital Assets.**

Capital asset activity for the year ended September 30, 2010, 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	149,450		304,619
Construction in progress		<u>175,961</u>		<u>175,961</u>
Total capital assets, not being depreciated	<u>155,169</u>	<u>325,411</u>	<u>0</u>	<u>480,580</u>
Capital assets, being depreciated:				
Buildings	2,637,923			2,637,923
Improvements other than buildings	1,380,334			1,380,334
Streets	1,916,463			1,916,463
Bridges	9,920			9,920
Machinery and equipment	<u>1,943,566</u>	<u>230,790</u>		<u>2,174,356</u>
Total capital assets being depreciated	<u>7,888,206</u>	<u>230,790</u>	<u>0</u>	<u>8,118,996</u>
Less: Accumulated depreciation for:				
Buildings	(255,804)	(26,515)		(282,319)
Improvements other than buildings	(54,375)	(107,700)		(162,075)
Streets	(1,080,302)	(25,903)		(1,106,205)
Bridges	(9,920)			(9,920)
Machinery and equipment	<u>(1,577,692)</u>	<u>(136,408)</u>		<u>(1,714,100)</u>
Total accumulated depreciation	<u>(2,978,093)</u>	<u>(296,526)</u>	<u>0</u>	<u>(3,274,619)</u>
Total capital assets, being depreciated, net	<u>4,910,113</u>	<u>(65,736)</u>	<u>0</u>	<u>4,844,377</u>
Governmental activities capital assets, net	<u>\$ 5,065,282</u>	<u>259,675</u>	<u>0</u>	<u>5,324,957</u>

CITY OF LUCEDALE

Notes to Financial Statements  
For the Year Ended September 30, 2010

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress: Sewer Rehab.	\$	<u>280,923</u>		<u>280,923</u>
Capital assets, being depreciated:				
Water system	1,622,778			1,622,778
Sewer system	<u>2,514,877</u>	<u>2,000</u>		<u>2,516,877</u>
Total capital assets, being depreciated	<u>4,137,655</u>	<u>2,000</u>	<u>0</u>	<u>4,139,655</u>
Less: Accumulated depreciation	<u>(2,050,273)</u>	<u>(122,698)</u>		<u>(2,172,971)</u>
Business-type activities capital assets, net	\$ <u>2,087,382</u>	<u>160,225</u>	<u>0</u>	<u>2,247,607</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:		
General government	\$	16,777
Public safety		81,349
Public works		73,203
Culture and recreation		124,940
Urban and economic development		<u>257</u>
Total depreciation expense - governmental activities	\$	<u>296,526</u>
Business-type activities:		
Water and sewer	\$	<u>122,698</u>
Total depreciation expense - business-type activities	\$	<u>122,698</u>

**E. Interfund Transactions**

The following schedule as of September 30, 2010, represents interfund receivables and payables:

The composition of interfund balances as of September 30, 2010, is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund	\$ <u>2,738</u>
Total		\$ <u>2,738</u>

CITY OF LUCEDALE

Notes to Financial Statements  
For the Year Ended September 30, 2010

**F. 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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities:		
2002 water system rural development bond	4.5%	\$ 112,939
1977 revenue bonds	5.0%	<u>47,548</u>
Total		\$ <u><u>160,487</u></u>

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
	\$	
2011	37,152	5,992
2012	40,226	4,194
2013	15,949	2,195
2014	16,682	1,462
2015	15,964	668
2016-2018	<u>34,514</u>	<u>851</u>
Total	\$ <u><u>160,487</u></u>	<u><u>15,362</u></u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2010, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type Activities:</b>					
Bonds payable:					
Revenue bonds	\$ <u>195,924</u>	<u>          </u>	<u>(35,437)</u>	<u>160,487</u>	<u>37,152</u>
Business-type activity long-term liabilities	\$ <u><u>195,924</u></u>	<u><u>0</u></u>	<u><u>(35,437)</u></u>	<u><u>160,487</u></u>	<u><u>37,152</u></u>

CITY OF LUCEDALE

Notes to Financial Statements  
For the Year Ended September 30, 2010

**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.

**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 9.00% 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, 2010, 2009 and 2008 were \$151,706, \$146,295 and \$143,001 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

Notes to Financial Statements  
For the Year Ended September 30, 2010

**4. Prior Period Adjustment.**

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Grant receivables in Governmental Funds in the prior year were recorded in error.	\$ <u>157,177</u>

**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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Taxes	\$ 317,800	357,582	357,582	
Licenses and permits	175,250	197,821	197,821	
Fines and forfeitures	85,000	67,980	67,980	
Intergovernmental revenues	2,098,650	2,206,934	2,206,934	
Charges for services	190,000	188,812	188,812	
Interest earned	61,300	67,672	67,672	
Miscellaneous revenues	71,700	67,347	67,347	
Total Revenues	<u>2,999,700</u>	<u>3,154,148</u>	<u>3,154,148</u>	<u>0</u>
<b>EXPENDITURES</b>				
General government	575,935	524,758	524,758	
Public safety	1,477,190	1,437,101	1,437,101	
Public works	1,023,525	841,936	841,936	
Health and welfare	3,200	3,200	3,200	
Culture and recreation	120,480	109,223	109,223	
Urban and economic development	71,100	41,492	41,492	
Total Expenditures	<u>3,271,430</u>	<u>2,957,710</u>	<u>2,957,710</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(271,730)</u>	<u>196,438</u>	<u>196,438</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	<u>(34,290)</u>	<u>(36,690)</u>	<u>(36,690)</u>	
Total Other Financing Sources and Uses	<u>(34,290)</u>	<u>(36,690)</u>	<u>(36,690)</u>	<u>0</u>
Net Change in Fund Balance	(306,020)	159,748	159,748	0
Fund Balances - Beginning	<u>306,020</u>	<u>2,860,767</u>	<u>2,860,767</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>3,020,515</u>	<u>3,020,515</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, 2010

#### **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, 2010

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)	\$ 159,748
Increase (decrease): Net adjustments for revenue accruals	<u>(45,091)</u>
Net Change in Fund Balance GAAP Basis	<u>\$ 114,657</u>

**CITY OF LUCEDALE**

**SUPPLEMENTAL INFORMATION**

**CITY OF LUCEDALE**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2010**

<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>
<b>MAJOR FEDERAL AWARDS:</b>				
U.S. Department of Housing & Urban Development Mississippi Development Authority/Community Development Block Grant	14.228	CDBG 2009	1126-09-239-PF-01	\$ <u>280,923</u>
<b>Total Expenditures of Major Federal Awards</b>				<u>280,923</u>
<b>OTHER FEDERAL AWARDS:</b>				
U.S. Department of Interior/Mississippi Department of Marine Resources/Mississippi Coastal Impact Assistance Program	15.426			139,450
U.S. Department of Justice/JAG Mississippi Department of Public Safety LLEBG program	16.738		08LB2991 09LB2991	27,567 6,784
U.S. Department of Transportation/NHTSA 410 Alcohol/Mississippi Department of Public Safety DUI grant	20.601		10AL2991	31,103
Department of Homeland Security/Mississippi Emergency Management Agency/Hazard Mitigation Grant Program	97.039	1604-169	1604-169	29,487
Department of Homeland Security/Mississippi Emergency Management Agency/Hazard Mitigation Grant Program - Code Enforcement	97.039	1604-38	1604-38	13,017
Department of Homeland Security/Mississippi Emergency Management Agency/ Hurricane Recovery	97.039			<u>805</u>
<b>Total Expenditures of Other Federal Awards</b>				<u>248,213</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 529,136</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, 2010**

<u>Name</u>	<u>Covered Position</u>	<u>Company</u>	<u>Amount</u>
Douglas Lee	Mayor	Travelers Casualty & Surety	\$ 50,000
Payton Dudley	Alderman	Travelers Casualty & Surety	50,000
Carrie Moulds	Alderwoman	Travelers Casualty & Surety	50,000
Jessie Underwood	Alderman	Travelers Casualty & Surety	50,000
Louis Valentine	Alderman	Travelers Casualty & Surety	50,000
Lloyd Welford	Alderman	Travelers Casualty & Surety	50,000
Kathy Johnson	City clerk	Travelers Casualty & Surety	50,000
Kathy Johnson	City clerk	FCCI Insurance	160,000
Barry Lambert	Police chief	Western Surety	50,000
Various	Court clerks & dispatchers	Western Surety	50,000
Police Officers	Patrolmen	Western Surety	25,000
Miranda Weaver	Bus driver	Western Surety	50,000
Jackie Jones	Deputy city clerk	Old Republic Surety	50,000
Tammy Oldenquist	Deputy city clerk	Old Republic Surety	50,000
Wanda Warren	Deputy city clerk	Old Republic Surety	50,000
Courtney Peacock	Water clerk	Old Republic Surety	50,000

**CITY OF LUCEDALE**

**SPECIAL REPORTS**

# Windham and Lacey, PLLC

*Certified Public Accountants*

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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, the major fund and the aggregate remaining fund information of City of Lucedale, Mississippi, as of and for the year ended September 30, 2010 which collectively comprise City of Lucedale, Mississippi's basic financial statements and have issued our report thereon dated February 23, 2011. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

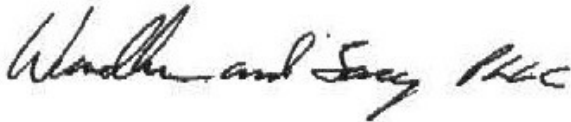
Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to

identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, others within the entity, 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. However, this report is a matter of public record and its distribution is not limited.

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

Windham and Lacey, PLLC  
February 23, 2011

# Windham and Lacey, PLLC

*Certified Public Accountants*

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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 its major federal program for the year ended September 30, 2010. City of Lucedale, Mississippi's major federal program is 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, 2010.

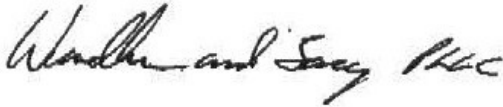
## Internal Control Over Compliance

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's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 entity's internal control over compliance.

A deficiency in internal 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 and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, others within the entity, 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. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC  
February 23, 2011

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

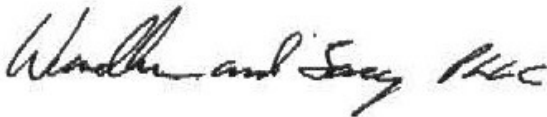
Honorable Mayor and  
Members of the Board of Aldermen  
City of Lucedale, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of City of Lucedale, Mississippi, as of and for the year ended September 30, 2010, and have issued our report thereon dated February 23, 2011. 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  
February 23, 2011

**CITY OF LUCEDALE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF LUCEDALE

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2010

**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? | None reported |
| 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? | None reported |
| 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, 2010

- |     |   |           |
|-----|---|-----------|
| 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.