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CITY OF SOUTHAVEN, MISSISSIPPI
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2008

RECEIVED
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STATE AUDITOR'S OFFICE

CITY OF SOUTHAVEN, MISSISSIPPI

**ANNUAL FINANCIAL REPORT
Year Ended September 30, 2008**

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WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

JERRY W. PITTS
REBECCA A. BEARD
KRISTOPHER A. WHITTEN

2042 McIngvale Road, Suite A
Hernando, MS 38632

(662) 420-4430
FAX: (662) 420-4430
www.williamsandpitts.com

INDEPENDENT AUDITORS' 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 and each major fund of City of Southaven, Mississippi, (the "City") as of and for the year ended September 30, 2008, 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 the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects. The respective financial position of the governmental activities, the business-type activities and each major fund of the City of Southaven, Mississippi as of September 30, 2008, 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 June 26, 2009 on our consideration of the City of Southaven, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting on 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 management's discussion and analysis and budgetary comparison information on pages 3 through 17 and 42 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 supplementary information. However, we did not audit the information and express no opinion on it.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

June 26, 2009

CITY OF SOUTHAVEN

MISSISSIPPI



Management's Analysis and Discussion

FY 2008 Budget

THE CITY OF SOUTHAVEN, MISSISSIPPI

CITY OFFICIALS

MAYOR

CHARLES G. "GREG" DAVIS

ALDERMAN

LORINE CADY, WARD 1

JAMES STARK, WARD 2

JIM LOFTIS, WARD 3

PAUL OLLAR, WARD 4

RICKY JOBES, WARD 5

RANDY HULING, MD WARD 6

GREG GUY, ALDERMAN-AT-LARGE

CITY ADMINISTRATOR/CAO

CHRIS WILSON

CITY ATTORNEY

MARK SORRELL

CITY CLERK

GLENDIA SMALLWOOD

DEPARTMENT HEADS

POLICE CHIEF

TOM LONG

FIRE CHIEF

MIKE BRACKIN, PhD

OPERATIONS

BRADLEY WALLACE

PARKS AND RECREATION

MIKE MULLINS

PLANNING AND DEVELOPMENT

WHITNEY CHOAT

UTILITY

CHRIS HADAWAY

PUBLIC WORKS

RAY TARRANCE

CITY ENGINEER

RON SMITH

**THE CITY OF SOUTHAVEN, MISSISSIPPI
BUDGET DEVELOPMENT PROCESS**

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 (Munis) 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 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 provides 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)
- June Board meeting—Distribute department request forms/activate next year budget entry module in Munis 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 revision which results 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.

CITY GOALS, ADMINISTRATIVE POLICIES, DEPARTMENT POLICIES, AND OTHER PLANS USED TO DEVELOP THE BUDGET

City Goals

The Southaven Board of Alderman has established a set of strategic goals to guide the work of City Staff. The departments use these goals, as well as their own goals, to prepare their budget each year and execute the policies as established by the Mayor and Board of Alderman. The goals of the various departments can be found throughout this budget document.

The City's Goals are provided below and are comprised based off of a community sustainability presentation sponsored by ICMA.

Safe Community

Key Objectives: Enforce law and administer justice. Proactively prevent crime and protect citizens. Provide fast and effective emergency response. Enhance personal safety.

Fiscal Responsible Growth

Key Objectives: Spend within means. Establish and maintain reserves. Remain transparent about actual costs of doing business. Incorporate current economic analysis and long term planning into decision making. Provide atmosphere for continued economic growth and stability.

Quality Customer Service

Key Objectives: Provide timely response to customer needs. Inform, educate and communicate effectively and timely with customers. Offer accessible, efficient and easy to understand services. Deliver an experience that is professional and productive.

Predictable and Sustainable Growth and Development

Key Objectives: Support and stimulate local economy. Support decision making with long term planning. Provide for the preservation and conservation of open spaces and natural resources. Maintain and enhance infrastructure. Provide effective levels of regulation consistently applied

Transportation and Mobility

Key Objectives: Collaboratively plan with all stakeholders. Design, construct and maintain safe roads. Strategically plan for and diversify funding sources. Provide for accessible and convenient transportation. Support technologies that will reduce vehicle use (i.e. E-government). Review and revise, if necessary the City's ADA Transition Plan.

In addition to written administrative policies, there are a number of departmental procedures and practices that impact the budget.

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

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 2008 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 2008 fiscal year.

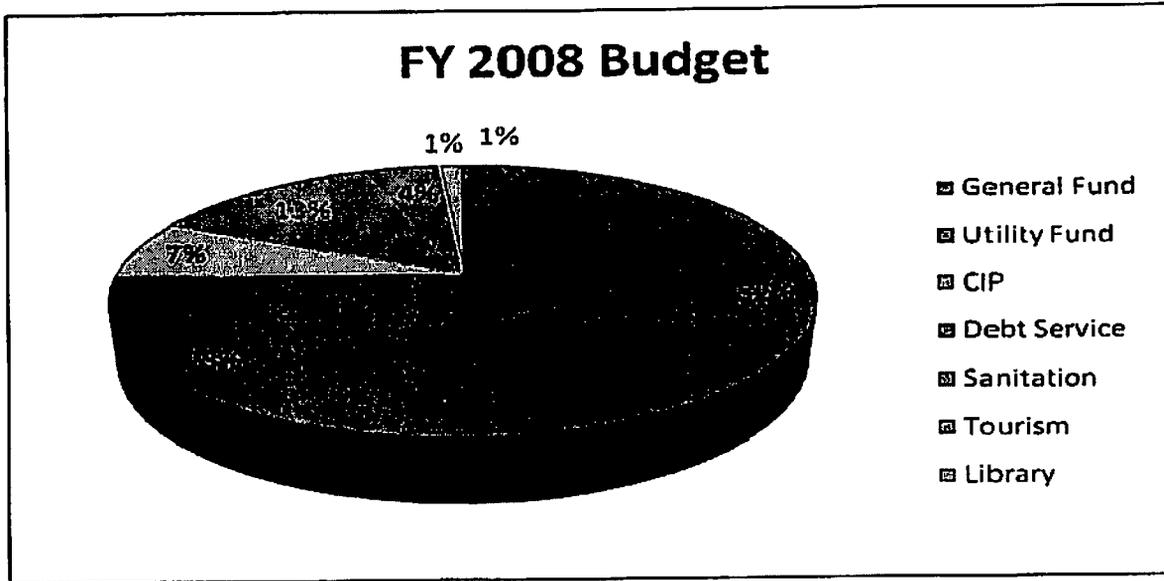
The City of Southaven's fiscal operating budget for all funds are prepared, presented, and adopted by the Board of Aldermen prior to September 15 of each year. The City's fiscal year runs from October 1 to September 30.

For fiscal year 2008, the City of Southaven has budgeted and adopted¹:

- \$30,355,513 in general fund expenditures
- \$13,298,000 in utility fund expenditures
- \$4,000,000 in CIP fund expenditures
- \$7,283,914 in debt fund expenditures
- \$2,295,446 in sanitation fund expenditures
- \$449,000 in tourism and convention fund expenditures
- \$289,718 in library fund expenditures

Southaven's Mayor and Board of Alderman have a well developed history of applying very conservative projections for revenues and very reliable projections for the City's expenses. These revenue forecast and expenditure budgets are based on historical data and emerging trends.

¹ Board of Alderman



However, during the course of each fiscal year, the Board of Alderman may elect to amend the operating budget to account for previously unforeseen events and/or increases in revenues that allow for the City to make capital improvement expenditures without the need to issue municipal bonds.

ANALYSIS OF THE CITY'S FINANCIAL POSITION

The City of Southaven, Mississippi continues to experience strong financial operations and the period ending September 30, 2008 was no different.

A municipal government does not exist in order to make a profit. The city must provide a high level of services to its tax payers and residents. However it is paramount that any viable municipal corporation maintains a healthy financial standing in order to provide its tax payers and citizens with the level of service they deserve.

For FY 2007, the City of Southaven ended the FY with an unreserved General Fund balance of \$5.2 million²

During FY 2008 Southaven once again reached a new high in sales tax revenues, due in large part to the continued success of the Southaven Towne Center retail shopping center.

For FY 2008, the City of Southaven's millage rate was set by the Board of Alderman at 44.73, which represents no change over the previous fiscal year and includes 6.0 mills dedicated to our sanitation service.

Southaven's FY 2008 budget is, as in all prior years, balanced. "Balanced" whereas the City's expenditures equate the City's revenue. This also includes the budgeting of non-obligated rainy day and contingency funds.

² City of Southaven FY 2007 Audit; Williams, Pitts & Beard

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

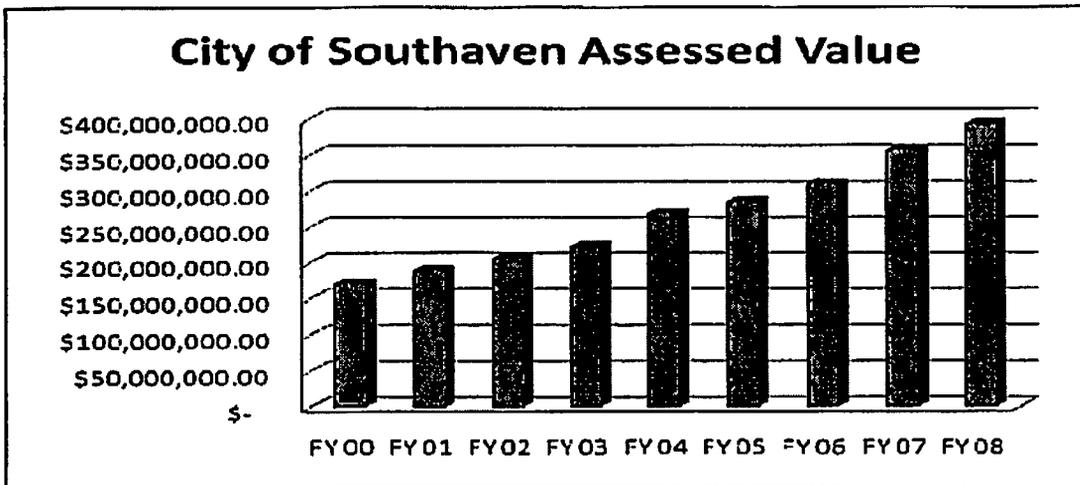
The City of Southaven currently maintains a strong bond rating (credit rating) of AA- as rated by Standard & Poors³. This strong rating allows for the City to benefit from greatly improved rates on bond issuances, thereby saving the City thousands of dollars in interest payments should the City issue bonds.

Standard & Poor's defines an AA- rating as "an obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong."⁴ S&P also recently cited Southaven's "continued rapid growth", "good wealth and income levels" and "historically good financial position."

As a municipal corporation, the city has a net capital asset valuation of \$44.1 million within the city's governmental activities, as per the 2008 Annual Audit, and a net capital asset valuation of some \$18.3 million. In total, Southaven has net assets exceeding \$62.4 million. This represents an increase of some \$3 million over FY 2007

For the fiscal year 2008, Southaven, Mississippi has an assessed value of some \$392 million, which represents an increase of nearly \$36 million over FY 2007.

As of September 30, 2008, the City of Southaven has \$83.4 million in long-term capital dept. this is down some \$3 million from FY 2007.



The City of Southaven, pending the most recent annexation, consists of some 23,680 acres (37 square miles) which, percentage-wise, are comprised of 38 % residentially zoned areas, 26% agricultural, 17% commercial, 11% industrial and 6% office .

For Fiscal Year 2008, the City's population was projected, according to the United States Census most recent numbers, 42,567 (2007 estimate). This equates to roughly 29% of the total DeSoto County population and makes Southaven the 5th largest city in Mississippi.

90.3% of Southaven's population is considered white, 6.7% black and 2.3% Hispanic according to the Census 2000, which is the most current statistical measure available.

³ www.standardandpoors.com

⁴ www2.standardandpoors.com/portal/site/sp/en/us/page.article/2,1,1,4,1204838693805.html

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

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.⁵

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 \$91,400.⁶

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.

Looking at FY 2008, Southaven anticipates new revenue actualization with the on-going success of the Southaven Towne Center and other retail/commercial developments.

This open-air regional shopping center constructed by CBL, Inc with public improvements being completed with the assistance of state, county and municipal financing has been very successful and continues to serve as the primary source of municipal sales tax revenue generation.

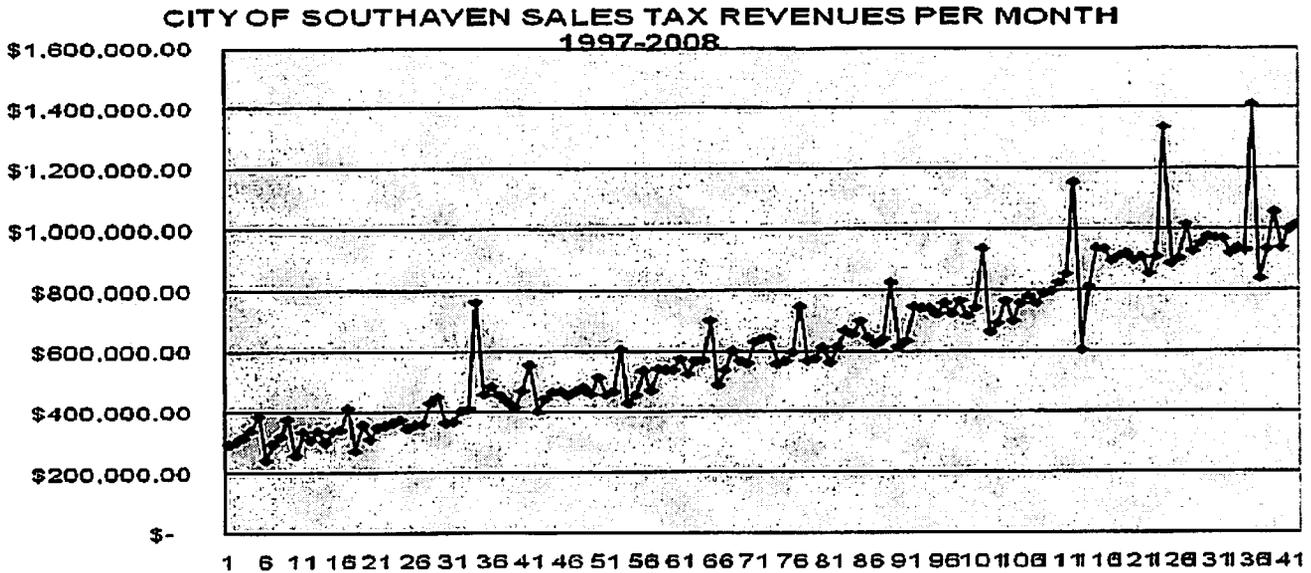
FY 2007 witnessed a sales tax revenue increase of some \$1.1 million over FY 06 and we can now accurately forecast annual sales tax revenues topping the \$10 million mark for the City Southaven.

⁵ www.census.gov

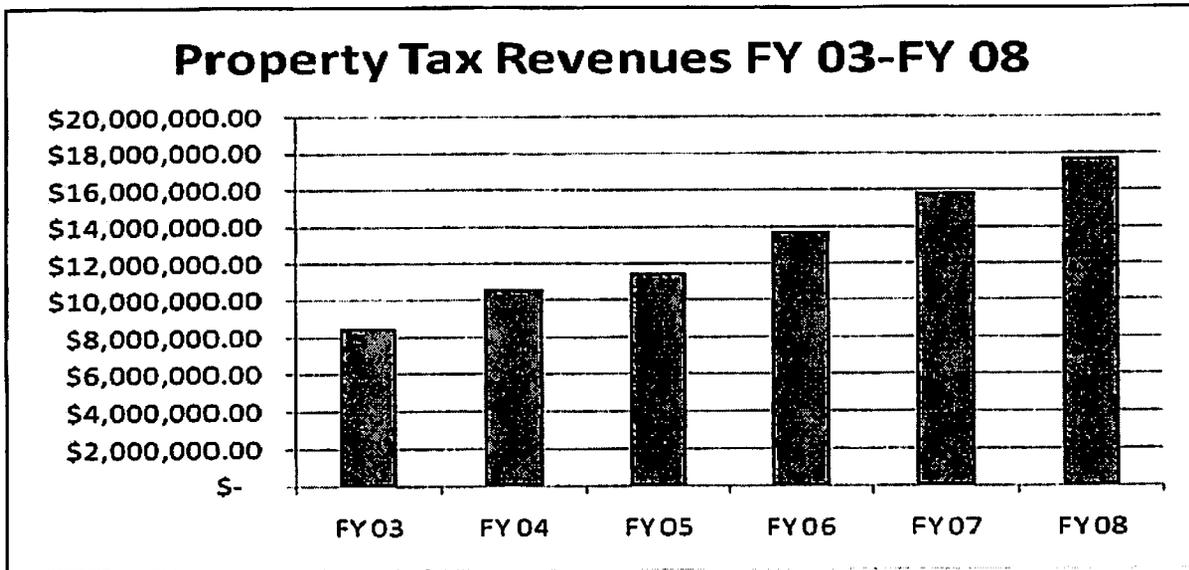
⁶ www.census.gov

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

Sales tax collections are projected to reach all time highs in FY 2008, with collections nearing \$12 million on the year.⁷



Growth in FY 2008 will not be limited to sales tax revenues alone. New homes and new commercial businesses continue to expand and grow our tax base, although Southaven is experiencing a slowdown in its housing market similar to other areas of our nation, and the City maintains a healthy availability of housing.



⁷ City of Southaven FY 2008 Budget

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

In FY 2008 Southaven is projected to reach all time highs in revenue generated by our parks and recreational department and facilities.

Nearly \$2.2 million will be generated by the City of Southaven Parks and Recreational department in FY 2008.⁸

This figure is now holding steady as our parks and the recreational tournaments held within have neared capacity. However, we anticipate continued growth in our parks and recreational revenue streams for FY 2008 and beyond.

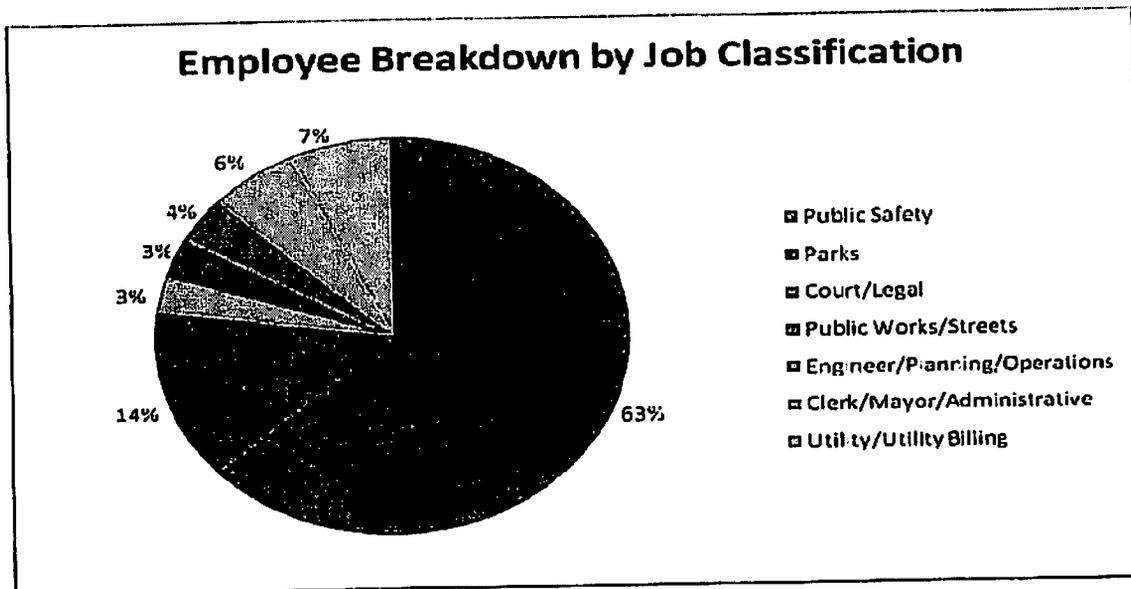
The City of Southaven has done a remarkable job of meeting the needs of our public without asking our taxpayers to continually provide for new positions.

However, when it comes to public safety, the City of Southaven maintains its policies of staying ahead of the curve and providing our citizens with the best public safety departments the city can.

FY 2008 will see the hiring of five (5) new patrol officers. The new hires in FY 2007/2008 brought our total to 94 sworn officers in the department. This equates to a city wide ratio of one (1) sworn police officer for approximately every 452 Southaven residents.

FY 2008 will also see the addition of six (6) new paramedics.

In total, the City of Southaven employees some 380 full-time employees, with 63% of these employees serving in the area of public safety.



⁸ City of Southaven FY 2008 Budget

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

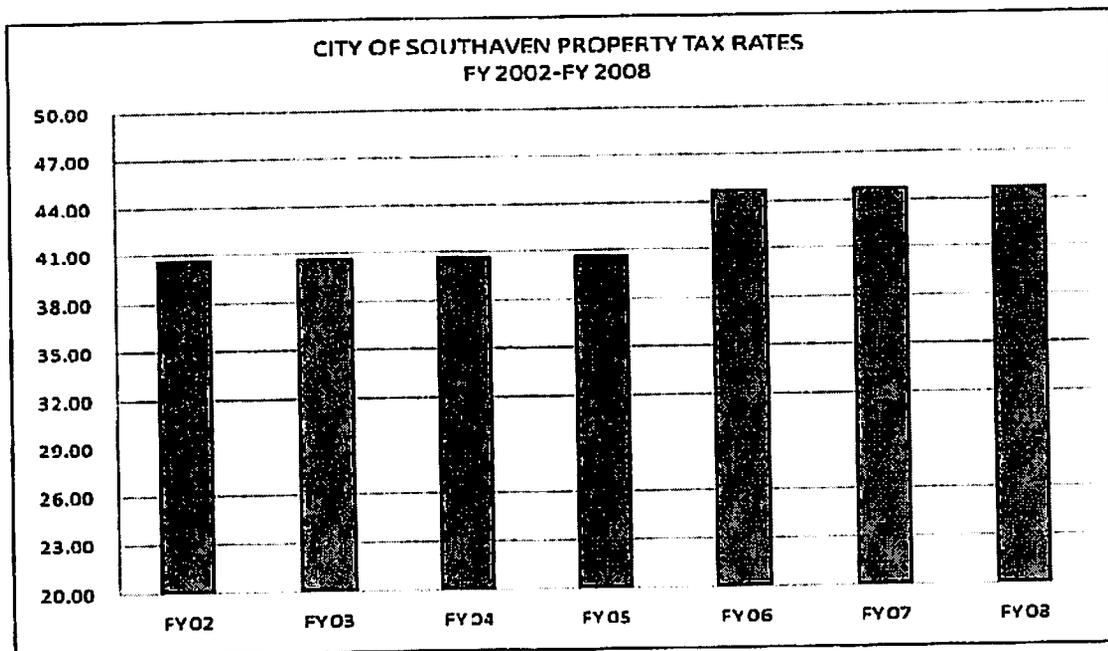
During FY 2008, Southaven had the following program expenses:

- General Government \$4,433,916
- Public safety \$14,996,065
- Parks and Recreation \$4,493,698
- Public works \$1,404,202
- Facilities Management \$1,233,257
- Insurance \$627,090
- Library \$289,718
- Tourism \$429,143
- Other \$1,896,293

For FY 2008, Southaven will continue our successful partnership with Red River, Inc. which provides the city with sanitation services. Red River won the competitive bid process to serve the City with sanitation collection and disposal service. The City pays for this service via the six-mill property tax allocation.

Rising employee costs and other increasing service expenses led the City to investigate and ultimately award a private contractor the bid for sanitation service.

FY 2008 will be the third fiscal year in which Red River will provide the City with sanitation service. The City does maintain a sanitation truck and the employees necessary to provide sanitation collection services as needed to assist Red River.



CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

Southaven continues to experience increasing revenues as a City without raising the property for FY 2008. For FY 2008, the City of Southaven's millage (tax) rate has been set at 44.73 mills, which equates roughly to a tax rate of \$0.45 per \$100 of valuation. In other words, if ones home is valued (assessed) at \$200,000.00, that homeowner will pay roughly \$890 a year in city property tax, before any Homestead deductions are made. The total of 44.73 includes the 6-mill sanitation assessment, which was voted into existence by nearly 72% of Southaven voters in 2001.

By comparison, Olive Branch, Mississippi has a tax rate of \$0.32 while Horn Lake, Mississippi currently has a tax rate of \$0.42, respectively, per \$100 of valuation.⁹

The City of Southaven's millage (tax) structure breaks down as follows:

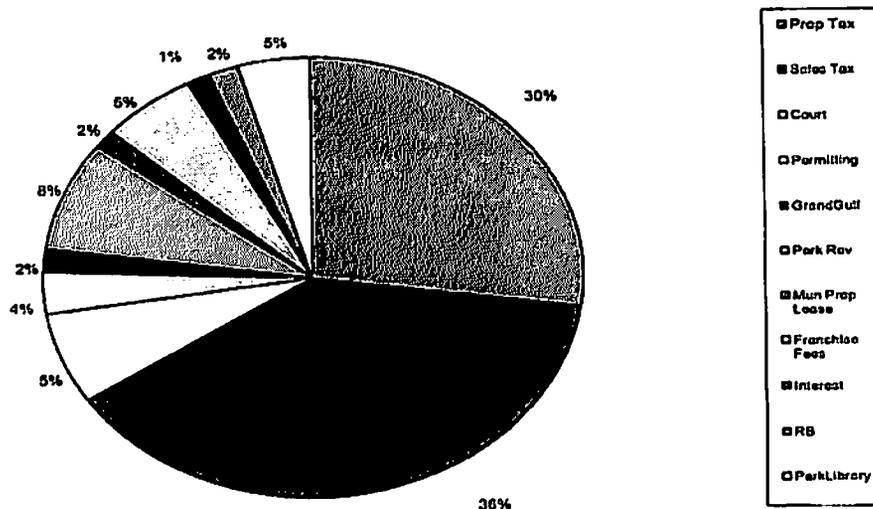
- 20.780 mills for general revenue
- 17.200 mills for debt retirement
- 6.0 mills for sanitation
- 0.75 for library

As stated, it is important to note that the City of Southaven's tax rate *does* include a homeowner sanitation charge. The City, as voted on by the electorate in 2001, applies a 6-mill rate to our overall tax rate to cover the cost of our sanitation department.

The 6-mill rate is included in the total tax rate of 44.73, and accounts for the revenue generated by and for the City of Southaven Sanitation Fund.

In addition to our property tax rate, the City will benefit from a projected \$10.8 million in sales tax revenue in FY 2008.

FY 2008 General Fund Revenue



⁹ http://desotocounty.com/business_environment/taxes.html

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

Southaven continues to experience tremendous retail sales growth and the revenues generated by retail/commercial sales continue to serve as a major source of revenue for the City. However, the explosive growth witnessed in the previous years has begun to slow, and future FY budgets will reflect this anticipated slow down.

Franchise fees serve as the General Fund's third largest single revenue source for FY 2008 behind sales tax revenue and property tax revenue, respectively. The City received some \$1.596 million in franchise fee revenue for 2008.

The City of Southaven continues to see increasing revenues generated by our residential and commercial growth as evident by our increasing property tax revenues. However the City's property tax rate remains stable for FY 2008.

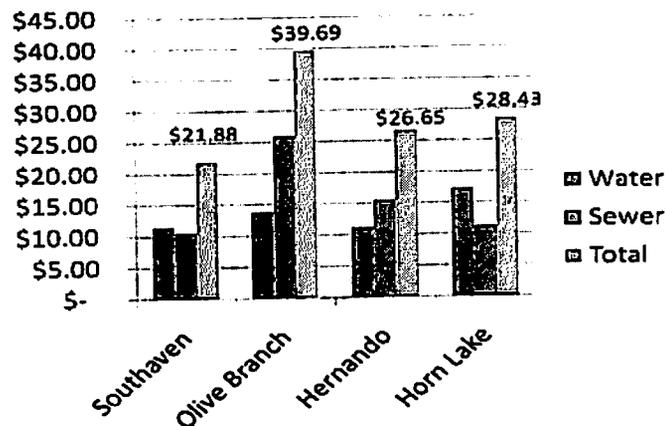
The City of Southaven's Utility Fund revenues continue to maintain their strength and continue to grow. The growth in Utility Fund revenue is more representative of increasing water usage rather than increasing costs.

The Southaven Utility Department earned a perfect 5.0 rating from the Mississippi department of Health in 2008.¹⁰

To be sure, expenses incurred by the City with regard to maintaining its top utility service have increased; however, the City continues to work towards not passing such increases on to the consumers.

DeSoto County Monthly Utility Rates

- Southaven's utility rates remain the lowest among municipalities in DeSoto County.
- Southaven has completed and/or committed to \$30+ million in utility expansions and improvements over the last 5 years.
- Southaven's Utility Department, service and operations recently was awarded a perfect rating of "5" by The Mississippi Department of Health.
- *Based on 5,000 gallons of usage



11

In FY 2008 a \$6.5 million utility bond is budgeted to be issued by the City to provide the funding for utility lines for the DeSoto County Regional Utility Authority project.

¹⁰ Mississippi State Department of Health, Report of Drinking Water Report, July 23, 2008

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

The City of Southaven's FY 2008 expenses for all governmental funds totals \$56.2 million. This represents a 6.3% decrease from FY 2007 and a 22% decrease from FY 2007.¹¹

The General Fund comprises some 56% of the total city expenditures while the Southaven Utility Fund makes up 24%.

The Debt Service Fund accounts for 15% of projected revenues. The City of Southaven Sanitation Fund makes up 4% of the City's revenue while the Library Fund and the Tourism Fund both comprise 1% respectively

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The City of Southaven, Mississippi was successful in presenting its most recent annexation case to the Court. The annexation consists of parcels of land to the City's west, north east and southern municipal boundaries.

The affirmative ruling is currently under appeal to the Mississippi Supreme Court. As of September 30, 2008, the case had yet to be ruled upon by the Supreme Court, however the City expects a favorable ruling.

As with much of the United States, Southaven has begun to experience a slight slowdown in our local housing market. There is a wide range of quality housing available within the city limits of Southaven and it appears that the Southaven/DeSoto County housing market should remain stable even in uncertain economic times.

The City of Southaven remains active in improving its infrastructure and work is nearing completion on the City's phase of Church Road and the improvements necessary to widen Church Road from its current two-lanes to five-lanes from Swinnea Road, west towards Airways. This will help offset congestion in and around the Church Road-I55 corridor.

Major budgeted expenditures for FY 2008 also include; \$900,000 for facility management; \$500,000 for street and ditch improvements; \$250,000 for litigation expenses; \$675,000 for liability insurance; The City has also budgeted some \$330,000 in municipal park renovations for FY 2008.¹²

¹¹ City of Southaven Budget Reports FY 07-FY 09

¹² City of Southaven FY 2008 Budget as adopted

Glossary of Terms

Abatement: A complete or partial adjustment of a property tax assessment of a particular property by a government.

Ad valorem: "Property taxes" levied on the assessed value of real property. A primary source of revenue for the City.

Appropriation: An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and the period in which it may be expended.

Balanced Budget: A budget in which expenses are equal to revenues.

Bond: Written promise to pay a specified sum of money, called principal or face value at a specified future date, called the maturity date, along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used for long-term debt to pay for specific capital expenditures.

Budget: A plan of financial operations embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. A budget may be preliminary - the financial plan presented, or final - the plan approved by the governing authorities.

Budget Accounts: Accounts used to enter the adopted annual operating budget into the City's general ledger as part of the management control of formally executing the budgetary and financial systems.

Capital Improvements: Physical assets, constructed or purchased, that have a minimum useful life span of ten (10) years. These may include buildings, roads, water and sewer infrastructure and structures and equipment

Contingency: Appropriation of funds set aside to cover unforeseen events.

Debt Service: Payment of principal and interest obligations resulting from the issuance of bonds or the assumption of other notes payable.

Debt Service Fund: The fund used for accumulation of resource for, and payment of, long-term debt principal and interest.

Enterprise Fund: A fund established to account for the operations that are financed and operated in a manner similar to a private business. The intent being that the entire cost of providing the services shall be financed through fees and charges separate from tax dollars (i.e. Utility Fund).

Fiscal Year: Abbreviated FY, the fiscal year is the 12-month financial period beginning each October 1 and ending September 30 of the following year. A fiscal year is identified by the year in which it ends.

General Fund: The most common of governmental funds, it is the operating fund. It is used to account for all financial resources except those required to be accounted for in such other funds.

Millage Rate: Rate on real property based on \$1 per \$1,000 of assessed property value.

Operating Budget: Usually defined as the entire budget of the town, exclusive of the capitol improvement budget. It is budgeting for the day-to-day operations of the municipality; it excludes such things as capitol items, it includes debt service.

Reserve Fund Balance: This is also known as the designated or dedicated fund balance. It includes those portions of the fund balance that are not appropriable for expenditure or that are legally segregated for future specific use.

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2008

There are many kinds of dedicated funds, like the capitol improvement fund.

Revenue Bonds: Bonds usually sold for constructing or purchasing capital projects. Reliable revenue other than ad valorem taxes is pledged as the source for funding to pay bond principal and interest.

Surplus: A generic term referring to anything dealing with equity. It is a term that is often misunderstood and misused. Basically it is the same as the undesignated fund balance. It is primarily used for emergencies. Surplus revenues generally build up as result of unexpected balances and the excess of receipts from sources other than taxation.

BASIC FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets
September 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash in bank and on hand	\$ 3,713,867	\$ 1,789,005	\$ 5,502,872
Accounts receivable (net of allowance for doubtful accounts)	551,096	324,100	875,196
Intergovernmental receivable	1,229,454	-	1,229,454
Franchise tax receivable	477,802	-	477,802
Property tax receivable	7,755,513	-	7,755,513
Prepaid expense	28,742	-	28,742
Internal balances	71,648	(71,648)	-
Restricted assets:			
Cash in bank	-	559,736	559,736
Bond issue costs (net)	410,878	450,983	861,861
Fixed assets (net, where applicable, of accumulated depreciation)	<u>106,203,260</u>	<u>42,731,370</u>	<u>148,934,630</u>
Total assets	<u>120,442,260</u>	<u>45,783,546</u>	<u>166,225,806</u>
Liabilities			
Accounts payable	1,919,814	971,636	2,891,450
Accrued expenses	1,335,537	42,513	1,378,050
Customer deposits	-	559,736	559,736
Accrued interest	586,119	134,915	721,034
Deferred revenue	7,755,513	-	7,755,513
Long-term liabilities			
Due within one year:			
Capital debt	4,965,875	1,375,684	6,341,559
Due in more than one year:			
Capital debt	59,180,958	24,306,681	83,487,639
Non-capital debt	<u>590,090</u>	<u>28,595</u>	<u>618,685</u>
Total liabilities	<u>76,333,906</u>	<u>27,419,760</u>	<u>103,753,666</u>
Net assets			
Invested in capital assets, net of related debt	42,467,305	17,499,988	59,967,293
Unrestricted	<u>1,641,049</u>	<u>863,798</u>	<u>2,504,847</u>
Total net assets	<u>\$ 44,108,354</u>	<u>\$ 18,363,786</u>	<u>\$ 62,472,140</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Activities
September 30, 2008

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 4,433,916	\$ 612,720	\$ 463,728	\$ -	\$ (3,357,468)	\$ -	\$ (3,357,468)
Public safety	14,996,065	4,344,165	175,159	-	(10,476,741)	-	(10,476,741)
Public works	1,404,202	-	-	-	(1,404,202)	-	(1,404,202)
Culture and recreation	4,493,698	2,215,537	-	-	(2,278,161)	-	(2,278,161)
Health and welfare	258,912	29,871	-	-	(229,041)	-	(229,041)
Library	289,718	-	-	-	(289,718)	-	(289,718)
Tourist and convention	429,143	339,861	-	-	(89,282)	-	(89,282)
Other	1,896,293	-	-	-	(1,896,293)	-	(1,896,293)
Facilities management	1,233,257	-	-	-	(1,233,257)	-	(1,233,257)
Insurance	627,090	-	-	-	(627,090)	-	(627,090)
Interest on long-term debt	2,397,162	-	-	-	(2,397,162)	-	(2,397,162)
Depreciation and amortization	6,298,132	-	-	-	(6,298,132)	-	(6,298,132)
Total governmental activities	38,757,588	7,542,154	638,887	-	(30,576,547)	-	(30,576,547)
Business-type activities							
Water and sewer	5,721,568	8,313,066	-	-	-	2,591,498	2,591,498
Sanitation	2,444,251	77,575	-	-	-	(2,366,676)	(2,366,676)
Interest on long-term debt	1,165,363	-	-	-	-	(1,165,363)	(1,165,363)
Total business-type activities	9,331,182	8,390,641	-	-	-	(940,541)	(940,541)
			General revenues				
			Property taxes		15,500,811	2,210,446	17,711,257
			Intergovernmental		12,657,817	-	12,657,817
			Franchise taxes		1,596,283	-	1,596,283
			Other taxes		1,063,596	-	1,063,596
			Interest		264,120	58,089	322,209
			Miscellaneous		1,142,444	28,014	1,170,458
			Transfers other funds		48,678	(48,678)	-
			Sale of assets		23,994	-	23,994
			Total general revenues		32,297,743	2,247,871	34,545,614
			Change in net assets		1,721,196	1,307,330	3,028,526
			Net assets-beginning of year		42,387,158	17,056,456	59,443,614
			Net assets-end of year		\$ 44,108,354	\$ 18,363,786	\$ 62,472,140

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

CITY OF SOUTHAVEN, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2008

	<u>General Fund</u>	<u>Bond Funded Capital Project</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash in bank and on hand	\$ 2,261,894	\$ 509,291	\$ -	\$ 942,683	\$ 3,713,868
Due from other funds	3,086,287	920,092	170,579	530,573	4,707,531
Accounts receivable (net of allowance for doubtful accounts)	551,096	-	-	-	551,096
Intergovernmental receivable	1,212,453	-	-	17,001	1,229,454
Franchise tax receivable	477,802	-	-	-	477,802
Property tax receivable	7,755,513	-	-	-	7,755,513
Prepaid expenses	253	28,489	-	-	28,742
Total assets	<u>\$ 15,345,298</u>	<u>\$ 1,457,872</u>	<u>\$ 170,579</u>	<u>\$ 1,490,257</u>	<u>\$ 18,464,006</u>
Liabilities					
Accounts payable	\$ 1,448,497	\$ 238,571	\$ -	\$ 232,747	\$ 1,919,815
Accrued expenses	635,538	-	-	-	635,538
Due to other funds	923,405	2,270,553	532,845	909,078	4,635,881
Deferred revenue	7,755,513	-	-	-	7,755,513
Total liabilities	<u>10,762,953</u>	<u>2,509,124</u>	<u>532,845</u>	<u>1,141,825</u>	<u>14,946,747</u>
Fund balances					
Reserved for:					
Debt service	-	-	-	132,888	132,888
Unreserved	4,582,345	(1,051,252)	(362,266)	215,544	3,384,371
Total fund balances	<u>4,582,345</u>	<u>(1,051,252)</u>	<u>(362,266)</u>	<u>348,432</u>	<u>3,517,259</u>
Total liabilities and fund balances	<u>\$ 15,345,298</u>	<u>\$ 1,457,872</u>	<u>\$ 170,579</u>	<u>\$ 1,490,257</u>	<u>\$ 18,464,006</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
September 30, 2008

Total Fund Balance - Governmental Funds **\$ 3,517,259**

**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	1,685,043	
Buildings and improvements	43,769,308	
Equipment and vehicles	10,768,701	
Infrastructure	77,092,512	
Construction in progress	9,668,359	
Leased equipment	1,100,972	
Accumulated depreciation	(37,881,635)	
Bond issue cost	<u>410,878</u>	
		106,614,138

**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	(9,508,921)	
Leases payable	(468,286)	
General obligation and revenue bonds	(54,340,000)	
Accrued expenses	(1,286,120)	
Bond discount	10,257	
Bond premium	(21,364)	
Deferred loss on refunding	181,481	
Compensated absences	<u>(590,090)</u>	
		<u>(66,023,043)</u>

Net Assets of Governmental Activities **\$ 44,108,354**

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2008

	General Fund	Bond Funded Capital Project	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
General property taxes	\$ 8,865,682	\$ -	\$ 6,631,267	\$ 289,718	\$ 15,786,667
Licenses and permits	2,209,003	-	-	-	2,209,003
Intergovernmental	12,681,617	-	411,528	203,560	13,296,705
Charges for services	3,401,604	-	-	339,861	3,741,465
Fines	3,187,969	-	-	-	3,187,969
Interest	255,981	-	-	8,138	264,119
Miscellaneous	1,311,593	12,880	-	18,798	1,343,271
Total revenues	<u>31,913,449</u>	<u>12,880</u>	<u>7,042,795</u>	<u>860,075</u>	<u>39,829,199</u>
Expenditures					
General government	4,428,003	-	-	-	4,428,003
Public safety	15,142,142	-	-	-	15,142,142
Public works	1,403,636	-	-	-	1,403,636
Culture and recreation	4,491,240	-	-	-	4,491,240
Health and welfare	258,443	-	-	-	258,443
Library	-	-	-	289,718	289,718
Tourism and convention	-	-	-	429,143	429,143
Capital outlay	4,875,322	4,656,117	-	-	9,531,439
Facilities management	1,233,257	-	-	-	1,233,257
Insurance	627,090	-	-	-	627,090
Miscellaneous	1,651,939	-	14,988	-	1,666,927
Debt service:					
Principal	-	-	4,348,517	-	4,348,517
Interest	-	-	2,769,868	-	2,769,868
Total expenditures	<u>34,111,072</u>	<u>4,656,117</u>	<u>7,133,373</u>	<u>718,861</u>	<u>46,619,423</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,197,623)</u>	<u>(4,643,237)</u>	<u>(90,578)</u>	<u>141,214</u>	<u>(6,790,224)</u>
Other financing sources					
Rents	576,915	-	-	-	576,915
Sale of assets	23,994	-	-	-	23,994
Interfund transfers	41,377	-	7,301	-	48,678
Lease proceeds	292,633	-	-	-	292,633
Bond proceeds	-	4,000,000	-	-	4,000,000
Total other financing sources	<u>934,919</u>	<u>4,000,000</u>	<u>7,301</u>	<u>-</u>	<u>4,942,220</u>
Net change in fund balances	(1,262,704)	(643,237)	(83,277)	141,214	(1,848,004)
Fund balance - beginning of year	5,247,599	(408,015)	(278,989)	207,218	4,767,813
Prior Period Adjustment	<u>597,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>597,450</u>
Fund balance - end of year	<u>\$ 4,582,345</u>	<u>\$ (1,051,252)</u>	<u>\$ (362,266)</u>	<u>\$ 348,432</u>	<u>\$ 3,517,259</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Reconciliation of Revenues, Expenditures, and Changes in Fund
Balances of Government Funds to the Statement of Activities
For The Year Ended September 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (1,848,004)

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 (\$9,127,901) exceeded depreciation (\$6,254,001) 2,873,899

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 (\$4,292,633) and amortization expense (\$44,131) in the current period exceeded repayments (\$4,348,517) 11,754

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

Compensated absences payable	(59,306)
Bond issue cost	81,303
Accrued Interest	372,706
Surplus of property	<u>288,844</u>

Change in Net Assets of Governmental Activities \$ 1,721,196

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets
Proprietary Funds
For the Year Ended September 30, 2008

	Utility Fund	Sanitation Fund	Total
Assets			
Current assets			
Cash in bank and on hand	\$ 730,804	\$ 1,058,201	\$ 1,789,005
Accounts receivable (net of allowance for doubtful accounts)	317,205	6,895	324,100
Due from other funds	-	1,146,042	1,146,042
Total current assets	<u>1,048,009</u>	<u>2,211,138</u>	<u>3,259,147</u>
Noncurrent assets			
Restricted assets:			
Cash	559,736	-	559,736
Bond issue cost (net)	450,983	-	450,983
Fixed assets (net, where applicable, of accumulated depreciation)	42,731,370	-	42,731,370
Total noncurrent assets	<u>43,742,089</u>	<u>-</u>	<u>43,742,089</u>
Total assets	<u>\$ 44,790,098</u>	<u>\$ 2,211,138</u>	<u>\$ 47,001,236</u>
Liabilities and fund equity			
Current liabilities			
Accounts payable	\$ 825,808	\$ 145,827	\$ 971,635
Accrued expenses	171,811	5,617	177,428
Due to other funds	1,210,910	6,780	1,217,690
Total current liabilities	<u>2,208,529</u>	<u>158,224</u>	<u>2,366,753</u>
Current liabilities payable from restricted assets			
Customer deposits	559,736	-	559,736
Long-term liabilities due within one year:			
Capital debt	1,375,684	-	1,375,684
Total current liabilities payable from restricted assets	<u>1,935,420</u>	<u>-</u>	<u>1,935,420</u>
Long-term liabilities due in more than one year			
Capital debt	24,306,682	-	24,306,682
Non-capital debt	24,216	4,379	28,595
Total long-term liabilities	<u>24,330,898</u>	<u>4,379</u>	<u>24,335,277</u>
Total liabilities	<u>28,474,847</u>	<u>162,603</u>	<u>28,637,450</u>
Fund equity			
Net assets	16,315,251	2,048,535	18,363,786
Total fund equity	<u>16,315,251</u>	<u>2,048,535</u>	<u>18,363,786</u>
Total liabilities and fund equity	<u>\$ 44,790,098</u>	<u>\$ 2,211,138</u>	<u>\$ 47,001,236</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2008

	<u>Utility</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues			
Property taxes	\$ -	\$ 2,210,446	\$ 2,210,446
Charges for services	8,313,066	77,575	8,390,641
Miscellaneous	17,104	10,910	28,014
Total operating revenues	<u>8,330,170</u>	<u>2,298,931</u>	<u>10,629,101</u>
Operating expenses			
Personnel	1,066,005	157,635	1,223,640
Supplies	537,943	30,534	568,477
Depreciation and amortization	1,765,048	109,089	1,874,137
Maintenance and other	1,910,635	23,172	1,933,807
Professional services	441,937	2,123,821	2,565,758
Total operating expenses	<u>5,721,568</u>	<u>2,444,251</u>	<u>8,165,819</u>
Operating income	<u>2,608,602</u>	<u>(145,320)</u>	<u>2,463,282</u>
Non-operating revenues (expenses)			
Interest revenue	49,494	8,595	58,089
Interest expense	(1,165,363)	-	(1,165,363)
Interfund transfers	429,097	(477,775)	(48,678)
Total non-operating expenses	<u>(686,772)</u>	<u>(469,180)</u>	<u>(1,155,952)</u>
Net income	1,921,830	(614,500)	1,307,330
Net assets - beginning of year	<u>14,393,421</u>	<u>2,663,035</u>	<u>17,056,456</u>
Net assets - end of year	<u>\$ 16,315,251</u>	<u>\$ 2,048,535</u>	<u>\$ 18,363,786</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2008

	Utility Fund	Sanitation Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 8,537,759	\$ 2,298,035	\$ 10,835,794
Cash payments for goods and services	(3,026,646)	(2,228,559)	(5,255,205)
Cash payments to employees	(1,061,432)	(156,024)	(1,217,456)
Net cash provided (used) by operating activities	<u>4,449,681</u>	<u>(86,548)</u>	<u>4,363,133</u>
Cash flows from noncapital financing activities			
Interfund transfers	431,299	(479,976)	(48,677)
Net cash provided (used) by noncapital financing activities	<u>431,299</u>	<u>(479,976)</u>	<u>(48,677)</u>
Cash flows from capital and related financing activities			
Payments for capital acquisitions	(5,933,281)	477,775	(5,455,506)
Customer deposits	4,650	-	4,650
Loan proceeds	71,125	-	71,125
Principal payments on debt	(1,323,802)	-	(1,323,802)
Interest payments on debt	(1,165,363)	-	(1,165,363)
Net cash provided (used) by capital and related financing activities	<u>(8,346,671)</u>	<u>477,775</u>	<u>(7,868,896)</u>
Cash flows from investing activities			
Receipts of interest	49,494	8,595	58,089
Net increase (decrease) in cash and cash equivalents	(3,416,197)	(80,154)	(3,496,351)
Cash and cash equivalents-beginning of year	4,706,737	1,138,355	5,845,092
Cash and cash equivalents-end of year	<u>\$ 1,290,540</u>	<u>\$ 1,058,201</u>	<u>\$ 2,348,741</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 2,608,602	\$ (145,320)	\$ 2,463,282
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,765,048	109,089	1,874,137
(Increase) decrease in customer receivables	227,127	(896)	226,231
Increase (decrease) in accounts payable	(133,296)	(52,850)	(186,146)
Increase (decrease) in accrued expenses	(2,835)	1,818	(1,017)
Increase (decrease) in compensated absences	4,573	1,611	6,184
Increase (decrease) in deferred revenue	(19,538)	-	(19,538)
Total adjustments	<u>1,841,079</u>	<u>58,772</u>	<u>1,899,851</u>
Net cash provided by operating activities	<u>\$ 4,449,681</u>	<u>\$ (86,548)</u>	<u>\$ 4,363,133</u>

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

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

A. General Statement

The City of Southaven (the "City") was incorporated in 1980. The City operates under the Board of Aldermen-Mayor form of government and provides the following services; public safety (police and fire), streets, sanitation, culture, recreation, public improvements, planning and zoning, 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 Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's most significant accounting policies are described below.

B. 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. Encumbrance Accounting:

The City of Southaven does not use the encumbrance method of accounting.

D. Fund Accounting:

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government, which are not required legally, or by sound financial management, to be accounted for in another fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

E. Basis of Accounting:

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each program of the governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

F. Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the governments-wide statement of net assets. Capital assets used by proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the individual proprietary funds.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Capital Asset Account Group. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets. 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: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

G. Budgets and Budgetary Accounting:

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

1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

2. A public hearing is conducted at City Hall.
3. Prior to October 1, the budget is legally enacted through passage of ordinance.
4. The Mayor 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.
5. 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.

H. Revenue Recognition:

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for service, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

I. Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility and hospital service receivables are recorded at year end. Proprietary fund types have selected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

J. Compensated Absences:

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditures are reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement.

K. Net Assets

Net assets is 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 that are imposed on their use by City legislation or external restrictions by other governments, creditors or grantors.

(2) Cash and Investments:

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

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be recovered. As of September 30, 2008, the carrying amount of the City's deposits was \$6,058,369 and the bank balances totaled \$6,610,531. Of the bank balances, \$100,000 was insured by federal deposit insurance and \$6,480,952 was covered by pooled and/or pledged collateral. At year end, \$129,579 of the City's bank balances was exposed to custodial credit risk because it was uninsured and uncollateralized with the State Treasurer of the State of Mississippi.

(3) Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1 and payable on or before February 1. DeSoto County bills and collects the City's property taxes and monthly remits the taxes to the City.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

(4) A Summary of Changes in General Fixed Assets

	Balance at 9/30/2007	Additions	Deletions	Adjustments	Balance at 9/30/2008
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,094,394	\$ 300,000	\$ -	\$ (1,709,351)	\$ 1,685,043
Construction in progress	11,150,050	5,932,320	(6,630,861)	(783,150)	9,668,359
Total capital assets, not being depreciated:	14,244,444	6,232,320	(6,630,861)	(2,492,501)	11,353,402
Capital assets, being depreciated:					
Buildings and improvements	40,535,344	3,233,964	-	-	43,769,308
Equipment and vehicles	8,884,387	1,337,047	(288,844)	836,111	10,768,701
Infrastructure	71,029,241	4,951,641	-	1,111,630	77,092,512
Leased equipment	263,579	292,633	-	544,760	1,100,972
Total capital assets, being depreciated:	120,712,551	9,815,285	(288,844)	2,492,501	132,731,493
Less accumulated depreciation for:					
Buildings and improvements	(5,397,391)	(1,169,014)	-	336	(6,566,069)
Equipment and vehicles	(5,481,397)	(1,029,712)	288,844	(546,014)	(6,768,279)
Infrastructure	(20,993,761)	(3,859,331)	-	739,285	(24,113,807)
Leased equipment	(43,929)	(195,944)	-	(193,607)	(433,480)
Total accumulated depreciation	(31,916,478)	(6,254,001)	288,844	-	(37,881,635)
Total capital assets, being depreciated, net	88,796,073	3,561,284	-	2,492,501	94,849,858
Governmental activities capital assets, net	\$ 103,040,517	\$ 9,793,604	\$ (6,630,861)	\$ -	\$ 106,203,260
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 335,540	\$ 149,556	\$ -	\$ -	\$ 485,096
Construction in progress	11,932,577	4,510,045	(1,655,095)	(123,217)	14,664,310
Total capital assets, not being depreciated:	12,268,117	4,659,601	(1,655,095)	(123,217)	15,149,406
Capital assets, being depreciated:					
Buildings	406,821	-	-	902,498	1,309,319
Infrastructure	31,917,941	2,238,307	-	301,506	34,457,754
Equipment and vehicles	1,804,800	212,692	-	(1,080,787)	936,705
Leased equipment	744,057	-	-	-	744,057
Total capital assets, being depreciated:	34,873,619	2,450,999	-	123,217	37,447,835
Less accumulated depreciation for:					
Buildings	(26,308)	(49,829)	-	(101,544)	(177,681)
Infrastructure	(7,172,736)	(1,537,291)	-	387,487	(8,322,540)
Equipment and vehicles	(806,344)	(84,798)	-	(285,943)	(1,177,085)
Leased equipment	(39,754)	(148,811)	-	-	(188,565)
Total accumulated depreciation	(8,045,142)	(1,820,729)	-	-	(9,865,871)
Total capital assets, being depreciated, net	26,828,477	630,270	-	123,217	27,581,964
Business-type activities capital assets, net	\$ 39,096,594	\$ 5,289,871	\$ (1,655,095)	\$ -	\$ 42,731,370

Adjustments were made in order to reclassify some of the capital assets into their corresponding categories.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

Depreciation expense for the year ended September 30, 2008 is:

Governmental activities:	
General government	\$ 446,774
Culture and recreation	829,731
Public safety	972,447
Public works	<u>4,005,049</u>
Total depreciation expense, governmental activities	<u>\$ 6,254,001</u>
Business-type activities:	
Water and sewer	\$ 1,711,640
Sanitation	<u>109,089</u>
Total depreciation expense, business-type activities	<u>\$ 1,820,729</u>

Commitments under construction contracts at September 30, 2008 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
Getwell Plant Well Project	\$ 352,991	\$ 126,659
Snowden Amphitheater Public Restrooms	574,000	<u>27,477</u>
		<u>\$ 154,136</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

(5) Long-Term Debt

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amounts Issued</u>	<u>Outstanding</u>
1998	3.65-4.20%	1-Oct-98	1-Oct-18	\$ 3,500,000	\$ 2,170,000
1998	5.00%	1-Mar-99	1-Sep-08	1,045,000	-
1998	6.00%	1-Mar-99	1-Sep-08	285,000	-
1998	4.00-5.88%	1-Sep-98	1-Sep-13	1,700,000	705,000
1999	4.30-6.13%	1-Jun-99	1-Jun-19	2,500,000	1,655,000
1999	4.13-5.75%	1-Sep-99	1-Sep-19	5,000,000	3,360,000
2000	4.75-6.75%	1-Oct-00	1-Nov-20	5,000,000	3,795,000
2000	5.50-5.25%	1-Mar-00	1-Mar-20	6,000,000	270,000
2001	4.50%	1-Oct-01	1-Oct-21	5,000,000	3,740,000
2003	3.64%	1-Jul-03	1-Jul-23	4,000,000	3,315,000
2004	4.24%	11-Mar-04	1-Mar-24	4,500,000	3,900,000
2004	4.02%	1-Dec-04	1-Dec-24	4,500,000	4,060,000
2005	3.97%	1-Dec-05	1-Dec-25	4,500,000	4,215,000
2006	3.70-4.25%	1-Mar-07	1-Sep-20	4,185,000	4,185,000
2007	4.37-5.50%	1-Jul-07	1-Jul-27	6,000,000	5,810,000
2008	5.00-3.63%	1-Jul-08	1-Jul-28	4,000,000	4,000,000
1996 Water/Sewer	4.10-5.25%	1-Mar-96	1-Mar-11	1,850,000	510,000
Total general obligation bonds				<u>\$ 63,565,000</u>	<u>\$ 45,690,000</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

Notes outstanding at year end are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amounts Issued</u>	<u>Outstanding</u>
MS DECD	3.00%	15-Apr-98	1-Aug-08	\$ 629,802	\$ -
Whitten Family Trust	6.00%	27-Jun-03	21-Jun-13	575,640	255,840
MS Development Bank - 2001	3.00%	7-Jun-02	7-Jun-22	453,831	313,898
MS Development Bank - 2001	3.00%	11-Dec-02	11-Dec-22	3,357,883	2,378,500
MS Dept of Health DWSLRF	3.00%	1-Dec-02	1-Sep-22	1,400,961	1,093,403
MS Dept of Health DWSLRF	3.00%	1-Jan-03	1-Oct-22	1,361,525	1,060,935
MS Dept of Health DWSLRF	3.00%	1-Jul-03	1-Apr-23	1,250,436	1,003,181
MS Development Bank - 2004	3.00%	11-Mar-04	1-Feb-24	1,188,287	915,976
MS Dept of Health DWSLRF	4.00%	20-Sep-04	1-Jul-24	1,425,168	1,224,185
Bancorpsouth -2004	4.24%	30-Jan-04	30-Jan-14	775,000	503,427
Bancorpsouth - 2004	4.24%	24-Feb-04	5-Mar-14	450,000	292,654
Bancorpsouth - 2005	4.08%	1-Feb-06	1-Feb-16	4,000,000	3,585,851
Merchants & Farmers - 2005	4.10%	1-Aug-06	1-Aug-16	1,900,000	1,579,299
Bancorpsouth - 2007	4.50%	4-Dec-06	5-Jan-12	370,769	340,272
MS Dept of Health DWSLRF	1.95%	2-Nov-07	1-Jan-29	142,855	142,855
MS Dept of Health DWSLRF	1.95%	2-Nov-07	1-Oct-29	88,988	88,988
Total notes				<u>\$ 19,371,145</u>	<u>\$ 14,779,264</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amounts Issued</u>	<u>Outstanding</u>
1995 K Mart	5.60-6.10%	1-Jun-95	1-Jun-10	\$ 320,000	\$ 55,000
1999 S Lake Phase I	4.95%	2-Mar-99	1-Mar-19	560,000	365,000
1999 S Lake Phase II	4.45-4.60%	1-Mar-01	1-Mar-09	1,900,000	275,000
2001 Sam's Club	4.93-5.30%	1-Apr-01	1-Apr-13	500,000	260,000
2005A Towne Cntr	4.07-4.63%	30-Sep-06	30-Sep-20	5,000,000	4,435,000
2005B Towne Center	5.94-6.64%	30-Sep-06	30-Sep-20	4,200,000	3,770,000
Total TIF Bonds				\$ 12,480,000	\$ 9,160,000

Revenue bonds outstanding at year end are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amounts Issued</u>	<u>Outstanding</u>
1998 Water/Sewer	4.05-4.65%	1-Jun-98	1-Sep-12	\$ 4,185,000	\$ 1,675,000
2003 Water/Sewer	4.00-4.65%	23-Dec-03	1-Dec-23	4,500,000	3,910,000
2006 Water/Sewer	4.00-5.50%	1-Mar-06	1-Mar-31	9,000,000	8,610,000
2007 Water/Sewer	4.12-5.00%	1-Aug-07	1-Aug-27	5,400,000	5,230,000
Total Revenue Bonds				\$ 23,085,000	\$ 19,425,000

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

The aggregate maturities of general obligation bonds and loans for the years subsequent to September 30, 2008 are as follows:

Year Ending September 30	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
2009	\$ 4,000,125	\$ 3,036,566	\$ 1,332,409	\$ 991,498
2010	3,905,300	2,595,176	1,406,487	936,289
2011	4,060,917	2,426,408	1,475,587	876,654
2012	4,441,330	2,251,241	1,354,039	818,265
2013	4,264,599	2,045,242	980,659	785,903
2014-2018	23,680,111	7,182,410	5,667,427	3,323,464
2019-2023	14,541,539	2,445,311	6,818,575	2,090,855
2024-2028	4,955,000	447,927	4,421,891	857,306
2029-2031	-	-	1,748,269	120,219
Total	\$ 63,848,921	\$ 22,430,281	\$ 25,205,343	\$ 10,800,453

Long-term activity for the year ended September 30, 2008 was as follows:

	Balance at 9/30/2007	Additions	Deletions	Balance at 9/30/2008	Amounts Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 43,415,000	\$ 4,000,000	\$ 2,235,000	\$ 45,180,000	\$ 2,315,000
Tax increment financing bonds payable	10,025,000	-	865,000	9,160,000	900,000
Plus deferred amounts:					
Bond premium	22,551	-	1,187	21,364	-
Bond discounts	(11,190)	-	(933)	(10,257)	-
Loss on bond refunding	(197,980)	-	(16,499)	(181,481)	-
Notes payable	10,340,096	-	831,175	9,508,921	1,570,250
Leases payable	592,998	292,633	417,345	468,286	180,625
Compensated absences	530,784	59,306	-	590,090	-
Governmental activities long-term liabilities	\$ 64,717,259	\$ 4,351,939	\$ 4,332,275	\$ 64,736,923	\$ 4,965,875
Business-type activities:					
General obligation bonds payable	\$ 660,000	\$ -	\$ 150,000	\$ 510,000	\$ 160,000
Plus deferred amounts:					
Loss on bond refunding	(225,179)	-	(39,375)	(185,804)	-
Revenue bonds payable	20,320,000	-	895,000	19,425,000	935,000
Notes payable	5,265,949	231,843	227,449	5,270,343	237,409
Leases payable	714,179	-	51,353	662,826	43,275
Compensated absences	22,411	6,184	-	28,595	-
Business-type activities long-term liabilities	\$ 26,757,360	\$ 238,027	\$ 1,284,427	\$ 25,710,960	\$ 1,375,684

The loss on bond refunding was classified as a current asset in prior years, but has been reclassified as a contra long-term liability for the year ended September 30, 2008. Additionally, all deferred amounts have been included in the table above, whereas previously they were not included in this table.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

(6) Capital Leases

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2008 were as follows:

Year Ending September 30	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
2009	\$ 180,625	\$ 16,420	\$ 43,275	\$ 28,725
2010	187,187	9,858	45,150	26,850
2011	100,474	3,050	47,107	24,893
2012	-	-	49,148	22,852
2013	-	-	51,278	20,722
2014-2018	-	-	291,715	68,285
2019-2023	-	-	135,153	8,848
Total	<u>\$ 468,286</u>	<u>\$ 29,328</u>	<u>\$ 662,826</u>	<u>\$ 201,175</u>

(7) Defined Benefit Pension Plan

Plan Description. The City of Southaven 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 7.25% of their annual covered salary and the City of Southaven is required to contribute at an actuarially determined rate. The current rate is 11.85% 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 year ending September 30, 2008, 2007, and 2006, were \$1,662,097, \$1,443,565, and \$1,205,187 respectively, equal to the required contributions for each year.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

(8) Interfund Receivables and Payables

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund		
Capital project fund	\$ 2,270,553	\$ -
Debt service fund	-	544,599
Other governmental funds	593,223	132,888
Utility fund	222,511	-
Sanitation fund	-	245,917
Total general fund	<u>3,086,287</u>	<u>923,404</u>
Capital project fund		
General fund	-	2,270,553
Debt service fund	211,465	-
Other governmental funds	315,971	-
Utility fund	392,655	-
Total capital project fund	<u>920,091</u>	<u>2,270,553</u>
Debt service fund		
General fund	170,578	-
Capital project fund	-	211,465
Sanitation fund	-	321,380
Total debt service fund	<u>170,578</u>	<u>532,845</u>
Other governmental funds		
General fund	513,573	593,222
Capital project fund	-	315,855
Utility fund	17,000	-
Total other governmental funds	<u>530,573</u>	<u>909,077</u>
Utility fund		
General fund	-	222,511
Capital project fund	-	409,656
Sanitation fund	-	578,745
Total utility fund	<u>-</u>	<u>1,210,912</u>
Sanitation fund		
General fund	245,917	-
Capital project fund	-	6,780
Debt service fund	321,380	-
Utility fund	578,745	-
Total sanitation fund	<u>1,146,042</u>	<u>6,780</u>
Total	<u>\$ 5,853,571</u>	<u>\$ 5,853,571</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund		
Debt service fund	\$ -	\$ 7,301
Utility fund	<u>48,678</u>	<u>-</u>
Total general fund	<u>48,678</u>	<u>7,301</u>
Debt service fund		
General fund	<u>7,301</u>	<u>-</u>
Total debt service fund	<u>7,301</u>	<u>-</u>
Utility fund		
General fund	-	48,678
Sanitation fund	<u>477,775</u>	<u>-</u>
Total utility fund	<u>477,775</u>	<u>48,678</u>
Sanitation fund		
Utility fund	<u>-</u>	<u>477,775</u>
Total sanitation fund	<u>-</u>	<u>477,775</u>
Total	<u>\$ 533,754</u>	<u>\$ 533,754</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.

(9) Intergovernmental Receivables

Intergovernmental Receivables consist of the following:

	<u>General Fund</u>
County pro rata	
Ad valorem	\$ 245,762
Franchise and sales tax	966,691
Miscellaneous	<u>17,001</u>
Totals	<u>\$ 1,229,454</u>

(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. This exposure is covered by purchase of commercial insurance.

(11) Prior Period Adjustments

In the prior year, accrued interest expense was understated within the governmental activities. This resulted in a prior year overstatement of net assets in the amount of \$597,450.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2008

(12) Deficit Fund Balances

A deficit unreserved fund balance of \$1,051,252 exists in the bond funded capital project fund. The deficit results from a deficiency of total revenue under total expenditures plus beginning fund balance.

A deficit unreserved fund balance of \$362,267 exists in the debt service fund. The deficit results from a deficiency of total revenue under total expenditures plus beginning fund balance.

(13) Subsequent Events

In December 2008, the City of Southaven issued \$3,300,000 Hancock Bank General Obligation Bonds, Series 2008 to improve the City parks.

In February 2009, the City issued \$6,500,000 Mississippi Development Bank Special Obligation Bonds, Series 2009 to improve the water and sewer systems.

In February 2009, the City was awarded a \$2,123,862 Drinking Water Systems Improvements Loan to construct new water lines.

In February 2009, the City was awarded a \$1,477,613 Drinking Water Systems Improvements Loan to construct an elevated water storage tank.

(14) Litigation

The City of Southaven 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 combined financial statements as a result of the cases presently in progress.

CITY OF SOUTHAVEN, MISSISSIPPI
 Budgetary Comparison Schedule
 For the Year Ended September 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
General property taxes	\$ 9,569,013	\$ 9,588,513	\$ 9,643,423	\$ 54,910
Licenses and permits	2,463,000	2,226,000	2,116,867	(109,133)
Intergovernmental	11,513,000	11,541,000	12,622,238	1,081,238
Charges for services	3,046,408	3,098,408	3,344,698	246,290
Fines	1,910,000	2,310,000	3,187,731	877,731
Interest	400,000	300,000	250,661	(49,339)
Miscellaneous	311,928	661,928	533,852	(128,076)
Total revenues	29,213,349	29,725,849	31,699,470	1,973,621
Expenditures				
General government	4,207,891	4,373,245	4,373,902	(657)
Public safety	15,127,485	15,216,045	14,994,696	221,349
Public works	1,461,191	1,467,304	1,397,827	69,477
Culture and recreation	4,178,858	4,267,222	4,461,109	(193,887)
Health and welfare	216,763	218,263	255,314	(37,051)
Capital outlay	3,232,500	4,047,109	4,362,303	(315,194)
Facilities management	575,000	1,185,000	1,231,441	(46,441)
Insurance	550,000	627,090	627,090	-
Miscellaneous	798,524	1,820,884	1,564,285	256,599
Total expenditures	30,348,212	33,222,162	33,267,967	(45,805)
Excess (deficiency) of revenues over (under) expenditures	(1,134,863)	(3,496,313)	(1,568,497)	1,927,816
Other financing sources (uses)				
Rents	365,000	457,000	576,915	119,915
Sale of assets	-	25,000	23,994	(1,006)
Interfund transfers	742,699	2,992,699	2,992,699	-
Total other financing sources (uses)	1,107,699	3,474,699	3,593,608	118,909
Net changes in fund balances	\$ (27,164)	\$ (21,614)	2,025,111	\$ 2,046,725
Fund balance - beginning of year			5,247,599	
Prior Period Adjustment			597,450	
Fund balance - end of year			7,870,160	
Adjustments to conform with GAAP:				
Revenues			(2,444,710)	
Expenditures			(843,105)	
Fund balance - end of year (GAAP basis)			\$ 4,582,345	

CITY OF SOUTHAVEN, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
Year Ended September 30, 2008

Fidelity Bonds

Fidelity bonds in force at September 30, 2008 were as follows:

<u>Name</u>	<u>Position</u>	<u>Bond Amount</u>
Charles G. Davis	Mayor	\$ 100,000
Greg Guy	Alderman	100,000
James Stark	Alderman	100,000
James Loftis	Alderman	100,000
Ricky Jobes	Alderman	100,000
Lorine Cady	Alderman	100,000
Paul Ollar	Alderman	100,000
Randall Huling	Alderman	100,000
Glenda Smallwood	City Clerk	100,000
Police Officer Bond	Per Officer	10,000
William T. Long	Police Chief	25,000
Michael Brackin	Fire Chief	25,000
Ronnie White	Fire Marshall	10,000
Dispatcher Bond	Per Dispatcher	2,000

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



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

DANNY L. WILLIAMS
JERRY W. PITTS
REBECCA A. BEARD
KRISTOPHER A. WHITTEN

2042 Molngvale Road, Suite A
Hernando, MS 38632

(602) 429-4430
FAX: (602) 429-4430
www.williamsandpitts.com

**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, 2008, which collectively comprise the City of Southaven, Mississippi's basic financial statements and have issued our report thereon dated June 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Southaven, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City 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 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's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Reponses as 08- 1 to be a significant deficiency 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'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 the internal control that

might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above, 08- 1, to be a material weakness.

Compliance and Other Matters

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

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

Williams, Pitts & Beard, PLLC
Williams, Pitts and Beard, PLLC
Certified Public Accountants
June 26, 2009



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

DANNY L. WILLIAMS
JERRY W. PITTS
REBECCA A. BEARD
KRISTOPHER A. WHITTEN

2042 McIngvale Road, Suite A
Hernando, MS 38832

(662) 429-4430
FAX: (662) 429-4430
www.williamsandpitts.com

INDEPENDENT AUDITORS' REPORT ON THE COMPLIANCE WITH THE STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

We have audited the accompanying financial statements of the City of Southaven, Mississippi as of and for the year ended September 30, 2008, and have issued our report date June 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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 purpose financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

1- Finding

Section 27-105-5, Miss Code Ann (1972) requires a public depositor shall notify the State Treasurer of its official name, address, federal tax identification number, and provide a listing of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year end. As of September 30, 2008, \$129,579 of the City's \$6,610,531 bank balance was not reported to the State Treasurer, thus exposing the funds to custodial credit risk.

Recommendation

The City should review the *Collateral Sufficiency Report* provided by the State Treasurer's office to ensure accuracy of the accounts listed.

Response

The City plans to monitor the collateral report closely in the future, and resubmit the report in order to for their funds to be completely collateralized.

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

Williams, Pitts & Beard, PLLC
Williams, Pitts & Beard, PLLC
Certified Public Accountants
June 26, 2009

City of Southaven, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2008

Section 1: Summary of Auditor's Results

1.	Type of auditor's report issued on the financial statements:	Unqualified
2.	Material noncompliance relating to the financial statements?	No
3.	Internal control over financial reporting:	
	a. Material weakness(es) identifies?	Yes
	b. Significant deficiency(ies) identified that are Not considered to be material weaknesses?	Yes

Section 2: Financial Statements Findings

Significant Deficiencies and Material Weaknesses

08- 1. Finding
Reconciliation of Cash

While conducting our cash and cash equivalents procedures, we noted the City has not properly and timely reconciled the general ledger accounts for cash to the bank statements. On further review, we discovered several material transactions that were not recorded in the general ledger.

Recommendation

We recommend that all bank accounts be reconciled each month and reviewed for accuracy and completeness on a timely basis by management.

Response

With the bank accounts getting reconciled accurately by year end, the City will be able to reconcile the bank accounts accurately and timely from this point forward.