

CITY OF SOUTHAVEN
SOUTHAVEN, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010

CITY OF SOUTHAVEN, MISSISSIPPI

ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the City of Southaven, Mississippi (the "City"), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southaven'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 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 test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Southaven, Mississippi, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, 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 August 22, 2011 on our consideration of the City of Southaven's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The managements' discussion and analysis and the budgetary comparison information on pages 3 through 12 and 40, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Southaven's basic financial statements. The accompanying schedule of expenditures of federal awards, presented for purposes of additional analysis, is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Southaven. The schedule of expenditures of federal awards 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. The Schedule of Surety Bonds has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

F.O. Givens & Co.
Certified Public Accountants
August 22, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year End September 30, 2010

The Discussion and Analysis of the City of Southaven's financial performance provides an overview of the City's financial activities of the fiscal year ended September 30, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the City's financial statements in order to enhance their understanding of the City's financial performance.

The City of Southaven, Mississippi's annual fiscal year operating budget represents the city's financial commitments and plans to deliver a high level of service to the Southaven community. The purpose of this narrative and analysis of the FY 2010 municipal budget is twofold: 1) Comply with the Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement NO. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999, and 2) give the reader a clear understanding of the financial activities that are proposed and budgeted for the 2010 fiscal year.

The City of Southaven's fiscal operating budget for all funds are prepared, presented, and adopted by the Board of Aldermen prior to September 15 of each year. The City's fiscal year runs from October 1 to September 30.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2010 are as follows:

- Total assets of \$198.6 million
- Total liabilities of \$127.0 million
- Total net assets of \$71.7 million
- Total net assets in FY 2010 increased \$7.4 million from FY 2009.
- Total fund balances increased \$3,919,466 from FY 2009
- Total investment in public safety (Police, Fire, EMS) of \$16.7 million
- Total revenues generated by Southaven Parks and Recreation of \$2.3 million

Beginning early each year, the City of Southaven Department of Finance and Administration (DFA) requests that each department submit a budget request including payroll projections, capital outlay requests, and any other information which will be needed. These budget requests may be made via the municipal financial software or on pre-approved budgetary worksheets. A number of study sessions are held throughout the year with city staff and the Mayor to discuss various elements of the budget. DFA holds budget conferences with each department. The conferences provides both DFA and the specific department the opportunity to review the requests with department staff, learn more about program

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improvement packages, and ask questions about the issues presented by department staff in their budget proposals.

The City Administrator, with the assistance of DFA, then prepares a recommended budget that is reviewed and revised by the Mayor. The Mayor presents the budget to the Southaven Board of Alderman for their review at a public meeting no later than August. The budget must also be published at least one time during September. This begins the public comment phase of the budget process. A final budget must be adopted by the Southaven Board of Alderman by September 15 [Section 21-35-5, Miss. Code Ann. (1972)].

The budget is then formatted into this printed document, reproduced and made available for the public and placed online at www.southaven.com. In addition to dollar amounts, this document contains narrative information on the purpose and mission, the accomplishments, goals and objectives, and performance indicators of each department and division.

STATE STATUTES RELATED TO THE BUDGET

Mississippi State law prescribes the policies and procedures by which the City prepares its annual budget. Mississippi laws require very specific budgetary guidelines and principals that municipalities must follow. The statutory source of budgetary authority resides in the Municipal Budget Law, Mississippi Code Section 21-35-1. Chapter 35 of Title 21 contains the statutory requirements that Mississippi municipalities must adhere to. The regulatory source of authority resides in Mississippi Code Section 21-35-29, which authorizes the Mississippi State Auditor to regulate the municipal budget process.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The annual budget contains an itemized estimate of the anticipated revenue and the proposed expenditures necessary to meet the City's financial needs, detailed by program and object of expenditures. The annual budget must be balanced so that total resources equal obligations. The funds which must be budgeted in accordance to Sections 21-35-5 and 21-35-9, Miss. Code Ann. (1972) include:

- Funds receiving revenues to the municipality.
- Funds which will require approval from the board of alderman to expend.
- Proprietary funds (utility systems, etc).
- Municipal reserve funds.
- Funds confiscated and forfeited in connection with drug and liquor cases.

The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level.

BUDGET CALENDAR

Mississippi state statutes provide that the municipal budget be approved and adopted no later than September 15th of each year. Aside from this, the budget calendar remains flexible, however; below is a common-sense guideline that the City of Southaven seeks to follow to the extent possible:

May Board meeting—Formulate budget policy (governing authorities)

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June Board meeting—Distribute department request forms/activate next year budget entry module and notify of due date (DFA)

August Board meeting—Publish notice of budget hearing(s) and availability of draft budget for review
August (15-30)—hold public hearing on budget
September (1-15)—adopt budget no later than September 15

MAKING CHANGES TO THE BUDGET

Budget revisions are regulated by Section 21-35-25, Miss. Code Ann. (1972). The City of Southaven budget may be revised at any time, except that the Board of Alderman is limited to one (1) budget revision during the first three (3) months of its term of office. Budget revisions which result in more than a 10 percent change in a department's originally adopted budget must be publicized in the same manner as the original budget. The publication must explain the nature of the revisions including the amounts and purpose(s).

BASIS OF ACCOUNTING

All governmental and fiduciary funds are reported using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to pay current liabilities in a particular period. Expenditures are recognized when the related liability is current (the encumbrance method of accounting.) The enterprise funds (Utility, Sanitation) are reported on the accrual basis of accounting.

BASIS OF BUDGETING

The City budgets for governmental funds, which include the General Fund, Debt Service Funds, and Capital Projects Fund, Enterprise Funds (Sanitation and Utility), Library Fund and Tourism and Convention Funds based on the modified accrual basis of accounting. Under this method, revenues (income) are recognized in the period they become available to finance the expenditures of the period. Expenditures (expenses) are recorded when incurred with the exception of principal and interest on long term debt, which are recorded when due.

The budgets for all proprietary funds, which include Enterprise Funds are prepared using the accrual basis of accounting.

Operating expenditures are controlled at the fund level and may not exceed appropriations at that level. Capital project expenditures are controlled at the fund, department and project levels and may not exceed appropriations at any of those levels. Budget transfers within a department may be made with administrative approval provided that the transfer is within the same fund. Increases in total appropriations require City Commission approval by ordinance. Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City/Governing Authorities.

Using this Annual Financial Report:

This annual report consists of a series of financial statements and notes to those statements are organized so that the reader can understand the City of Southaven, Mississippi as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

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The Statement of Net Assets and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Southaven as a Whole:

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during this past year?" The Statement of Net Assets and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the City's net assets and the change in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base, other economic indicators, property valuations and the condition of the City's capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services such as police, fire, administration, public services, and all other departments. The business-type activities of the City of Southaven consist of the City's Water and Sewer System, also known as the Utility Departments and the City's Sanitation Fund. Collectively these are also known as Enterprise Funds.

Table 1 provides an overview of the City's net assets:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
ASSETS	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 21,831,035	\$ 20,301,110	\$ 21,103,996	\$ 21,093,541	\$ 42,935,031	\$ 41,394,651
Capital assets, net	\$ 113,588,417	\$ 111,464,620	\$ 42,134,094	\$ 36,971,441	\$ 155,722,511	\$ 148,436,061
Total assets	<u>\$ 135,419,452</u>	<u>\$ 131,765,730</u>	<u>\$ 63,238,090</u>	<u>\$ 58,064,982</u>	<u>\$ 198,657,542</u>	<u>\$ 189,830,712</u>
LIABILITIES						
Long-term liabilities:						
Due within one year	\$ 5,290,796	\$ 4,938,071	\$ 1,968,973	\$ 1,781,161	\$ 7,259,769	\$ 6,719,232
Payable after one year	\$ 61,350,672	\$ 61,507,444	\$ 35,585,089	\$ 31,504,581	\$ 96,935,761	\$ 93,012,025
Deferred revenues	\$ 16,470,034	\$ 17,242,735	\$ 2,619,141	\$ 2,742,020	\$ 19,089,175	\$ 19,984,755
Other liabilities	\$ 2,224,394	\$ 3,861,370	\$ 1,425,104	\$ 1,951,680	\$ 3,649,498	\$ 5,813,050
Total liabilities	<u>\$ 85,335,896</u>	<u>\$ 87,549,620</u>	<u>\$ 41,598,307</u>	<u>\$ 37,979,442</u>	<u>\$ 126,934,203</u>	<u>\$ 125,529,062</u>
NET ASSETS						
Invested in capital asset	\$ 48,298,598	\$ 46,334,933	\$ 4,608,627	\$ 3,720,671	\$ 52,907,225	\$ 50,055,604
Restricted	\$ 986,963	\$ 371,479	\$ 1,238,584	\$ 1,374,483	\$ 2,225,547	\$ 1,745,962
Unrestricted	\$ 797,995	\$ (2,490,302)	\$ 15,792,572	\$ 14,990,386	\$ 16,590,567	\$ 12,500,084
Total net assets	<u>\$ 50,083,556</u>	<u>\$ 44,216,110</u>	<u>\$ 21,639,783</u>	<u>\$ 20,085,540</u>	<u>\$ 71,723,339</u>	<u>\$ 64,301,650</u>

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Reporting on the City of Southaven's Most Significant Funds:

Fund Financial Statements

Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided by the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Southaven, as with many other municipal corporations, the City's major fund is the General Fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of government's near-term financing decisions. Both the governmental fund balances and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary/Enterprise Funds:

The City of Southaven maintains an *enterprise fund* that is used to report *business-type activities* in the government-wide financial statements. The City uses enterprise fund accounting in order to account for the Water/Sewer System and the City's Sanitation Fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Operating revenues of the System are utilized to fund the operation and maintenance expenses and debt service.

The City's Funds:

All Governmental Funds had total revenues of \$44,082,436 and net other financing sources (uses) of \$6,896,403 (including proceeds of long-term debt and lease proceeds) and expenditures of \$47,059,373.

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General Fund Budgetary Highlights

The City's budget is prepared according to Mississippi Law and is based on accounting for certain transactions of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

The actual budget basis ending balance of the General Fund at September 30, 2010 was \$3,865,676, compared to an ending balance of \$528,433 at September 30, 2009. The City of Southaven, through its fiscal policies, is building our fund balances in order to further sustain any economic turbulence in years ahead.

For the 2010 fiscal year, the City of Southaven maintained its property tax rate of 43.73. This continues to reflect the one-mill reduction from the 2009 FY.

The original FY 2010 General Fund total budget, as amended, for expenditures was \$40,129,377. Actual expenditures totaled \$34,370,748. Total General Fund expenses were \$41,483,332 for FY 2010.

Budgets are typically amended throughout the year on a line-item by line-item basis. Whereas one departmental code (i.e. "Supplies", "Uniforms") may be trending toward being over budget, the department head will recommend a budget transfer of funds from another departmental line-item to be transferred within the department to compensate for this budgetary issue. This is done only when there is a zero net change to the budget.

Any change to the budget which reflects either an increase or a decrease in actually/projected revenues and/or expenditures must be presented to and adopted by a vote of the Board of Alderman. All recommendations for budget amendments are compiled by the City Administrator and the Department of Finance and Administration and reviewed by the Mayor and the Board of Alderman prior to final vote of the Board. Pursuant to legal requirements, cumulative amendments of more than 10% to the original expenditure budgets are published in the local newspaper.

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Table 2 provides an overview of the City's change in net assets:

REVENUES	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Charges for services	\$ 3,891,538	\$ 3,832,634	\$ 9,820,910	\$ 7,640,823	\$ 13,712,448	\$ 11,473,457
Operating grants	-	243,392	-	-	-	243,392
Capital grants	1,505,312	-	-	-	1,505,312	-
Total program revenues	\$ 5,396,850	\$ 4,076,026	\$ 9,820,910	\$ 7,640,823	\$ 15,217,760	\$ 11,716,849
General Revenues						
Property taxes	\$ 19,161,567	\$ 17,555,090	\$ 2,491,907	\$ 2,282,117	\$ 21,653,474	\$ 19,837,207
Sales tax	11,343,015	11,177,009	-	-	11,343,015	11,177,009
Other general revenues	10,029,872	7,531,906	151,972	56,161	10,181,844	7,588,067
Total general revenues	\$ 40,534,454	\$ 36,264,005	\$ 2,643,879	\$ 2,338,278	\$ 43,178,333	\$ 38,602,283
					\$ -	
Total Revenues	\$ 45,931,304	\$ 40,340,031	\$ 12,464,789	\$ 9,979,101	\$ 58,396,093	\$ 50,319,132
PROGRAM EXPENSES						
General government	\$ 8,568,595	\$ 9,568,773	\$ -	\$ -	\$ 8,568,595	\$ 9,568,773
Public safety	17,614,451	18,009,031	-	-	17,614,451	18,009,031
Public works	6,190,707	4,135,333	-	-	6,190,707	4,135,333
Culture and recreation	5,649,556	5,601,961	-	-	5,649,556	5,601,961
Economic development	589,578	533,851	-	-	589,578	533,851
Health and welfare	262,735	253,220	-	-	262,735	253,220
Interest on long term debt	2,607,710	2,926,357	2,150,898	1,313,931	4,758,608	4,240,288
Other	-	-	-	-	-	-
Water and Sewer	-	-	10,121,450	5,211,427	10,121,450	5,211,427
Sanitation	-	-	2,544,396	2,625,094	2,544,396	2,625,094
Total program expenses	\$ 41,483,332	\$ 41,028,526	\$ 14,816,744	\$ 9,150,452	\$ 56,300,076	\$ 50,178,978
Change in net assets	\$ 4,447,972	\$ (688,495)	\$ (2,351,955)	\$ 828,649	\$ 2,096,017	\$ 140,154
Net Assets-Beginning of Year	\$ 44,216,110	\$ 44,108,354	\$ 20,085,540	\$ 18,363,786	\$ 64,301,650	\$ 62,472,140
Prior period Adjustment	\$ 1,419,474	\$ 796,251	\$ 3,906,198	\$ 893,105	\$ 5,325,672	\$ 1,689,356
Change in net assets	\$ 4,447,972	\$ (688,495)	\$ (2,351,955)	\$ 828,649	\$ 2,096,017	\$ 140,154
Net Assets-End of Year	\$ 50,083,556	\$ 44,216,110	\$ 21,639,783	\$ 20,085,540	\$ 71,723,339	\$ 64,301,650

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Table 3 provides an overview of the City's Capital Assets net of accumulated depreciation:

Capital Assets (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 5,482,521	\$ 4,435,062	\$ 579,036	\$ 561,036	\$ 6,061,557	\$ 4,996,098
Construction in progress	498,249	1,627,303	9,204,472	6,848,280	9,702,721	8,475,583
Infrastructure	57,325,675	53,303,629	31,695,357	25,943,707	89,021,032	79,247,336
Buildings and improvements	40,077,386	44,158,829	104,234	1,081,809	40,181,620	45,240,638
Leased equipment	3,134,035	3,254,597	221,209	520,840	3,355,244	3,775,437
Equipment and vehicles	7,070,551	4,685,200	329,786	2,015,769	7,400,337	6,700,969
	<u>\$ 113,588,417</u>	<u>\$ 111,464,620</u>	<u>\$ 42,134,094</u>	<u>\$ 36,971,441</u>	<u>\$ 155,722,511</u>	<u>\$ 148,436,061</u>

General Long-Term Debt Obligations

As of September 30, 2010, the City of Southaven had \$47,040,000 in total outstanding general obligation bonds (excluding proprietary/Business-type activities)

Outstanding Bonds, Notes and Long-Term Obligations at Year End

	<u>2010</u>	<u>2009</u>
Governmental activities debt		
General obligation bonds	\$ 47,040,000	\$ 46,570,000
Tax increment bonds	7,600,000	8,260,000
Notes payable	9,299,809	8,724,068
Leases payable	2,102,878	2,459,042
Compensated absences	677,865	677,865
Bond premiums	195,517	164,296
Bond discounts	(8,392)	(9,325)
Loss on bond refunding	(266,209)	(400,431)
Governmental activities liabilities	<u>\$ 66,641,468</u>	<u>\$ 66,445,515</u>
Business -type activities debt		
General obligation bonds	\$ 9,455,000	\$ 6,850,000
Revenue bonds payable	17,505,000	18,490,000
Notes payable	10,163,944	7,507,530
Leases payable	574,401	619,551
Compensated absences	28,595	34,972
Bond discounts	(66,548)	(70,243)
Loss on bond refunding	(106,330)	(146,067)
Business-type liabilities	<u>\$ 37,554,062</u>	<u>\$ 33,285,743</u>
Total Capital Obligations	<u>\$ 104,195,530</u>	<u>\$ 99,731,258</u>

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The City of Southaven is subject to statutory limitations of indebtedness as detailed by Section 21-33-303, Miss. Code Ann (1972). No municipality may issue debt/bonds secured by a pledge of its full faith and credit in an amount which, when added to the existing outstanding bond indebtedness, exceeds the 15% and 20% test as prescribed by Section 21-33-303. These percentages are applied to the total assessed value of the taxable property within the municipal limits of Southaven. As of September 30, 2010, the City of Southaven's assessed value applicable for the debt test is \$436,523,555, and as such, the City of Southaven has a \$10,838,533 margin for additional debt under the 15% test and a margin of \$32,664,711 under the 20% test.

Current Financial Related Activities:

Throughout Southaven's history, the City has experienced favorable sales tax growth and moderate increases to the property tax rolls. In FY 2010, Southaven experienced static growth in property tax and a very minor \$166,000 increase in sales tax revenues. However, as the 2010 FY progressed, sales tax revenue began to increase over the previous year's corresponding monthly totals and while continued growth is anticipated, it remains the fiscal policy of Southaven's governing authority to budget conservatively.

For 2010, Southaven's population was calculated, according to the United States Census most recent numbers, to be 48,982. This equates to roughly 30% of the total DeSoto County population and makes Southaven the 3rd largest city in Mississippi.

75% of Southaven's population is considered white, 21% black and 2.5% Hispanic according to the 2010 Census, which is the most current statistical measure available.

Southaven, Mississippi is a relatively young community, with 33% of our residents being between the ages of 25-44. 9% of Southaven's population is age 65 and older. The median age of a Southaven resident is 33.1 years old, whereas the national median age is 35.3 years of age. Educational attainment is a major factor of a communities overall success and viability and Southaven, Mississippi is no different. 83% of Southaven residents aged 25 and older has at least a high school diploma, however only 14% have a bachelor's degree.

These facts, however, will surely improve given the commitment to education the City of Southaven has shown and the leadership role the City is taking in education. Southaven remains one of only a handful of Mississippi cities where one can go from pre-K to earning a master's degree without ever leaving the city limits. Housing statistics provided by the U.S. Census show seventy-two percent (72%) of Southaven residents own their housing unit while twenty-eight percent rent.

The average household size for the owner-occupied residence is 2.65, while the average renter-occupied unit size is 2.54. 96% of all Southaven housing units are considered occupied, while 4% are considered vacant.

The highest percentage of household income for our community is that between \$50,000-\$74,999 with 26% of the population's households earning those amounts. The median household income is roughly \$47,000. Nearly 15% of Southaven's residents draw some sort of retirement income. The median home value is \$91,400.

CITY OF SOUTHAVEN, MISSISSIPPI

Management Discussion and Analysis

September 30, 2010

Leading employers in Southaven include the DeSoto County School system, Baptist Memorial Hospital, Future Electronics and Associated Wholesale Grocers. Southaven has seen rapid growth in the retail sales job market and tourism related jobs are continuing to come on line with the growth of Southaven's competitive baseball and softball tournaments held annually.

The primary source of revenues for the City of Southaven remains sales tax and the municipal reimbursement applied by the State of Mississippi. While much of the nation, and many states and local governments have been faced with severe fiscal constraints and budgetary crisis, Southaven, Mississippi remains financially strong while working hard to maintain low overall costs and expenditures.

Contacting the CAO/City Administrator:

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives and allocates. If you have any questions about this report or need additional financial information, contact Chris Wilson, Chief Administrative Officer/City Administrator at 662.393.6939.

BASIC FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets
September 30, 2010

ASSETS	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 2,740,763	\$ 4,214,620	\$ 6,955,383
Accounts receivable, net of allowance for doubtful accounts of \$376,916	556,742	812,955	1,369,697
Intergovernmental receivable	940,700	-	940,700
Franchise tax receivable	496,252	-	496,252
Property tax receivable	16,470,034	2,619,141	19,089,175
Other receivable	-	138,291	138,291
Prepaid expense	444,629	-	444,629
Internal balances	(2,076,263)	2,076,263	-
Restricted assets:			
Cash in bank	1,584,394	699,527	2,283,921
Customer deposits	-	569,100	569,100
Bean patch receivable	-	9,217,639	9,217,639
Bond issue costs, net	673,784	756,460	1,430,244
Capital assets, net of accumulated depreciation	113,588,417	42,134,094	155,722,511
Total Assets	135,419,452	63,238,090	198,657,542
LIABILITIES			
Accounts payable	826,312	614,737	1,441,049
Accrued expenses	809,488	52,131	861,619
Customer deposits	-	569,100	569,100
Accrued interest	588,594	189,136	777,730
Deferred revenue	16,470,034	2,619,141	19,089,175
Long-term liabilities			
Due within one year:			
Capital debt	5,290,796	1,968,973	7,259,769
Due in more than one year:			
Capital debt	60,672,807	35,556,494	96,229,301
Non-capital debt	677,865	28,595	706,460
Total Liabilities	85,335,896	41,598,307	126,934,203
NET ASSETS			
Invested in capital assets, net of related debt	48,298,598	4,608,627	52,907,225
Restricted for:			
Debt services	482,510	1,238,584	1,721,094
Prepaid expense	444,629	-	444,629
Unrestricted	857,819	15,792,572	16,650,391
Total Net Assets	\$ 50,083,556	\$ 21,639,783	\$ 71,723,339

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Changes in Net Assets</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Governmental Activities</u>							
General government	\$ 8,568,595	\$ 384,699	\$ -	\$ -	\$ (8,183,896)	\$ -	\$ (8,183,896)
Public safety	17,614,451	965,664	-	-	(16,648,787)	-	(16,648,787)
Public works	6,190,707	-	-	1,505,312	(4,685,395)	-	(4,685,395)
Culture and recreation	5,649,556	2,298,352	-	-	(3,351,204)	-	(3,351,204)
Economic development	589,578	220,397	-	-	(369,181)	-	(369,181)
Health and welfare	262,735	22,426	-	-	(240,309)	-	(240,309)
Interest on long-term debt	2,607,710	-	-	-	(2,607,710)	-	(2,607,710)
Total governmental activities	<u>41,483,332</u>	<u>3,891,538</u>	<u>-</u>	<u>1,505,312</u>	<u>(36,086,482)</u>	<u>-</u>	<u>(36,086,482)</u>
<u>Business-Type Activities</u>							
Water and sewer	10,121,450	9,704,976	-	-	-	(416,474)	(416,474)
Sanitation	2,544,396	115,934	-	-	-	(2,428,462)	(2,428,462)
Interest on long-term debt	2,150,898	-	-	-	-	(2,150,898)	(2,150,898)
Total business-type activities	<u>14,816,744</u>	<u>9,820,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,995,834)</u>	<u>(4,995,834)</u>
Total government	<u>\$56,300,076</u>	<u>\$ 13,712,448</u>	<u>\$ -</u>	<u>\$ 1,505,312</u>	<u>(36,086,482)</u>	<u>(4,995,834)</u>	<u>(41,082,316)</u>
				<u>General Revenue</u>			
				Property taxes	19,161,567	2,491,907	21,653,474
				Intergovernmental	993,134	-	993,134
				Sales tax	11,343,015	-	11,343,015
				Fines	3,602,657	-	3,602,657
				Franchise tax	2,310,012	-	2,310,012
				Rents	602,051	-	602,051
				Interest	197,773	5,900	203,673
				Miscellaneous	2,582,740	146,072	2,728,812
				Sale of assets	(258,495)	-	(258,495)
				Total General Revenues	<u>40,534,454</u>	<u>2,643,879</u>	<u>43,178,333</u>
				Change in Net Assets	4,447,972	(2,351,955)	2,096,017
				Net Assets-Beginning of Year	44,216,110	20,085,540	64,301,650
				Prior Period Adjustment	1,419,474	3,906,198	5,325,672
				Net Assets-End of Year	<u>\$ 50,083,556</u>	<u>\$21,639,783</u>	<u>\$ 71,723,339</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Balance Sheet - Governmental Funds
September 30, 2010

	<u>General Fund</u>	<u>Bond Funded Capital Project</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 2,412,619	\$ -	\$ -	\$ 328,144	\$ 2,740,763
Due from other funds	3,196,918	892,090	170,578	530,550	4,790,136
Accounts receivable, net of allowance for doubtful accounts of \$173,444	556,742	-	-	-	556,742
Intergovernmental receivable	925,590	-	-	15,110	940,700
Franchise tax receivable	496,252	-	-	-	496,252
Property tax receivable	8,896,350	-	7,246,291	327,393	16,470,034
Prepaid expenses	444,629	-	-	-	444,629
Restricted cash	513,290	-	565,464	505,640	1,584,394
	<u>\$ 17,442,390</u>	<u>\$ 892,090</u>	<u>\$ 7,982,333</u>	<u>\$ 1,706,837</u>	<u>\$ 28,023,650</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 806,819	\$ -	6,827	\$ 12,666	\$ 826,312
Accrued expenses	809,488	-	-	-	809,488
Due to other funds	3,064,057	2,270,553	532,845	998,944	6,866,399
Deferred revenue	8,896,350	-	7,246,291	327,393	16,470,034
	<u>13,576,714</u>	<u>2,270,553</u>	<u>7,785,963</u>	<u>1,339,003</u>	<u>24,972,233</u>
<u>FUND BALANCES</u>					
Reserved for:					
Debt service	-	-	565,464	505,640	1,071,104
Prepaid expenses	444,629	-	-	-	444,629
Unreserved	3,421,047	(1,378,463)	(369,094)	(137,806)	1,535,684
	<u>3,865,676</u>	<u>(1,378,463)</u>	<u>196,370</u>	<u>367,834</u>	<u>3,051,417</u>
Total Fund Balances	<u>\$ 17,442,390</u>	<u>\$ 892,090</u>	<u>\$ 7,982,333</u>	<u>\$ 1,706,837</u>	<u>\$ 28,023,650</u>
Total Liabilities and Fund Balances	<u>\$ 17,442,390</u>	<u>\$ 892,090</u>	<u>\$ 7,982,333</u>	<u>\$ 1,706,837</u>	<u>\$ 28,023,650</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
September 30, 2010

Total Fund Balance - Governmental Funds \$ 3,051,417

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. These assets consist of:

Land	5,482,521	
Buildings and improvements	49,576,535	
Equipment and vehicles	14,267,458	
Infrastructure	89,013,466	
Construction in progress	498,249	
Leased equipment	4,021,471	
Accumulated depreciation	(49,271,283)	
Bond issue cost	<u>673,784</u>	
		114,262,201

Some liabilities are not due and payable in the current period and therefore
are not reported in the funds. Those liabilities consist of:

Notes payable	(9,299,809)	
Leases payable	(2,102,878)	
General obligation and revenue bonds	(54,640,000)	
Accrued expenses	(588,594)	
Bond discount	8,392	
Bond premium	(195,517)	
Deferred loss on refunding	266,209	
Compensated absences	<u>(677,865)</u>	
		<u>(67,230,062)</u>

Net Assets of Governmental Activities \$ 50,083,556

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds
For the Year Ended September 30, 2010

	General Fund	Bond Funded Capital Project	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
General property taxes	11,133,583	\$ -	7,716,496	311,488	\$ 19,161,567
Licenses and permits	384,699	-	-	-	384,699
Intergovernmental	12,144,731	-	-	191,418	12,336,149
Charges for services	3,286,442	-	-	220,397	3,506,839
Fines	3,602,657	-	-	-	3,602,657
Franchise taxes	2,310,012	-	-	-	2,310,012
Interest	197,773	-	-	-	197,773
Miscellaneous	2,555,230	-	-	27,510	2,582,740
Total Revenues	35,615,127	-	7,716,496	750,813	44,082,436
EXPENDITURES					
General government	7,648,311	-	-	305,450	7,953,761
Public safety	16,716,154	-	-	-	16,716,154
Public works	1,453,813	-	-	-	1,453,813
Culture and recreation	4,546,153	-	-	6,038	4,552,191
Health and welfare	262,735	-	-	-	262,735
Tourism and convention	-	-	-	589,578	589,578
Capital outlay	3,728,628	-	-	1,402,605	5,131,233
Debt service:					
Principal	-	2,977,483	4,688,846	-	7,666,329
Interest	14,954	-	2,604,691	-	2,619,645
Bond issue cost	-	-	113,934	-	113,934
Total Expenditures	34,370,748	2,977,483	7,407,471	2,303,671	47,059,373
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,244,379	(2,977,483)	309,025	(1,552,858)	(2,976,937)
OTHER FINANCIAL SOURCES (USES)					
Rents	505,801	-	96,250	-	602,051
Sale of assets	13,412	-	-	-	13,412
Interfund transfers	(187,479)	-	-	187,479	-
Grant proceeds	1,505,312	-	-	-	1,505,312
Lease proceeds	255,818	-	-	-	255,818
Loan proceeds	-	-	-	1,402,605	1,402,605
Bond proceeds	-	3,015,685	3,636,520	-	6,652,205
Payment to bond refunding escrow agent	-	-	(3,535,000)	-	(3,535,000)
Loss on extinguishment of debt	-	-	-	-	-
Total Other Financing Sources	2,092,864	3,015,685	197,770	1,590,084	6,896,403
Net Change in Fund Balances	3,337,243	38,202	506,795	37,226	3,919,466
Fund Balance - Beginning of Year	528,433	(1,416,665)	(310,425)	330,608	(868,049)
Equity Transfers	-	-	-	-	-
Prior Period Adjustment	-	-	-	-	-
Fund Balance - End of Year	\$ 3,865,676	\$ (1,378,463)	\$ 196,370	\$ 367,834	\$ 3,051,417

CITY OF SOUTHAVEN, MISSISSIPPI
Reconciliation of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to Statement of Activities
Year Ended September 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ 3,919,466

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$7,210,453 exceeded depreciation of \$6,992,770 in the current period. 217,683

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds of \$8,253,423 and amortization expense of \$196,904 in the current period exceeded repayments of \$8,223,846. (226,481)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increase/(decrease) is

Sale of capital assets	271,907
Bond issue costs	138,062
Bond premium	31,221
Loss on bond refunding	134,222
Accrued expenses	(22,423)
Accrued interest payable	(15,685)
	(15,685)

Change in Net Assets of Governmental Activities \$ 4,447,972

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets - Proprietary Funds
September 30, 2010

	Utility Fund	Sanitation Fund	Total
<u>ASSETS</u>			
Current Assets			
Cash and cash equivalents	3,167,562	1,047,058	\$ 4,214,620
Accounts receivable, net of allowance for doubtful accounts \$113,530	799,808	13,147	812,955
Property tax receivable	-	2,619,141	2,619,141
Other receivable	138,291	-	138,291
Due from other funds	2,140,675	1,150,501	3,291,176
Total Current Assets	<u>6,246,336</u>	<u>4,829,847</u>	<u>11,076,183</u>
Noncurrent Assets			
Restricted assets:			
Cash	699,527	-	699,527
Customer deposits	569,100	-	569,100
Bean Patch receivable	9,217,639	-	9,217,639
Bond issue cost, net	756,460	-	756,460
Fixed assets, net of accumulated depreciation	42,046,966	87,128	42,134,094
Total Noncurrent Assets	<u>53,289,692</u>	<u>87,128</u>	<u>53,376,820</u>
Total Assets	<u>\$ 59,536,028</u>	<u>\$ 4,916,975</u>	<u>\$ 64,453,003</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities			
Accounts payable	321,817	292,920	\$ 614,737
Accrued expenses	46,514	5,617	52,131
Accrued interest	189,136	-	189,136
Deferred revenue	-	2,619,141	2,619,141
Due to other funds	1,208,133	6,780	1,214,913
Total Current Liabilities	<u>1,765,600</u>	<u>2,924,458</u>	<u>4,690,058</u>
Current Liabilities Payable from Restricted Assets			
Customer deposits	569,100	-	569,100
Long-term liabilities due within one year:			
Capital debt	1,968,973	-	1,968,973
Total current liabilities payable from restricted assets	<u>2,538,073</u>	<u>-</u>	<u>2,538,073</u>
Long-term liabilities due in more than one year:			
Capital debt	35,556,494	-	35,556,494
Non-capital debt	24,216	4,379	28,595
Total Long-Term Liabilities	<u>35,580,710</u>	<u>4,379</u>	<u>35,585,089</u>
Total Liabilities	<u>39,884,383</u>	<u>2,928,837</u>	<u>42,813,220</u>
Net Assets			
Invested in capital assets, net of related debt	4,521,499	87,128	4,608,627
Restricted for:			
Debt service	1,238,584	-	1,238,584
Unrestricted	13,891,562	1,901,010	15,792,572
Total Net Assets	<u>19,651,645</u>	<u>1,988,138</u>	<u>21,639,783</u>
Total Liabilities and Net Assets	<u>\$ 59,536,028</u>	<u>\$ 4,916,975</u>	<u>\$ 64,453,003</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2010

	<u>Utility</u>	<u>Sanitation</u>	<u>Total</u>
<u>OPERATING REVENUES</u>			
Property taxes	\$ -	\$ 2,491,907	\$ 2,491,907
Sales	9,704,976	115,934	9,820,910
Miscellaneous	136,576	9,496	146,072
Total Operating Revenues	<u>9,841,552</u>	<u>2,617,337</u>	<u>12,458,889</u>
<u>OPERATING EXPENSES</u>			
Personnel	1,064,987	-	1,064,987
Supplies	383,428	18,767	402,195
Depreciation and amortization	1,591,502	-	1,591,502
Maintenance and other	6,511,267	13,128	6,524,395
Professional services	570,266	2,512,501	3,082,767
Total Operating Expenses	<u>10,121,450</u>	<u>2,544,396</u>	<u>12,665,846</u>
Operating Income	<u>(279,898)</u>	<u>72,941</u>	<u>(206,957)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Interest income	2,922	2,978	5,900
Interest expense	(2,150,898)	-	(2,150,898)
Total Non-Operating Revenues (Expenses)	<u>(2,147,976)</u>	<u>2,978</u>	<u>(2,144,998)</u>
Net Income	<u>(2,427,874)</u>	<u>75,919</u>	<u>(2,351,955)</u>
Net Assets - Beginning of Year	18,293,994	1,791,546	20,085,540
Prior Period Adjustment	3,785,525	120,673	3,906,198
Net Assets - End of Year	<u>\$ 19,651,645</u>	<u>\$ 1,988,138</u>	<u>\$ 21,639,783</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash received from customers	\$ 9,249,194	\$ 2,615,733	\$ 11,864,927
Cash payments for goods and services	(8,097,091)	(2,443,476)	(10,540,567)
Cash payments to employees	(1,070,107)	(1,255)	(1,071,362)
Net Cash Provided By (Used In) Operating Activities	<u>81,996</u>	<u>171,002</u>	<u>252,998</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Interfund activity	(10,018)	(3,047)	(13,065)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(10,018)</u>	<u>(3,047)</u>	<u>(13,065)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Payments for capital acquisitions	(2,693,755)	(73,211)	(2,766,966)
Customer deposits	4,634	-	4,634
Loan proceeds	5,916,529	-	5,916,529
Principal payments on debt	(1,685,266)	-	(1,685,266)
Interest payments on debt	(2,150,898)	-	(2,150,898)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(608,756)</u>	<u>(73,211)</u>	<u>(681,967)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Notes receivable payments, net	52,329	-	52,329
Receipts of interest	2,922	2,978	5,900
Net Cash Provided By (Used In) Investing Activities	<u>55,251</u>	<u>2,978</u>	<u>58,229</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(481,527)	97,722	(383,805)
Cash and Cash Equivalents-Beginning of Year	<u>4,917,716</u>	<u>949,336</u>	<u>5,867,052</u>
Cash and Cash Equivalents-End of Year	<u>\$ 4,436,189</u>	<u>\$ 1,047,058</u>	<u>\$ 5,483,247</u>
Reconciliation of Operating Income to Net Cash Provided By (Used In)			
Operating Activities			
Operating Income	<u>\$ (279,898)</u>	<u>\$ 72,941</u>	<u>\$ (206,957)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,591,502	-	1,591,502
(Increase) decrease in customer receivables	(533,109)	(1,604)	(534,713)
(Increase) decrease in other receivables	(59,249)	-	(59,249)
Increase (decrease) in accounts payable	(670,494)	102,049	(568,445)
Increase (decrease) in accrued expenses	38,364	(1,129)	37,235
Increase (decrease) in compensated absences	(5,120)	(1,255)	(6,375)
Total adjustments	<u>361,894</u>	<u>98,061</u>	<u>459,955</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 81,996</u>	<u>\$ 171,002</u>	<u>\$ 252,998</u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Southaven (the “City”) was incorporated in 1980. The City operated under the Board of Aldermen-Mayor form of government and provides the following services; public safety (police and fire), public works (streets and improvements), culture, recreation, public improvements, planning and zoning, economic development, and general administrative services.

The financial statements of the City of Southaven have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Boards (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

B. Financial Reporting Entity

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

Based upon the application of these criteria, the City of Southaven has no component units.

C. Basis of Presentation

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, 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.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements

The City segregated transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund:

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Bonded Funded Capital Project Fund:

This fund is used to account for the financial resources to be used for the acquisition or construction of major capital projects. Such resources are derived principally from proceeds of general obligation bond issues.

Debt Service Funds:

These funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds

All proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets. FASB pronouncements issued subsequent to November 30, 1989 that conflict with GASB pronouncements have not been followed, as permitted under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. The City has presented the following major proprietary funds:

Utility Fund:

The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system, as well as billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Sanitation Fund:

The Sanitation Fund is used to account for the provision of sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of sanitation services, as well as billing and collection activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Government Fund revenues. Expenditures are recognized when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

E. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Clerk a budget of estimated expenditures for the ensuing fiscal year after which the City Clerk submits a budget of estimated expenditures and revenues to the Mayor and Board of Aldermen by August 1.

Upon receipt of the budget estimates, the Board of Aldermen holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City. At the September board meeting, the budget is legally enacted through passage of the budget ordinance. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.

The actual receipts and disbursements are accumulated each month and compared to the budgeted amounts and reviewed by the Mayor and Board of Aldermen. Any revisions on the budget during the year are approved by the Board of Aldermen.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

For the purpose of the Statement of Net Assets, “Cash and Cash Equivalents” includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “Cash and Cash Equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

G. Prepaid Expenses

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year. The reserve for prepaid expenses in the governmental funds has been recorded to signify that a portion of the fund balance is not available for other subsequent expenditures.

H. Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as “Due to/from other funds.” Noncurrent portions of interfund receivables and payables are reported as “Advances to/from other funds.” Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account inapplicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “Internal balances.”

I. Restricted Assets

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

J. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

K. Compensated Absences

The City has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and Proprietary Funds financial statements. In fund financial statements, governmental funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

L. Net Assets

Net assets are the difference between assets and liabilities. Net assets “Invested in capital assets, net of related debt” are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by City legislation or external restrictions by other governments, creditors, or grantors.

M. Nature and Purpose of Reservations and Designations of Fund Equity

The financial statements report reservations of fund balance for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose. Following are descriptions of fund reserves used by the City:

Reserved for debt service – an account that represents a portion of the fund balance which is legally restricted and not available for spending for any other purpose than that for the debt service for which it is restricted.

Reserved for prepaid items – an account that represents a portion of the fund balance indicated as prepaid expenses which do not represent available spendable resources even though they are a component of net current assets.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Property Tax Revenues

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 that become a lien are due in the month that coincides with the month of the 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 collectability criteria for property tax recognition because the lien and due date cannot be established until the date of the original purchase occurs.

NOTE 2 – CASH AND CASH EQUIVALENTS

The collateral for public entities' deposits in financial institutions are held in the name of the State Treasure 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 the institution would be liquidated by the State Treasure to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC").

Custodial credit risk is the risk that, in the event of a financial institution's failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2010, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2010, the carrying amount of the City's deposits was \$9,808,404 and the bank balances totaled \$10,097,126. Of the bank balances, \$250,000 was insured by the FDIC and \$9,847,126 was covered by pooled and/or pledged collateral.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2010

NOTE 3 – CAPITAL ASSETS

	Balance at 9/30/2009	Additions	Deletions	Adjustments/ Transfers	Balance at 9/30/2010
GOVERNMENTAL ACTIVITIES					
Capital assets, not being depreciated:					
Land	\$ 4,435,062	\$ 1,047,459	\$ -	\$ -	\$ 5,482,521
Construction in progress	1,627,303	601,315	(271,907)	(1,458,462)	498,249
Total capital assets, not being depreciated	<u>6,062,365</u>	<u>1,648,774</u>	<u>(271,907)</u>	<u>(1,458,462)</u>	<u>5,980,770</u>
Capital assets, being depreciated:					
Buildings and improvements	52,230,608	2,260,842	-	(4,914,915)	49,576,535
Equipment and vehicles	12,340,322	1,878,350	(143,843)	192,629	14,267,458
Infrastructure	79,872,413	1,166,669	-	7,974,384	89,013,466
Leased equipment	3,824,570	255,818	(21,804)	(37,113)	4,021,471
Total capital assets, being depreciated	<u>148,267,913</u>	<u>5,561,679</u>	<u>(165,647)</u>	<u>3,214,985</u>	<u>156,878,930</u>
Less accumulated depreciation for:					
Buildings and improvements	(8,071,779)	(1,599,896)	-	172,526	(9,499,149)
Equipment and vehicles	(7,655,122)	(1,135,514)	143,843	1,449,886	(7,196,907)
Infrastructure	(26,568,784)	(3,918,093)	-	(1,200,914)	(31,687,791)
Leased equipment	(569,973)	(339,267)	21,804	-	(887,436)
Total accumulated depreciation	<u>(42,865,658)</u>	<u>(6,992,770)</u>	<u>165,647</u>	<u>421,498</u>	<u>(49,271,283)</u>
Total capital assets, being depreciated, net	<u>105,402,255</u>	<u>(1,431,091)</u>	<u>-</u>	<u>3,636,483</u>	<u>107,607,647</u>
Governmental activities capital assets, net	<u>\$ 111,464,620</u>	<u>\$ 217,683</u>	<u>\$ (271,907)</u>	<u>\$ 2,178,021</u>	<u>\$ 113,588,417</u>
BUSINESS-TYPE ACTIVITIES					
Capital assets, not being depreciated:					
Land	\$ 561,036	\$ 18,000	\$ -	\$ -	\$ 579,036
Construction in progress	6,848,280	1,541,913	-	814,279	9,204,472
Total capital assets, not being depreciated	<u>7,409,316</u>	<u>1,559,913</u>	<u>-</u>	<u>814,279</u>	<u>9,783,508</u>
Capital assets, being depreciated:					
Buildings	1,309,319	-	-	(927,746)	381,573
Infrastructure	35,582,518	1,118,223	-	5,830,625	42,531,366
Equipment and vehicles	2,930,351	89,128	-	(1,603,597)	1,415,882
Leased equipment	744,057	-	-	(255,412)	488,645
Total capital assets, being depreciated	<u>40,566,245</u>	<u>1,207,351</u>	<u>-</u>	<u>3,043,870</u>	<u>44,817,466</u>
Less accumulated depreciation for:					
Buildings	(227,510)	(49,829)	-	-	(277,339)
Infrastructure	(9,638,811)	(1,244,947)	-	47,749	(10,836,009)
Equipment and vehicles	(914,582)	(171,514)	-	-	(1,086,096)
Leased equipment	(223,217)	(44,219)	-	-	(267,436)
Total accumulated depreciation	<u>(11,004,120)</u>	<u>(1,510,509)</u>	<u>-</u>	<u>47,749</u>	<u>(12,466,880)</u>
Total capital assets, being depreciated, net	<u>29,562,125</u>	<u>(303,158)</u>	<u>-</u>	<u>3,091,619</u>	<u>32,350,586</u>
Business-type activities capital assets, net	<u>\$ 36,971,441</u>	<u>\$ 1,256,755</u>	<u>\$ -</u>	<u>\$ 3,905,898</u>	<u>\$ 42,134,094</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2010

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation was charged to functions of the City of Southaven as follows:

Depreciation expenses:

Governmental activities:

General government	\$	825,373
Public safety		957,311
Public works		4,106,445
Culture and recreation		<u>1,103,641</u>

Total depreciation expense, governmental activities	\$	<u><u>6,992,770</u></u>
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Business-type activities:

Water and sewer	\$	<u>1,510,509</u>
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Total depreciation expense, business-type activities	\$	<u><u>1,510,509</u></u>
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Commitments under construction contracts at September 30, 2010 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
Northeast Water Storage Tank	1,570,318	112,417

The above information is per engineering department

NOTE 4 – INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivables consist of the following:

<u>Description</u>	<u>General Fund</u>
Ad valorem	\$ 87,087
Sales tax	838,503
Tourism tax	<u>15,110</u>
Totals	\$ <u><u>940,700</u></u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2010

NOTE 5 – INTERFUND TRANSFERS AND BALANCES

The following is a summary of interfund transactions and balances:

Due to/from other funds:	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 3,196,918	\$ 3,064,057
Capital project fund	892,090	2,270,553
Debt service fund	170,578	532,845
Other governmental funds	530,550	998,944
Utility fund	2,140,675	1,208,133
Sanitation fund	1,150,501	6,780
Total	<u>\$ 8,081,312</u>	<u>\$ 8,081,312</u>

These transactions are performed to transfer funds between each fund as needed. All interfund balances are expected to be repaid within one year.

Transfers In/Out	<u>Transfers In</u>	<u>Transfers Out</u>
General fund		
Bond Funded Capital Project	\$ -	\$ 6,265,000
Total general fund	<u>-</u>	<u>6,265,000</u>
Bond funded capital project fund		
General fund	6,265,000	-
Total bond funded capital project fund	<u>6,265,000</u>	<u>-</u>
Total	<u>\$ 6,265,000</u>	<u>\$ 6,265,000</u>

The principal purpose of interfund transfers was to provide funds to pay for debt service and for capital outlay expenses in the proprietary funds. All interfund transfers were consistent with the activities of the fund making the transfer.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2010

NOTE 6 – LONG-TERM DEBT

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

	Balance at 9/30/2009	Additions	Deletions	Balance at 9/30/2010	Amounts Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 46,570,000	\$ 6,595,000	\$ 6,125,000	\$ 47,040,000	\$ 3,230,000
Tax increment financing bonds payable	8,260,000	-	660,000	7,600,000	660,000
Notes payable	8,724,068	1,402,605	826,864	9,299,809	825,917
Leases payable	2,459,042	255,818	611,982	2,102,878	574,879
Compensated absences	677,865	-	-	677,865	-
Bond premium	164,296	47,586	16,365	195,517	-
Bond discounts	(9,325)	-	(933)	(8,392)	-
Loss on bond refunding	(400,431)	-	(134,222)	(266,209)	-
Governmental activities long-term liabilities	\$ 66,445,515	\$ 8,301,009	\$ 8,105,056	\$ 66,641,468	\$ 5,290,796
Business-type activities:					
General obligation bonds payable	\$ 6,850,000	\$ 3,000,000	\$ 395,000	\$ 9,455,000	\$ 505,000
Revenue bonds payable	18,490,000	-	985,000	17,505,000	1,035,000
Notes payable	7,507,530	2,916,529	260,115	10,163,944	381,866
Leases payable	619,551	-	45,150	574,401	47,107
Compensated absences	34,972	-	6,377	28,595	-
Bond discounts	(70,243)	-	(3,695)	(66,548)	-
Loss on bond refunding	(146,067)	-	(39,737)	(106,330)	-
Business-type activities long-term liabilities	\$ 33,285,743	\$ 5,916,529	\$ 1,648,210	\$ 37,554,062	\$ 1,968,973

Short-Term Debt – Tax Anticipation Notes

The City issued tax anticipation notes in advance of property tax collections, depositing the proceeds in its general fund. This note is necessary to meet cash operation needs for the first quarter of the fiscal year whereas tax collections are received in February.

Short-term debt activity for the year ended September 30, 2010 was as follows:

	Balance at 9/30/2009	Additions	Deletions	Balance at 9/30/2010
Tax anticipation notes	\$ -	\$ 3,000,000	\$ 3,000,000	\$ -

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 6 – LONG TERM DEBT (CONTINUED)

General Obligation Bonds.

General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
General Long Term					
1998	4.00-5.88%	9/1/1998	9/1/2008	1,700,000	440,000
2000	4.75-6.75%	10/1/2000	10/1/2020	5,000,000	230,000
2001	4.50%	10/1/2001	10/1/2021	5,000,000	3,300,000
2003	3.64%	7/1/2003	7/1/2023	4,000,000	2,995,000
2004	4.24%	3/11/2004	3/11/2024	4,500,000	3,555,000
2004	4.02%	12/1/2004	12/1/2024	4,500,000	3,730,000
2005	3.97%	12/1/2005	12/1/2025	4,500,000	3,900,000
2006	3.70-4.25%	3/1/2007	9/1/2020	4,185,000	3,885,000
2007	4.37-5.50%	7/1/2007	7/1/2027	6,000,000	5,400,000
2008	3.63-5.00%	7/1/2008	7/1/2028	4,000,000	3,745,000
2008	3.38%	2/1/2009	2/1/2013	3,300,000	2,700,000
2008	3.00-5.00%	4/16/2009	11/1/2020	6,665,000	6,565,000
2010	3.125 - 4.00%	2/1/2010	2/1/2020	6,000,000	6,000,000
2010	2.00 - 3.25%	3/23/2010	10/1/2019	3,595,000	3,595,000
1996 Water/Sewer	4.10-5.25%	3/1/1996	3/1/2011	1,850,000	180,000
2009 Water/Sewer	3.00-5.00%	2/1/2009	2/1/2029	6,500,000	6,275,000
Total general obligation bonds				<u>\$ 71,295,000</u>	<u>\$ 56,495,000</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2010

NOTE 6 – LONG TERM DEBT (CONTINUED)

Revenue Bonds.

The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
1998 Water/Sewer	4.05-4.65%	7/1/1998	9/1/2012	\$ 4,185,000	\$ 885,000
2003 Water/Sewer	4.00-4.65%	12/23/2003	12/23/2023	4,500,000	3,570,000
2006 Water/Sewer	4.00-5.50%	3/1/2006	3/1/2031	9,000,000	8,180,000
2007 Water/Sewer	4.12-5.00%	8/1/2007	8/1/2027	5,400,000	4,870,000
Total Revenue Bonds				<u>\$ 23,085,000</u>	<u>\$ 17,505,000</u>

Tax increment financing (“TIF”) bonds outstanding at year end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
1999 S Lake Phase I	4.95%	3/2/1999	3/1/2019	560,000	\$ 310,000
2001 Sam's Club	4.93-5.30%	4/1/2001	4/1/2013	500,000	160,000
2005A Towne Cener	4.07-4.63%	9/30/2006	9/30/2020	5,000,000	3,830,000
2005B Towne Center	5.94-6.64%	9/30/2006	9/30/2020	4,200,000	3,300,000
Total TIF Bonds				<u>\$ 10,260,000</u>	<u>\$ 7,600,000</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2010

NOTE 6 – LONG TERM DEBT (CONTINUED)

Notes.

The City also uses notes to finance its projects. Notes outstanding at year end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
Whitten Family Trust	6.00%	7/27/2003	7/21/2013	\$ 575,640	\$ 128,460
MS Development Bank - 2001	3.00%	7/7/2002	7/7/2022	453,831	268,515
MS Development Bank - 2001	3.00%	12/11/2002	12/11/2022	3,357,883	2,042,713
MS Development Bank - 2004	3.00%	3/11/2004	2/1/2024	1,188,287	797,148
Bancorpsouth -2004	4.24%	1/30/2004	1/30/2014	775,000	348,785
Bancorpsouth - 2004	4.24%	2/24/2004	3/5/2014	450,000	202,777
Bancorpsouth - 2005	4.08%	2/1/2006	2/1/2016	4,000,000	3,280,973
Merchants & Farmers - 2005	4.10%	8/1/2006	8/1/2016	1,900,000	1,231,361
Bancorpsouth - 2007	4.50%	12/4/2006	1/5/2012	370,769	275,100
MS Dept of Health DWSLRF	3.00%	12/1/2002	9/1/2022	1,400,961	966,620
MS Dept of Health DWSLRF	3.00%	1/1/2003	10/1/2022	1,361,525	937,033
MS Dept of Health DWSLRF	3.00%	7/1/2003	4/1/2023	1,250,436	891,692
MS Dept of Health DWSLRF	4.00%	9/20/2004	7/1/2024	1,425,168	1,108,770
MS Dept of Health DWSLRF	1.95%	11/2/2007	1/1/2029	832,638	815,812
MS Dept of Health DWSLRF	1.95%	11/2/2007	10/1/2029	2,096,881	2,096,881
MS Dept of Health DWSLRF	1.95%	10/1/2008	6/1/2030	1,074,714	1,074,714
MS Dept of Health DWSLRF	1.95%	10/1/2008	9/30/2030	1,616,257	1,616,257
MS Development Authority	2.00%	8/1/2010	7/1/2020	531,753	519,713
MS Development Authority	3.00%	9/1/2010	9/1/2020	683,373	673,580
MS Development Authority	3.00%	9/30/2010	9/30/2020	187,479	187,479
Total Notes				<u>\$ 25,532,595</u>	<u>\$ 19,464,383</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2010

NOTE 6 – LONG TERM DEBT (CONTINUED)

The aggregate maturities of general obligation bonds, revenue bonds, tax increment financing, and notes for the years subsequent to September 30, 2010 are as follows:

Year Ending September 30	General Long-Term Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2011	\$ 4,835,917	\$ 2,673,704	\$ 2,065,945	\$ 1,395,439
2012	5,276,600	2,278,369	1,976,990	1,280,690
2013	5,119,599	2,063,073	1,624,275	1,231,751
2014	5,077,171	1,866,426	1,700,601	1,183,359
2015	4,373,925	1,667,290	1,765,815	1,122,833
2016-2020	24,722,687	5,409,108	9,775,721	4,819,488
2021-2025	10,098,139	1,623,275	9,991,016	2,680,863
2026-2030	3,055,000	233,395	7,396,567	1,215,896
2031-2035	-	-	827,014	18,860
Total	\$ 62,559,038	\$ 17,814,640	\$ 37,123,944	\$ 14,949,179

Leases.

Description of Leasing Arrangements.

The City's leasing operations consist principally of the leasing of various police vehicles, a fire station, and utility lines. These leases are classified as capital leases. The vehicle leases expire over the next year, while the utility lines leases expire over the next 10 years. The fire station is leased over the next fifteen years, but the City has the option to purchase after thirteen months of lease payments are made.

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2010 were as follows:

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2010

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 588,590	\$ 64,063	\$ 47,107	\$ 24,893
2012	467,248	44,543	49,148	22,852
2013	392,496	29,907	51,278	20,722
2014	353,127	17,280	53,501	18,499
2015	301,417	4,825	55,819	16,181
2016-2020	-	-	317,548	42,453
2021-2025	-	-	-	-
Present Value of Minimum Lease Payments	<u>\$ 2,102,878</u>	<u>\$ 160,618</u>	<u>\$ 574,401</u>	<u>\$ 145,600</u>

NOTE 6 – LONG TERM DEBT (CONTINUED)

Legal Debt Margin.

The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness for such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$10,838,533 (the smaller of the two computed margins) as of September 30, 2010.

	<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2010:		
\$436,523,555 times applicable percentage	\$ 65,478,533	\$ 87,304,711
Less present debt subject to debt limits as of September 30, 2010:		
Total bonds outstanding (exclude proprietary)	<u>(54,640,000)</u>	<u>(54,640,000)</u>
Margin for additional debt	<u>\$ 10,838,533</u>	<u>\$ 32,664,711</u>

Advanced Refunding.

On March 23, 2010, the City issued \$3,535,000 in General Obligation Refunding Bonds with interest rates ranging between 2.00% and 3.25%. The City issued the bonds to advance refund \$2,000,000 of the Series 1998 General Obligation Bonds and \$1,535,000 of the outstanding Series 1999 General Obligation Bonds with interest rates ranging between 3.65% and 6.13%. The City used the net proceeds along with other resources to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1998 and 1999 series bonds. As a result, the 1998 and 1999 series bonds are considered defeased, and the City has removed the liability from its accounts.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2010

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description.

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

Funding Policy.

PERS members are required to contribute 9% of their annual covered salary and the City is required to contribute at an actuarially determined rate. At September 30, 2010, the current rate is 12% 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 Southaven’s contributions to PERS for the years ending September 30, 2010, 2009, and 2008 were \$1,913,228, \$1,839,313 and \$1,662,097 respectively, equal to the required contributions for each year.

NOTE 8 – EQUITY TRANSFERS

The following is a summary of equity transfers made for the year ended September 30, 2010:

<u>Statement of Revenues, Expenditures and Changes in Net Assets</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major funds:		
General fund	\$ -	\$ (187,479)
Other governmental fund	187,479	-
Total	<u>\$ 187,479</u>	<u>\$ (187,479)</u>

NOTE 9 – PRIOR PERIOD ADJUSTMENT

In the prior year, capital assets and accumulated depreciation were understated and overstated, respectively, within the governmental and business like activities. This resulted in a prior year understatement of the Statement of Net Assets in the governmental funds and proprietary funds in the amounts of \$1,419,474 and \$3,906,198, respectively.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2010

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The exposure is covered by purchase of commercial insurance.

NOTE 11 – LITIGATION

The City is subject to various legal proceedings in various stages of litigation, the outcome of which is not determinable at this time. Management of the City and its legal counsel do not anticipate that there will be a material effect on the financial statements as a result of the cases presently in progress.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 22, 2011, which is the date the financial statements were available to be issued.

In November 2010, the City of Southaven issued \$3,225,000 General Obligation Refunding Bonds, Series 2010 to refund the remaining balance of the \$5,000,000 Promissory Note dated June 7, 2002.

In January 2011, the City of Southaven issued \$3,505,000 General Obligation Refunding Bonds, Series 2011 to refund the remaining balance of the \$5,000,000 General Obligation Bond, Series 2001.

NOTE 13 – DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

The Bond Funded Capital Project Fund and the Tax Increment Fund had deficits in fund balances at September 30, 2010. Although these funds have deficits, total governmental funds had a positive fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTHAVEN, MISSISSIPPI
 Budgetary Comparison Schedule – General Fund
 Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u>
<u>REVENUES</u>				
General property taxes	\$ 11,095,000	\$ 11,181,500	11,133,583	\$ (47,917)
Licenses and permits	371,000	358,000	384,699	26,699
Intergovernmental	11,827,500	11,816,155	12,144,731	328,576
Charges for services	3,056,000	3,020,500	3,286,442	265,942
Fines	3,115,000	3,295,000	3,602,657	307,657
Franchise taxes	2,350,000	2,183,000	2,310,012	127,012
Interest	100,000	155,345	196,244	40,899
Miscellaneous	392,500	4,523,779	4,555,230	31,451
	<u>32,307,000</u>	<u>36,533,279</u>	<u>37,613,598</u>	<u>1,080,319</u>
<u>EXPENDITURES</u>				
General government	6,076,939	10,775,675	10,556,200	219,475
Public safety	17,653,178	17,358,701	16,708,995	649,706
Public works	1,494,567	1,479,851	1,453,015	26,836
Culture and recreation	4,685,500	4,769,481	4,523,031	246,450
Health and welfare	260,816	265,551	261,989	3,562
Capital outlay	1,500,000	5,480,118	3,208,283	2,271,835
	<u>31,671,000</u>	<u>40,129,377</u>	<u>36,711,513</u>	<u>3,417,864</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	636,000	(3,596,098)	902,085	4,498,183
Other Financing Sources (Uses)				
Rents	475,000	475,000	505,801	30,801
Grant proceeds	-	3,098,598	1,505,312	(1,593,286)
Sale of assets	50,000	37,500	13,412	(24,088)
Interfund transfers	25,000	-	-	-
Total Other Financing Sources (Uses)	<u>550,000</u>	<u>3,611,098</u>	<u>2,024,525</u>	<u>(1,586,573)</u>
Net Changes in Fund Balances	1,186,000	15,000	2,926,610	2,911,610
Fund Balance - Beginning of Year	-	-	528,433	528,433
Equity Transfers	-	-	-	-
Prior Period Adjustment	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 1,186,000</u>	<u>\$ 15,000</u>	3,455,043	<u>\$ 3,440,043</u>
Adjustments to conform with GAAP:				
Revenues			(1,930,132)	
Expenditures			<u>2,340,765</u>	
Fund Balance - End of Year (GAAP basis)			<u>\$ 3,865,676</u>	

SUPPLEMENTARY INFORMATION

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Environmental Protection Agency			
Passed-through Mississippi Department of Health			
<i>Capitalization Grants for Drinking Water State</i>			
<i>Revolving Funds (A)</i>			
	66.468	DWI-H280067-05-0	\$ 11,570
		DWI-H280067-06-0	484,173
		DWI-H280067-07-0	925,740
		DWI-H280067-08-0	<u>1,388,977</u>
Total U.S. Environmental Protection Agency			<u>2,810,460</u>
Department of Energy			
<i>Department of Energy Efficiency and Conservation</i>			
<i>Block Grant (EECBG) - Recovery Act</i>			
	81.128	DE-EE00002996	86,210
Department of Transportation			
Passed-through Mississippi Department of Transportation			
<i>Highway Planning and Construction</i>			
<i>ARRA - Highway Planning and Construction</i>	20.205	STP-7861-00(002)/105655-701000	230,060
<i>ARRA - Highway Planning and Construction</i>	20.205	STP-7868-00(005)/105656-701000	<u>526,029</u>
Total Department of Transportation			<u>756,089</u>
Total Expenditures of Federal Awards			<u>\$ 3,652,759</u>

NOTES TO SCHEDULE:

- This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Surety Bonds for Municipal Officials
 Year Ended September 30, 2010

<u>Name</u>	<u>Position</u>	<u>Ins. Company</u>	<u>Amount</u>	<u>Expiration</u>
Charles G. Davis	Mayor	Clyde C Scott Insurance Agency	100,000	7/6/2013
Greg Guy	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Lorine Cady	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Ronnie Harle	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
George Payne	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
William Brooks	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Ricky Jobes	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Dr. Randy Huling	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Sheila Heath	City Clerk	Clyde C Scott Insurance Agency	50,000	11/1/2010
Police Officers Bond	Per Office	Clyde C Scott Insurance Agency	50,000	11/1/2010
Thomas Long	Police Chief	Clyde C Scott Insurance Agency	50,000	11/1/2010
Ron White	Fire Chief	Clyde C Scott Insurance Agency	50,000	11/1/2010
Dispatchers Bonds	per Dispatcher	Clyde C Scott Insurance Agency	50,000	11/1/2010

SPECIAL REPORTS

F. O. GIVENS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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W. BUFORD GIVENS
Certified Public Accountant

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

Mayor and Board of Aldermen
City of Southaven
Southaven, 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 the City of Southaven, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City of Southaven, Mississippi's basic financial statements and have issued our report thereon dated August 22, 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 Southaven, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Southaven, Mississippi's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Southaven, Mississippi's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

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 of Southaven, Mississippi'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 of Southaven, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Southaven Mississippi's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 2010-3, 2010-4, 2010-5 to be significant deficiencies in internal control over financial reporting.

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 of Southaven, Mississippi'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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider findings 2010-1 and 2010-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Southaven, Mississippi's general purpose 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.

City of Southaven, Mississippi's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, and the Mississippi State Department of Audit and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

F.O. Givens & Co.
Certified Public Accountants
August 22, 2011

F. O. GIVENS & COMPANY

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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

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

Compliance

We have audited the compliance of the City of Southaven, 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, 2010. The City of Southaven, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major programs is the responsibility of the City of Southaven, Mississippi's management. Our responsibility is to express an opinion on the City of Southaven, 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 program occurred. An audit includes examining, on a test basis, evidence about the City of Southaven, 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 of the City of Southaven, Mississippi's compliance with those requirements.

In our opinion, the City of Southaven 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 the City of Southaven, 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 the City of

Southaven, 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 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 city'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 federal programs 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.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on them.

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

F.O. Givens & Co.
Certified Public Accountants
August 22, 2011

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Certified Public Accountant

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

Mayor and Board of Aldermen
City of Southaven
Southaven, 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 the City of Southaven, Mississippi, as of and for the year ended September 30, 2010, and have issued our report thereon dated August 22, 2011. We conducted our audit in accordance with generally accepted auditing standards.

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. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general financial statements disclosed no material or immaterial instances of noncompliance with state laws and regulations.

This report is intended for the information of management, the Mississippi Department of Audit, and the United States Bureau of Census. This restriction is not intended to limit the distribution of this report which is a matter of public record.

F.O. Givens & Co.
Certified Public Accountants
August 22, 2011

CITY OF SOUTHAVEN, MISSISSIPPI
 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 auditors' report issued on the general purpose financial statements: | Unqualified |
| 2. Material noncompliance relating to the general purpose financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Yes |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | |
|--|--------------|
| 4. Type of auditors' report issued on compliance for major Federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by OMB Circular A-133? | No |
| 7. Federal programs identified as major programs; | |
| a. Capitalization Grants for Drinking Water State Revolving Funds (A) | CFDA #66.468 |
| 8. The dollar threshold used to distinguish between types A and type B programs: | \$300,000 |

CITY OF SOUTHAVEN, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

9. Auditee qualified as low-risk auditee? _____ No _____
10. Prior fiscal year audit finding(s) and questions 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

Material Weaknesses:

Material Weaknesses:

2010-1 Condition:

Part of effective internal controls over financial reporting is the ability to adequately produce financial statements in accordance with generally accepted accounting principles. Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Criteria:

Part of effective internal controls over financial reporting is the ability to adequately produce financial statements in accordance with generally accepted accounting principles.

Cause:

As is normal for governments of this type and size, the City's staff and management do not have the technical expertise to meet the above ever-changing criteria. Also, the City has not designed internal control procedures for appropriate monitoring and recording of cash, liabilities, or debt proceeds.

Effect:

The City must incur the expense of outsourcing the preparation of its financial statements or train or hire someone who is capable of preparation of its financial statements, related notes and required supplemental information.

Recommendation:

Due to the limited size and specific education of the City's staff, it is recommended someone is hired with the knowledge to prepare the financial statements, related notes, and required supplemental information. Management should develop internal control procedures to ensure all cash, liabilities, and debt proceeds are properly reflected in the City's financial statements. The external auditors were required to make material journal entries to the financial statements

Response:

The City of Southaven will continue to examine its financial standing for the funds necessary to hire a qualified individual for this position.

CITY OF SOUTHAVEN, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

2010-2 Condition:

At the present time there is no procedure for reconciling detailed fixed asset records to the general ledger on a regular basis. The lack of such a procedure has led to inaccurate reporting of fixed assets cost and depreciation expense.

Criteria:

Part of effective internal controls over financial reporting is the ability to keep an accurate detail of fixed assets and depreciation expense in accordance with generally accepted accounting principles.

Cause:

The City must properly train the fixed asset clerk to input fixed assets into the fixed asset module as well as produce depreciation expense.

Effect:

The City's fixed assets report varied significantly from the prior year audited financial statements.

Recommendation:

It is recommended that the fixed asset clerk be trained by the software vendor how to run all reports necessary for use. It is also recommended that the fixed asset clerk's supervisor review the detail to ensure all fixed assets are properly recorded. We recommend that a spreadsheet of all new assets, including construction in process, with their value and the expense account in which they were recorded is kept in order to make the process easy.

Response:

Management is taking the necessary internal steps to correct this matter. Internal controls are already being put in place.

Significant Deficiency:

2010-3 Condition:

Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in accounts payable.

Criteria:

The external auditors discovered and recorded adjustments to the City's accounts payable for amounts that were due to vendors during the fiscal year but were not recorded or paid until the subsequent year in the amount of \$130,085.

CITY OF SOUTHAVEN, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

Cause:

The City has not designed internal control procedures for appropriate monitoring and recording of accounts payable.

Effect:

The liabilities would have been understated by approximately \$130,000, had the error been left uncorrected.

Recommendation:

Management should develop internal control procedures to ensure all payables are properly recorded.

Response:

Internal controls are in place to address this accounts payable matter for future audits.

2010-4 Condition:

Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles. Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Criteria:

In September 2010, the City expended \$138,291 on a federally funded project but did not record a receivable at year end for the portion that is a reimbursement to the City.

Cause:

The City has not designed internal control procedures for appropriate monitoring and recording of accounts payable.

Effect:

The receivables would have been understated by approximately \$138,000, had the error been left uncorrected.

Recommendation:

Management should develop internal control procedures to ensure all payables are properly recorded.

Response:

Internal controls over receivables are being examined and will be in place by FY2011 audit.

CITY OF SOUTHAVEN, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

2010-5 Condition:

Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles. Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Criteria:

The external auditors discovered and adjusted entries that were recorded the wrong way in the general ledger.

Cause:

The City has not designed internal control procedures for appropriate monitoring and recording of journal entries.

Effect:

Expenses and revenues would have both been understated if the entries had not been reversed.

Recommendation:

Management should develop internal control procedures to ensure all manual journal entries are properly recorded.

Response:

Management is currently working towards correcting this and internal controls will be in place prior to the FY 2011 Audit.

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.