

**CITY OF SOUTHAVEN  
SOUTHAVEN, MISSISSIPPI  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009**

**CITY OF SOUTHAVEN, MISSISSIPPI**

**ANNUAL FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2009**

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## 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, each major fund, and the aggregate remaining fund information of the City of Southaven, Mississippi, (the "City"), as of and for the year ended September 30, 2009, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Southaven, Mississippi, as of September 30, 2009, 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 May 26, 2010, on our consideration of the City of Southaven's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 12 and 38, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Williams, Pitts & Beard, PLLC*

Williams, Pitts & Beard, PLLC

Certified Public Accountants

May 26, 2010

# CITY OF SOUTHAVEN, MISSISSIPPI

Management Discussion & Analysis

September 30, 2009



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year End September 30, 2009

The Discussion and Analysis of the City of Southaven's financial performance provides an overview of the City's financial activities of the fiscal year ended September 30, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the City's financial statements in order to enhance their understanding of the City's financial performance.

The City of Southaven, Mississippi's annual fiscal year operating budget represents the city's financial commitments and plans to deliver a high level of service to the Southaven community.

The purpose of this narrative and analysis of the FY 2009 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 2009 fiscal year.

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

### FINANCIAL HIGHLIGHTS

Key financial highlights for 2009 were as follows:

- Total net assets for 2009 increased \$1,829,510 from FY 2008.
- Total liabilities increased \$21,775,396 from FY 2008
- The City's contribution to PERS increased from \$1.4 million in FY 2007 to \$1.8 million in FY 09
- Bond re-financing netted the City over \$300,000 in long-term savings
- Increased investment in public safety (\$16.9 million)

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

## CITY OF SOUTHAVEN, MISSISSIPPI

### Management Discussion & Analysis

September 30, 2009

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](http://www.southaven.com). In addition to dollar amounts, this document contains narrative information on the purpose and mission, the accomplishments, goals and objectives, and performance indicators of each department and division.

#### STATE STATUTES RELATED TO THE BUDGET

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

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

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

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

#### BUDGET CALENDAR

Mississippi state statutes provide that the municipal budget be approved and adopted no later than September 15<sup>th</sup> 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 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

## CITY OF SOUTHAVEN, MISSISSIPPI

### Management Discussion & Analysis

September 30, 2009

#### 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.

Using this Annual Financial Report:

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

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

Reporting the City of Southaven as a Whole:

#### *Statement of Net Assets and the Statement of Activities*

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

**CITY OF SOUTHAVEN, MISSISSIPPI**

Management Discussion & Analysis

September 30, 2009

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

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

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

<b>ASSETS</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 20,301,110	\$ 14,239,000	\$ 21,093,541	\$ 3,052,176	\$ 41,394,651	\$ 17,291,176
Capital assets, net	111,464,620	106,203,260	36,971,441	42,731,370	148,436,061	148,934,630
<b>Total assets</b>	<b>131,765,730</b>	<b>120,442,260</b>	<b>58,064,982</b>	<b>45,783,546</b>	<b>189,830,712</b>	<b>166,225,806</b>
<b>LIABILITIES</b>						
Long-term liabilities:						
Due within one year	4,938,071	4,965,875	1,781,161	1,375,684	6,719,232	6,341,559
Payable after one year	61,507,444	59,771,048	31,504,581	24,335,276	93,012,025	84,106,324
Deferred revenues	17,242,735	7,755,513	2,742,020	-	19,984,755	7,755,513
Other liabilities	3,861,370	3,841,470	1,951,680	1,708,800	5,813,050	5,550,270
<b>Total liabilities</b>	<b>87,549,620</b>	<b>76,333,906</b>	<b>37,979,442</b>	<b>27,419,760</b>	<b>125,529,062</b>	<b>103,753,666</b>
<b>NET ASSETS</b>						
Invested in capital asset	46,334,933	42,467,305	3,720,671	17,499,988	50,055,604	59,967,293
Restricted	371,479	-	1,374,483	-	1,745,962	-
Unrestricted	(2,490,302)	1,641,049	14,990,386	863,798	12,500,084	2,504,847
<b>Total net assets</b>	<b>\$ 44,216,110</b>	<b>\$ 44,108,354</b>	<b>\$ 20,085,540</b>	<b>\$ 18,363,786</b>	<b>\$ 64,301,650</b>	<b>\$ 62,472,140</b>

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

*Fund Financial Statements*

The analysis of the City's major funds begins on page 16. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided by the City's residents. However, these fund financial statements

## CITY OF SOUTHAVEN, MISSISSIPPI

### Management Discussion & Analysis

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focus on the City's most significant funds. In the case of the City of Southaven, as with many other municipal corporations, the City's major fund is the General Fund.

#### *Governmental Funds*

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

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

#### *Proprietary/Enterprise Funds:*

The City of Southaven maintains an *enterprise fund* that is used to report *business-type activities* in the government-wide financial statements. The City uses enterprise fund accounting in order to account for the Water/Sewer System and the City's Sanitation Fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 20. Operating revenues of the System are utilized to fund the operation and maintenance expenses and debt service.

#### The City's Funds:

Information about the City's major governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All Governmental Funds had total revenues of \$39,694,756 and net other financing sources (uses) of \$6,879,910 (including proceeds of long-term debt and lease proceeds) and expenditures of \$51,281,853.

#### *General Fund Budgetary Highlights*

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

The actual budget basis ending balance of the General Fund at September 30, 2009 was \$528,433, compared to the ending balance at September 30, 2008 of \$4,582,345. The reduction in the General Fund balance is the combined result of reductions in the City's unobligated cash reserves due to storm clean-up from a series of severe storms that hit the Southaven community, and substantial capital outlay projects (i.e. road repairs, resurfacing) that impacted the General Fund capital outlay budget(s).

For the 2009 fiscal year, the City of Southaven *lowered* its property tax rate from 44.73 to 43.73. This one-mill reduction represented the first property tax reduction in the city's history.

The original FY 2009 General Fund total budget for expenditures was \$31,696,463 and the final amended total was \$34,361,892. Actual expenditures totaled \$34,503,732.

## **CITY OF SOUTHAVEN, MISSISSIPPI**

### **Management Discussion & Analysis**

**September 30, 2009**

Budgets for other governmental funds and the general fund were amended to adjust projected beginning fund balances to actual balances on hand at the beginning of the fiscal year. The general fund realized a net change in fund balance of \$1,378,000 due to an influx of that amount serving as a prior year transfer in to the FY 2009 budget. This amount is not reflected as “revenue.”

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

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

**CITY OF SOUTHAVEN, MISSISSIPPI**

Management Discussion & Analysis

September 30, 2009

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

<b>REVENUES</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Program Revenues:</b>						
Charges for services	\$ 3,832,634	\$ 7,542,154	\$ 7,640,823	\$ 8,390,641	\$ 11,473,457	\$ 15,932,795
Operating grants	243,392	638,887	-	-	243,392	638,887
Capital grants	-	-	-	-	-	-
<b>Total program revenues</b>	<u>4,076,026</u>	<u>8,181,041</u>	<u>7,640,823</u>	<u>8,390,641</u>	<u>11,716,849</u>	<u>16,571,682</u>
<b>General Revenues</b>						
Property taxes	17,555,090	15,500,811	2,282,117	2,210,446	19,837,207	17,711,257
Sales tax	11,177,009	12,657,817			11,177,009	12,657,817
Other general revenues	7,531,906	4,139,115	56,161	37,425	7,588,067	4,176,540
<b>Total general revenues</b>	<u>36,264,005</u>	<u>32,297,743</u>	<u>2,338,278</u>	<u>2,247,871</u>	<u>38,602,283</u>	<u>34,545,614</u>
<b>Total Revenues</b>	<u>40,340,031</u>	<u>40,478,784</u>	<u>9,979,101</u>	<u>10,638,512</u>	<u>50,319,132</u>	<u>51,117,296</u>
<b>PROGRAM EXPENSES</b>						
General government	9,568,773	4,433,916	-	-	9,568,773	4,433,916
Public safety	18,009,031	14,996,065	-	-	18,009,031	14,996,065
Public works	4,135,333	1,404,202	-	-	4,135,333	1,404,202
Culture and recreation	5,601,961	4,493,698	-	-	5,601,961	4,493,698
Economic development	533,851	-	-	-	533,851	-
Health and welfare	253,220	258,912	-	-	253,220	258,912
Interest on long term debt	2,926,357	2,397,162	1,313,931	1,165,363	4,240,288	3,562,525
Other	-	10,773,633	-	-	-	10,773,633
Water and Sewer	-	-	5,211,427	5,721,568	5,211,427	5,721,568
Sanitation	-	-	2,625,094	2,444,251	2,625,094	2,444,251
<b>Total program expenses</b>	<u>41,028,526</u>	<u>38,757,588</u>	<u>9,150,452</u>	<u>9,331,182</u>	<u>50,178,978</u>	<u>48,088,770</u>
<b>Change in net assets</b>	(688,495)	1,721,196	828,649	1,307,330	140,154	3,028,526
<b>Net Assets-Beginning of Year</b>	44,108,354	42,387,158	18,363,786	17,056,456	62,472,140	59,443,614
Prior period Adjustment	796,251	-	893,105	-	1,689,356	-
Change in net assets	<u>(688,495)</u>	<u>1,721,196</u>	<u>828,649</u>	<u>1,307,330</u>	<u>140,154</u>	<u>3,028,526</u>
<b>Net Assets-End of Year</b>	<u>\$ 44,216,110</u>	<u>\$ 44,108,354</u>	<u>\$ 20,085,540</u>	<u>\$ 18,363,786</u>	<u>\$ 64,301,650</u>	<u>\$ 62,472,140</u>

**CITY OF SOUTHAVEN, MISSISSIPPI**

Management Discussion & Analysis

September 30, 2009

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

	Governmental Activities		Business-Type Activities		Totals	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 4,435,062	\$ 1,685,043	\$ 561,036	\$ 485,096	\$ 4,996,098	\$ 2,170,139
Construction in progress	1,627,303	9,668,359	6,848,280	14,664,310	8,475,583	24,332,669
Infrastructure	53,303,629	52,978,705	25,943,707	26,135,214	79,247,336	79,113,919
Buildings and improvements	44,158,829	37,203,239	1,081,809	1,131,638	45,240,638	38,334,877
Leased equipment	3,254,597	667,492	520,840	555,492	3,775,437	1,222,984
Equipment and vehicles	4,685,200	4,000,422	2,015,769	(240,380)	6,700,969	3,760,042
	<u>\$ 111,464,620</u>	<u>\$ 106,203,260</u>	<u>\$ 36,971,441</u>	<u>\$ 42,731,370</u>	<u>\$ 148,436,061</u>	<u>\$ 148,934,630</u>

Capital Assets (Net of Depreciation)

*General Long-Term Debt Obligations*

As of September 30, 2009, the City of Southaven had \$54,830,000 in total outstanding bonds (excluding proprietary)

	<u>2009</u>	<u>2008</u>
<b>Governmental activities debt</b>		
General obligation bonds	\$ 46,570,000	\$ 45,180,000
Tax increment bonds	8,260,000	9,160,000
Noyes payable	8,724,068	9,508,921
Leases payable	2,459,042	468,286
Compensated absences	677,865	590,090
Bond premiums	164,296	21,364
Bond discounts	(9,325)	(10,257)
Loss on bond refunding	<u>(400,431)</u>	<u>(181,481)</u>
<b>Governmental activities liabilities</b>	<u>66,445,515</u>	<u>64,736,923</u>
<b>Business -type activities debt</b>		
General obligation bonds	6,850,000	510,000
Revenue bonds payable	18,490,000	19,425,000
Notes payable	7,507,530	5,270,343
Leases payable	619,551	662,826
Compensated absences	34,972	28,595
Bond discounts	(70,243)	-
Loss on bond refunding	<u>(146,067)</u>	<u>(185,804)</u>
<b>Business-type liabilities</b>	<u>33,285,743</u>	<u>25,710,960</u>
<b>Total Long-Term Obligations</b>	<u>\$ 99,731,258</u>	<u>\$ 90,447,883</u>

## CITY OF SOUTHAVEN, MISSISSIPPI

### Management Discussion & Analysis

September 30, 2009

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

The City of Southaven is subject to statutory limitations of indebtedness as detailed by Section 21-33-303, Miss. Code Ann (1972). No municipality may issue debt/bonds secured by a pledge of its full faith and credit in an amount which, when added to the existing outstanding bond indebtedness, exceeds the 15% and 20% test as prescribed by Section 21-33-303. These percentages are applied to the total assessed value of the taxable property within the municipal limits of Southaven. As of September 30, 2009, the City of Southaven's assessed value applicable for the debt test is \$429,982,061, and as such, the City of Southaven has a \$9,667,309 margin for additional debt under the 15% test and a margin of \$31,166,412 under the 20% test.

The City of Southaven issued a \$6,665,000 General Obligation refunding bond in FY 2009. This refunding bond resulted in an economic gain of \$301,278.

#### Current Financial Related Activities:

Throughout Southaven's history, the City has experienced favorable sales tax growth and moderate increases to the property tax rolls. However, given the state of the national economy, Southaven was not immune from a tax revenue slow-down in FY 2009. Sales tax revenues realized in FY 2009 decreased by some \$500,000 from FY 2008.

Southaven has witnessed steady property valuation growth, however, in light of the depressed national economy, which has helped to offset the losses in sales tax revenues.

For Fiscal Year 2009, 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 5<sup>th</sup> 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.

Southaven, Mississippi is a relatively young community, with 33% of our residents being between the ages of 25-44. 9% of Southaven's population is age 65 and older. The median age of a Southaven resident is 33.1 years old, whereas the national median age is 35.3 years of age.

Educational attainment is a major factor of a communities overall success and viability and Southaven, Mississippi is no different. 83% of Southaven residents aged 25 and older has at least a high school diploma, however only 14% have a bachelor's degree.

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

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

## **CITY OF SOUTHAVEN, MISSISSIPPI**

### Management Discussion & Analysis

September 30, 2009

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.

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

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

Contacting the City Administrator:

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF SOUTHAVEN, MISSISSIPPI**

Statement of Net Assets

September 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 1,227,564	\$ 4,458,238	\$ 5,685,802
Accounts receivable, net of allowance for doubtful accounts of \$376,916	391,226	278,242	669,468
Intergovernmental receivable	1,098,271	-	1,098,271
Franchise tax receivable	382,683	-	382,683
Property tax receivable	17,242,735	2,742,020	19,984,755
Other receivable	-	79,042	79,042
Prepaid expense	336,121	-	336,121
Internal balances	(2,063,198)	2,063,198	-
Restricted assets:			
Cash in bank	1,047,744	844,348	1,892,092
Customer deposits	-	564,466	564,466
Bean patch receivable	-	9,269,968	9,269,968
Bond issue costs, net	637,964	794,019	1,431,983
Capital assets, net of accumulated depreciation	<u>111,464,620</u>	<u>36,971,441</u>	<u>148,436,061</u>
Total Assets	<u>131,765,730</u>	<u>58,064,982</u>	<u>189,830,712</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	2,501,396	1,183,182	3,684,578
Accrued expenses	787,065	46,899	833,964
Customer deposits	-	564,466	564,466
Accrued interest	572,909	157,133	730,042
Deferred revenue	17,242,735	2,742,020	19,984,755
Long-term liabilities			
Due within one year:			
Capital debt	4,938,071	1,781,161	6,719,232
Due in more than one year:			
Capital debt	60,829,580	31,469,609	92,299,189
Non-capital debt	677,864	34,972	712,836
Total Liabilities	<u>87,549,620</u>	<u>37,979,442</u>	<u>125,529,062</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	46,334,933	3,720,671	50,055,604
Restricted for:			
Debt services	35,358	1,374,483	1,409,841
Prepaid expense	336,121	-	336,121
Unrestricted	<u>(2,490,302)</u>	<u>14,990,386</u>	<u>12,500,084</u>
Total Net Assets	<u>\$ 44,216,110</u>	<u>\$ 20,085,540</u>	<u>\$ 64,301,650</u>

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

**CITY OF SOUTHAVEN, MISSISSIPPI**

Statement of Activities

Year Ended September 30, 2009

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
<b><u>Governmental Activities</u></b>							
General government	\$ 9,568,773	\$ 429,215	\$ -	\$ -	\$ (9,139,558)	\$ -	\$ (9,139,558)
Public safety	18,009,031	785,740	243,392	-	(16,979,899)	-	(16,979,899)
Public works	4,135,333	-	-	-	(4,135,333)	-	(4,135,333)
Culture and recreation	5,601,961	2,287,409	-	-	(3,314,552)	-	(3,314,552)
Economic development	533,851	300,226	-	-	(233,625)	-	(233,625)
Health and welfare	253,220	30,044	-	-	(223,176)	-	(223,176)
Interest on long-term debt	2,926,357	-	-	-	(2,926,357)	-	(2,926,357)
Total governmental activities	<u>41,028,526</u>	<u>3,832,634</u>	<u>243,392</u>	<u>-</u>	<u>(36,952,500)</u>	<u>-</u>	<u>(36,952,500)</u>
<b><u>Business-Type Activities</u></b>							
Water and sewer	5,211,427	7,555,941	-	-	-	2,344,514	2,344,514
Sanitation	2,625,094	84,882	-	-	-	(2,540,212)	(2,540,212)
Interest on long-term debt	1,313,931	-	-	-	-	(1,313,931)	(1,313,931)
Total business-type activities	<u>9,150,452</u>	<u>7,640,823</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,509,629)</u>	<u>(1,509,629)</u>
Total government	<u>\$50,178,978</u>	<u>\$ 11,473,457</u>	<u>\$ 243,392</u>	<u>\$ -</u>	<u>(36,952,500)</u>	<u>(1,509,629)</u>	<u>(38,462,129)</u>
<b><u>General Revenue</u></b>							
Property taxes					17,555,090	2,282,117	19,837,207
Intergovernmental					1,045,731	-	1,045,731
Sales tax					11,177,009	-	11,177,009
Fines					3,266,474	-	3,266,474
Franchise tax					2,168,898	-	2,168,898
Rents					456,919	-	456,919
Interest					185,641	21,783	207,424
Miscellaneous					463,278	34,378	497,656
Sale of assets					(55,035)	-	(55,035)
Total General Revenues					<u>36,264,005</u>	<u>2,338,278</u>	<u>38,602,283</u>
Change in Net Assets					(688,495)	828,649	140,154
Net Assets-Beginning of Year					44,108,354	18,363,786	62,472,140
Prior Period Adjustment					796,251	893,105	1,689,356
Net Assets-End of Year					<u>\$ 44,216,110</u>	<u>\$20,085,540</u>	<u>\$ 64,301,650</u>

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

**CITY OF SOUTHAVEN, MISSISSIPPI**

Balance Sheet  
Governmental Funds  
September 30, 2009

	<u>General Fund</u>	<u>Bond Funded Capital Project</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 930,161	\$ -	\$ -	\$ 297,403	\$ 1,227,564
Due from other funds	3,309,388	920,091	170,579	530,573	4,930,631
Accounts receivable, net of allowance for doubtful accounts of \$29,131	391,226	-	-	-	391,226
Intergovernmental receivable	1,081,443	-	-	16,828	1,098,271
Franchise tax receivable	382,683	-	-	-	382,683
Property tax receivable	9,222,327	-	7,677,656	342,752	17,242,735
Prepaid expenses	336,121	-	-	-	336,121
Restricted cash	439,477	-	51,841	556,426	1,047,744
 Total Assets	 <u>\$ 16,092,826</u>	 <u>\$ 920,091</u>	 <u>\$ 7,900,076</u>	 <u>\$ 1,743,982</u>	 <u>\$ 26,656,975</u>
<b><u>LIABILITIES</u></b>					
Accounts payable	\$ 2,391,517	\$ 66,202	\$ -	\$ 43,676	\$ 2,501,395
Accrued expenses	787,065	-	-	-	787,065
Due to other funds	3,163,484	2,270,554	532,845	1,026,946	6,993,829
Deferred revenue	9,222,327	-	7,677,656	342,752	17,242,735
 Total Liabilities	 <u>15,564,393</u>	 <u>2,336,756</u>	 <u>8,210,501</u>	 <u>1,413,374</u>	 <u>27,525,024</u>
<b><u>FUND BALANCES</u></b>					
Reserved for:					
Debt service	-	51,841	556,426	-	608,267
Prepaid expenses	336,121	-	-	-	336,121
Unreserved	192,312	(1,468,506)	(866,851)	330,608	(1,812,437)
 Total Fund Balances	 <u>528,433</u>	 <u>(1,416,665)</u>	 <u>(310,425)</u>	 <u>330,608</u>	 <u>(868,049)</u>
Total Liabilities and Fund Balances	<u>\$ 16,092,826</u>	<u>\$ 920,091</u>	<u>\$ 7,900,076</u>	<u>\$ 1,743,982</u>	<u>\$ 26,656,975</u>

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

**CITY OF SOUTHAVEN, MISSISSIPPI**  
 Reconciliation of the Governmental Funds Balance Sheet  
 to the Statement of Net Assets  
 September 30, 2009

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

Total Fund Balance - Governmental Funds \$ (868,049)

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	4,435,062	
Buildings and improvements	52,230,608	
Equipment and vehicles	12,340,322	
Infrastructure	79,872,413	
Construction in progress	1,627,303	
Leased equipment	3,824,570	
Accumulated depreciation	(42,865,657)	
Bond issue cost	637,964	
	112,102,585	112,102,585

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	(8,724,068)	
Leases payable	(2,459,043)	
General obligation and revenue bonds	(54,830,000)	
Accrued expenses	(572,909)	
Bond discount	9,323	
Bond premium	(164,296)	
Deferred loss on refunding	400,431	
Compensated absences	(677,864)	
	(67,018,426)	(67,018,426)

Net Assets of Governmental Activities \$ 44,216,110

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

**CITY OF SOUTHAVEN, MISSISSIPPI**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances of Government Funds  
Year Ended September 30, 2009

	<u>General Fund</u>	<u>Bond Funded Capital Project</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>					
General property taxes	\$ 10,053,948	\$ -	\$ 7,215,877	\$ 285,265	\$ 17,555,090
Licenses and permits	429,215	-	-	-	429,215
Intergovernmental	11,983,829	-	-	238,912	12,222,741
Charges for services	3,103,193	-	-	300,226	3,403,419
Fines	3,266,474	-	-	-	3,266,474
Franchise taxes	2,168,898	-	-	-	2,168,898
Interest	185,641	-	-	-	185,641
Miscellaneous	462,448	-	-	830	463,278
	<u>31,653,646</u>	<u>-</u>	<u>7,215,877</u>	<u>825,233</u>	<u>39,694,756</u>
<b><u>EXPENDITURES</u></b>					
General government	8,540,495	-	14,988	285,265	8,840,748
Public safety	17,031,909	-	-	-	17,031,909
Public works	1,306,340	-	-	-	1,306,340
Culture and recreation	4,515,543	-	-	-	4,515,543
Health and welfare	251,806	-	-	-	251,806
Tourism and convention	-	-	-	533,851	533,851
Capital outlay	7,872,304	3,694,055	-	-	11,566,359
Debt service:					
Principal	-	-	4,759,620	-	4,759,620
Interest	-	-	2,389,428	-	2,389,428
Bond issue cost	-	86,249	-	-	86,249
	<u>39,518,397</u>	<u>3,780,304</u>	<u>7,164,036</u>	<u>819,116</u>	<u>51,281,853</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,864,751)</u>	<u>(3,780,304)</u>	<u>51,841</u>	<u>6,117</u>	<u>(11,587,097)</u>
<b><u>OTHER FINANCIAL SOURCES (USES)</u></b>					
Rents	456,919	-	-	-	456,919
Sale of assets	77,248	-	-	-	77,248
Interfund transfers	-	(6,265,000)	6,265,000	-	-
Grant proceeds	243,392	-	-	-	243,392
Lease proceeds	2,755,523	-	-	-	2,755,523
Bond proceeds	-	9,965,000	-	-	9,965,000
Payment to bond refunding escrow agent	-	-	(6,265,000)	-	(6,265,000)
Loss on extinguishment of debt	-	(353,172)	-	-	(353,172)
	<u>3,533,082</u>	<u>3,346,828</u>	<u>-</u>	<u>-</u>	<u>6,879,910</u>
Net Change in Fund Balances	(4,331,669)	(433,476)	51,841	6,117	(4,707,187)
Fund Balance - Beginning of Year	4,582,345	(1,051,252)	(362,266)	348,432	3,517,259
Equity Transfers	23,941	-	-	(23,941)	-
Prior Period Adjustment	253,816	68,063	-	-	321,879
Fund Balance - End of Year	<u>\$ 528,433</u>	<u>\$ (1,416,665)</u>	<u>\$ (310,425)</u>	<u>\$ 330,608</u>	<u>\$ (868,049)</u>

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

**CITY OF SOUTHAVEN, MISSISSIPPI**  
 Reconciliation of Revenues, Expenditures and Changes in  
 Fund Balances of Government Funds to the Statement of Activities  
 Year Ended September 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (4,707,187)

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

Governmental funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$10,308,115 exceeded depreciation of \$5,388,844 in the current period. 4,919,271

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds of \$12,720,523 and amortization expense of \$195,784 in the current period exceeded repayments of \$11,024,620. (1,891,687)

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	(87,774)
Sale of capital assets	(132,283)
Bond issue costs	302,004
Bond premium	(157,221)
Loss on bond refunding	353,172
Accrued expenses	700,000
Accrued interest payable	13,210
	13,210

Change in Net Assets of Governmental Activities \$ (688,495)

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

**CITY OF SOUTHAVEN, MISSISSIPPI**

Statement of Net Assets

Proprietary Funds

September 30, 2009

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current Assets			
Cash and cash equivalents	\$ 3,508,902	\$ 949,336	\$ 4,458,238
Accounts receivable, net of allowance for doubtful accounts \$85,615	266,699	11,543	278,242
Property tax receivable	-	2,742,020	2,742,020
Other receivable	79,042	-	79,042
Due from other funds	<u>2,140,653</u>	<u>1,148,179</u>	<u>3,288,832</u>
Total Current Assets	<u>5,995,296</u>	<u>4,851,078</u>	<u>10,846,374</u>
Noncurrent Assets			
Restricted assets:			
Cash	844,348	-	844,348
Customer deposits	564,466	-	564,466
Bean Patch receivable	9,269,968	-	9,269,968
Bond issue cost, net	794,019	-	794,019
Fixed assets, net of accumulated depreciation	<u>37,078,195</u>	<u>(106,754)</u>	<u>36,971,441</u>
Total Noncurrent Assets	<u>48,550,996</u>	<u>(106,754)</u>	<u>48,444,242</u>
Total Assets	<u>\$ 54,546,292</u>	<u>\$ 4,744,324</u>	<u>\$ 59,290,616</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Current Liabilities			
Accounts payable	\$ 992,311	\$ 190,871	\$ 1,183,182
Accrued expenses	40,153	6,746	46,899
Accrued interest	157,133	-	157,133
Deferred revenue	-	2,742,020	2,742,020
Due to other funds	<u>1,218,129</u>	<u>7,505</u>	<u>1,225,634</u>
Total Current Liabilities	<u>2,407,726</u>	<u>2,947,142</u>	<u>5,354,868</u>
Current Liabilities Payable from Restricted Assets			
Customer deposits	564,466	-	564,466
Long-term liabilities due within one year:			
Capital debt	<u>1,781,161</u>	<u>-</u>	<u>1,781,161</u>
Total current liabilities payable from restricted assets	<u>2,345,627</u>	<u>-</u>	<u>2,345,627</u>
Long-term liabilities due in more than one year:			
Capital debt	31,469,609	-	31,469,609
Non-capital debt	29,336	5,636	34,972
Total Long-Term Liabilities	<u>31,498,945</u>	<u>5,636</u>	<u>31,504,581</u>
Total Liabilities	<u>36,252,298</u>	<u>2,952,778</u>	<u>39,205,076</u>
Net Assets			
Invested in capital assets, net of related debt	3,827,425	(106,754)	3,720,671
Restricted for:			
Debt service	1,374,483	-	1,374,483
Unrestricted	<u>13,092,086</u>	<u>1,898,300</u>	<u>14,990,386</u>
Total Net Assets	<u>18,293,994</u>	<u>1,791,546</u>	<u>20,085,540</u>
Total Liabilities and Net Assets	<u>\$ 54,546,292</u>	<u>\$ 4,744,324</u>	<u>\$ 59,290,616</u>

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

**CITY OF SOUTHAVEN, MISSISSIPPI**  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
Year Ended September 30, 2009

	<b>Utility</b>	<b>Sanitation</b>	<b>Total</b>
<b><u>OPERATING REVENUES</u></b>			
Property taxes	\$ -	\$ 2,282,117	\$ 2,282,117
Sales	7,555,941	84,882	7,640,823
Miscellaneous	32,808	1,570	34,378
	<u>7,588,749</u>	<u>2,368,569</u>	<u>9,957,318</u>
<b><u>OPERATING EXPENSES</u></b>			
Personnel	1,124,154	194,030	1,318,184
Supplies	489,862	19,293	509,155
Depreciation and amortization	1,001,707	106,754	1,108,461
Maintenance and other	2,029,562	16,726	2,046,288
Professional services	566,142	2,288,291	2,854,433
	<u>5,211,427</u>	<u>2,625,094</u>	<u>7,836,521</u>
Total Operating Expenses	<u>5,211,427</u>	<u>2,625,094</u>	<u>7,836,521</u>
Operating Income	<u>2,377,322</u>	<u>(256,525)</u>	<u>2,120,797</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>			
Interest income	21,783	-	21,783
Interest expense	(1,313,467)	(464)	(1,313,931)
	<u>(1,291,684)</u>	<u>(464)</u>	<u>(1,292,148)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,291,684)</u>	<u>(464)</u>	<u>(1,292,148)</u>
Net Income	<u>1,085,638</u>	<u>(256,989)</u>	<u>828,649</u>
Net Assets - Beginning of Year	16,315,251	2,048,535	18,363,786
Prior Period Adjustment	893,105	-	893,105
Net Assets - End of Year	<u>\$ 18,293,994</u>	<u>\$ 1,791,546</u>	<u>\$ 20,085,540</u>

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

**CITY OF SOUTHAVEN, MISSISSIPPI**

Statement of Cash Flows

Proprietary Funds

Year Ended September 30, 2009

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Cash received from customers	\$7,639,255	\$ 2,363,921	\$ 10,003,176
Cash payments for goods and services	(2,893,588)	(2,278,139)	(5,171,727)
Cash payments to employees	(1,119,034)	(192,771)	(1,311,805)
Net Cash Provided By (Used In) Operating Activities	<u>3,626,633</u>	<u>(106,989)</u>	<u>3,519,644</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>			
Interfund activity	<u>(2,133,436)</u>	<u>(1,412)</u>	<u>(2,134,848)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(2,133,436)</u>	<u>(1,412)</u>	<u>(2,134,848)</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Payments for capital acquisitions	(4,531,830)	-	(4,531,830)
Customer deposits	4,730	-	4,730
Loan proceeds	10,833,853	-	10,833,853
Principal payments on debt	(2,881,090)	-	(2,881,090)
Interest payments on debt	<u>(1,313,467)</u>	<u>(464)</u>	<u>(1,313,931)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>2,112,196</u>	<u>(464)</u>	<u>2,111,732</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Receipts of interest	<u>21,783</u>	<u>-</u>	<u>21,783</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,627,176	(108,865)	3,518,311
Cash and Cash Equivalents-Beginning of Year	<u>1,290,540</u>	<u>1,058,201</u>	<u>2,348,741</u>
Cash and Cash Equivalents-End of Year	<u>\$4,917,716</u>	<u>\$ 949,336</u>	<u>\$ 5,867,052</u>
Reconciliation of Operating Income to Net Cash Provided By (Used In)			
Operating Activities			
Operating Income	<u>\$2,377,322</u>	<u>\$ (256,525)</u>	<u>\$ 2,120,797</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,001,707	106,754	1,108,461
(Increase) decrease in customer receivables	50,506	(4,648)	45,858
Increase (decrease) in accounts payable	166,503	45,042	211,545
Increase (decrease) in accrued expenses	25,475	1,129	26,604
Increase (decrease) in compensated absences	5,120	1,259	6,379
Increase (decrease) in deferred revenue	-	-	-
Total adjustments	<u>1,249,311</u>	<u>149,536</u>	<u>1,398,847</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$3,626,633</u>	<u>\$ (106,989)</u>	<u>\$ 3,519,644</u>

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

**NOTES TO FINANCIAL STATEMENTS**

## CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements  
Year Ended September 30, 2009

### NOTE 1 – 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), public works (streets and sanitation), culture, recreation, public improvements, planning and zoning, economic development, and general administrative services.

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

#### B. Financial Reporting Entity

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

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

#### C. Basis of Presentation

The government-wide financial statements (Statement of Net Assets and the Statement of Activities) report information on all the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

*Fund Financial Statements*

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

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

**General Fund:**

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

**Bond Funded Capital Project Fund:**

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

**Debt Service Funds:**

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

*Proprietary Funds*

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

**Utility Fund:**

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

**Sanitation Fund:**

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

## CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements  
Year Ended September 30, 2009

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

### D. Measurement Focus/Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

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

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

### E. Budgets and Budgetary Accounting

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

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

Upon receipt of the budget estimates, the Board of Aldermen holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.

## CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements  
Year Ended September 30, 2009

At the September board meeting, the budget is legally enacted through passage of the budget ordinance. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.

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

### F. Cash and Cash Equivalents

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

### G. Prepaid Expenses

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

### H. Interfund Transactions and Balances

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

### I. Restricted Assets

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

### J. Capital Assets and Depreciation

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

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

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:

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

**K. Compensated Absences**

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

**L. Net Assets**

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

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

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

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

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

**N. Property Tax Revenues**

Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

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

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

**NOTE 2 – CASH AND CASH EQUIVALENTS**

The collateral for public entities' deposits in financial institutions are held in the name of the State 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 ("FDIC").

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2009, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2009, the carrying amount of the City's deposits was \$8,076,157 and the bank balances totaled \$8,168,759. Of the bank balances, \$750,000 was insured by the FDIC and \$7,418,759 was covered by pooled and/or pledged collateral.

**NOTE 3 - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental Receivables consist of the following:

Description	General Fund
Ad valorem	\$ 245,762
Sales tax	835,681
Tourism tax	<u>16,828</u>
Totals	<u><u>\$ 1,098,271</u></u>

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

**NOTE 4 – CAPITAL ASSETS**

	Balance at 9/30/2008	Additions	Deletions	Adjustments/ Transfers	Balance at 9/30/2009
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets, not being depreciated:					
Land	\$ 1,685,043	\$ 2,750,019	\$ -	\$ -	\$ 4,435,062
Construction in progress	9,668,359	3,818,392	(11,859,448)	-	1,627,303
Total capital assets, not being depreciated	<u>11,353,402</u>	<u>6,568,411</u>	<u>(11,859,448)</u>	<u>-</u>	<u>6,062,365</u>
Capital assets, being depreciated:					
Buildings and improvements	43,769,308	8,543,700	(82,400)	-	52,230,608
Equipment and vehicles	10,768,701	1,951,154	(379,533)	-	12,340,322
Infrastructure	77,092,512	2,240,412	-	539,489	79,872,413
Leased equipment	1,100,972	2,863,886	(140,288)	-	3,824,570
Total capital assets, being depreciated	<u>132,731,493</u>	<u>15,599,152</u>	<u>(602,221)</u>	<u>539,489</u>	<u>148,267,913</u>
Less accumulated depreciation for:					
Buildings and improvements	(6,566,069)	(1,554,635)	48,925	-	(8,071,779)
Equipment and vehicles	(6,768,279)	(1,212,741)	325,898	-	(7,655,122)
Infrastructure	(24,113,807)	(2,389,860)	-	(65,117)	(26,568,784)
Leased equipment	(433,480)	(231,608)	95,115	-	(569,973)
Total accumulated depreciation	<u>(37,881,635)</u>	<u>(5,388,844)</u>	<u>469,938</u>	<u>(65,117)</u>	<u>(42,865,658)</u>
Total capital assets, being depreciated, net	<u>94,849,858</u>	<u>10,210,308</u>	<u>(132,283)</u>	<u>474,372</u>	<u>105,402,255</u>
Governmental activities capital assets, net	<u>\$ 106,203,260</u>	<u>\$ 16,778,719</u>	<u>\$ (11,991,731)</u>	<u>\$ 474,372</u>	<u>\$ 111,464,620</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Capital assets, not being depreciated:					
Land	\$ 485,096	\$ 75,940	\$ -	\$ -	\$ 561,036
Construction in progress	14,664,310	4,519,142	(12,335,172)	-	6,848,280
Total capital assets, not being depreciated	<u>15,149,406</u>	<u>4,595,082</u>	<u>(12,335,172)</u>	<u>-</u>	<u>7,409,316</u>
Capital assets, being depreciated:					
Buildings	1,309,319	-	-	-	1,309,319
Infrastructure	34,457,754	134,637	-	990,127	35,582,518
Equipment and vehicles	936,705	1,993,646	-	-	2,930,351
Leased equipment	744,057	-	-	-	744,057
Total capital assets, being depreciated	<u>37,447,835</u>	<u>2,128,283</u>	<u>-</u>	<u>990,127</u>	<u>40,566,245</u>
Less accumulated depreciation for:					
Buildings	(177,681)	(49,829)	-	-	(227,510)
Infrastructure	(8,322,540)	(947,024)	-	(369,247)	(9,638,811)
Equipment and vehicles	(1,177,085)	(9,722)	-	272,225	(914,582)
Leased equipment	(188,565)	(34,652)	-	-	(223,217)
Total accumulated depreciation	<u>(9,865,871)</u>	<u>(1,041,227)</u>	<u>-</u>	<u>(97,022)</u>	<u>(11,004,120)</u>
Total capital assets, being depreciated, net	<u>27,581,964</u>	<u>1,087,056</u>	<u>-</u>	<u>893,105</u>	<u>29,562,125</u>
Business-type activities capital assets, net	<u>\$ 42,731,370</u>	<u>\$ 5,682,138</u>	<u>\$ (12,335,172)</u>	<u>\$ 893,105</u>	<u>\$ 36,971,441</u>

No interest was capitalized during the year due to immateriality.

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

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

Governmental activities:	
General government	\$ 581,978
Public safety	1,080,992
Public works	897,174
Culture and recreation	<u>2,828,700</u>
 Total depreciation expense, governmental activities	 <u><u>\$ 5,388,844</u></u>
 Business-type activities:	
Water and sewer	\$ 934,473
Sanitation	<u>106,754</u>
 Total depreciation expense, business-type activities	 <u><u>\$ 1,041,227</u></u>

Commitments under construction contracts at September 30, 2009 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
Starlanding Road Water Tower	\$ 1,853,000	\$ 353,318
Southeast Water Improvement Project	594,016	47,715

**NOTE 5 – INTERFUND TRANSFERS AND BALANCES**

The following is a summary of interfund transactions and balances:

Due to/from other funds:	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 3,309,388	\$ 3,163,484
Capital project fund	920,091	2,270,554
Debt service fund	170,579	532,845
Other governmental funds	530,573	1,026,946
Utility fund	2,140,653	1,218,129
Sanitation fund	1,148,179	7,505
Total	<u><u>\$ 8,219,463</u></u>	<u><u>\$ 8,219,463</u></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  
Year Ended September 30, 2009

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

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

**NOTE 6 – LONG-TERM DEBT**

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

	Balance at 9/30/2008	Additions	Deletions	Balance at 9/30/2009	Amounts Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 45,180,000	\$ 9,965,000	\$ 8,575,000	\$ 46,570,000	\$ 2,895,000
Tax increment financing bonds payable	9,160,000	-	900,000	8,260,000	660,000
Notes payable	9,508,921	-	784,853	8,724,068	805,300
Leases payable	468,286	2,755,523	764,767	2,459,042	577,771
Compensated absences	590,090	87,775	-	677,865	-
Bond premium	21,364	157,221	14,289	164,296	-
Bond discounts	(10,257)	-	(932)	(9,325)	-
Loss on bond refunding	(181,481)	(353,172)	(134,222)	(400,431)	-
Governmental activities long-term liabilities	<u>\$ 64,736,923</u>	<u>\$ 12,612,347</u>	<u>\$ 10,903,755</u>	<u>\$ 66,445,515</u>	<u>\$ 4,938,071</u>
Business-type activities:					
General obligation bonds payable	\$ 510,000	\$ 6,500,000	\$ 160,000	\$ 6,850,000	\$ 395,000
Revenue bonds payable	19,425,000	-	935,000	18,490,000	985,000
Notes payable	5,270,343	3,972,118	1,734,931	7,507,530	356,011
Leases payable	662,826	-	43,275	619,551	45,150
Compensated absences	28,595	6,377	-	34,972	-
Bond discounts	-	(73,940)	(3,697)	(70,243)	-
Loss on bond refunding	(185,804)	-	(39,737)	(146,067)	-
Business-type activities long-term liabilities	<u>\$ 25,710,960</u>	<u>\$ 10,404,555</u>	<u>\$ 2,829,772</u>	<u>\$ 33,285,743</u>	<u>\$ 1,781,161</u>

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

Short-term Debt – Tax Anticipation Notes

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

Short-term debt activity for the year ended September 30, 2009 was as follows:

	Balance at 9/30/2008	Additions	Deletions	Balance at 9/30/2009
Tax anticipation notes	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
General Long Term					
1998	3.65-4.20%	10/1/1998	10/1/2018	\$ 3,500,000	\$ 2,000,000
1998	4.00-5.88%	9/1/1998	9/1/2008	1,700,000	575,000
1999	4.30-6.13%	6/1/1999	6/1/2019	2,500,000	1,535,000
2000	4.75-6.75%	10/1/2000	10/1/2020	5,000,000	450,000
2001	4.50%	10/1/2001	10/1/2021	5,000,000	3,525,000
2003	3.64%	7/1/2003	7/1/2023	4,000,000	3,160,000
2004	4.24%	3/11/2004	3/11/2024	4,500,000	3,730,000
2004	4.02%	12/1/2004	12/1/2024	4,500,000	3,900,000
2005	3.97%	12/1/2005	12/1/2025	4,500,000	4,060,000
2006	3.70-4.25%	3/1/2007	9/1/2020	4,185,000	4,185,000
2007	4.37-5.50%	7/1/2007	7/1/2027	6,000,000	5,610,000
2008	3.63-5.00%	7/1/2008	7/1/2028	4,000,000	3,875,000
2008	3.38%	2/1/2009	2/1/2013	3,300,000	3,300,000
2008	3.00-5.00%	4/16/2009	11/1/2020	6,665,000	6,665,000
1996 Water/Sewer	4.10-5.25%	3/1/1996	3/1/2011	1,850,000	350,000
2009 Water/Sewer	3.00-5.00%	2/1/2009	2/1/2029	6,500,000	6,500,000
Total general obligation bonds				<u>\$ 67,700,000</u>	<u>\$ 53,420,000</u>

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
1998 Water/Sewer	4.05-4.65%	7/1/1998	9/1/2012	\$ 4,185,000	\$ 1,290,000
2003 Water/Sewer	4.00-4.65%	12/23/2003	12/23/2023	4,500,000	3,745,000
2006 Water/Sewer	4.00-5.50%	3/1/2006	3/1/2031	9,000,000	8,400,000
2007 Water/Sewer	4.12-5.00%	8/1/2007	8/1/2027	5,400,000	5,055,000
Total Revenue Bonds				<u>\$ 23,085,000</u>	<u>\$ 18,490,000</u>

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
1995 K Mart	5.60-6.10%	7/1/1995	7/1/2010	\$ 320,000	\$ 30,000
1999 S Lake Phase I	4.95%	3/2/1999	3/1/2019	560,000	340,000
2001 Sam's Club	4.93-5.30%	4/1/2001	4/1/2013	500,000	210,000
2005A Towne Cener	4.07-4.63%	9/30/2006	9/30/2020	5,000,000	4,140,000
2005B Towne Center	5.94-6.64%	9/30/2006	9/30/2020	4,200,000	3,540,000
Total TIF Bonds				<u>\$ 10,580,000</u>	<u>\$ 8,260,000</u>

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Oustanding
Whitten Family Trust	6.00%	7/27/2003	7/21/2013	\$ 575,640	\$ 192,150
MS Development Bank - 2001	3.00%	7/7/2002	7/7/2022	453,831	291,207
MS Development Bank - 2001	3.00%	12/11/2002	12/11/2022	3,357,883	2,210,606
MS Development Bank - 2004	3.00%	3/11/2004	2/1/2024	1,188,287	856,563
Bancorpsouth - 2004	4.24%	1/30/2004	1/30/2014	775,000	427,711
Bancorpsouth - 2004	4.24%	2/24/2004	3/5/2014	450,000	248,648
Bancorpsouth - 2005	4.08%	2/1/2006	2/1/2016	4,000,000	3,436,700
Merchants & Farmers - 2005	4.10%	8/1/2006	8/1/2016	1,900,000	1,408,875
Bancorpsouth - 2007	4.50%	12/4/2006	1/5/2012	370,769	308,403
MS Dept of Health DWSLRF	3.00%	12/1/2002	9/1/2022	1,400,961	1,030,962
MS Dept of Health DWSLRF	3.00%	1/1/2003	10/1/2022	1,361,525	999,916
MS Dept of Health DWSLRF	3.00%	7/1/2003	4/1/2023	1,250,436	948,267
MS Dept of Health DWSLRF	4.00%	9/20/2004	7/1/2024	1,425,168	1,167,629
MS Dept of Health DWSLRF	1.95%	11/2/2007	1/1/2029	807,693	807,693
MS Dept of Health DWSLRF	1.95%	11/2/2007	10/1/2029	1,658,306	1,658,306
MS Dept of Health DWSLRF	1.95%	10/1/2008	6/1/2030	148,974	148,974
MS Dept of Health DWSLRF	1.95%	10/1/2008	9/30/2030	88,988	88,988
Total Notes				<u>\$ 21,213,461</u>	<u>\$ 16,231,598</u>

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

The aggregate maturities of general obligation bonds, revenue bonds, tax increment financing, and notes for the years subsequent to September 30, 2009 are as follows:

Year Ending September 30	General Long-Term Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2010	\$ 4,360,300	\$ 2,668,113	\$ 1,736,011	\$ 1,402,839
2011	4,745,917	2,588,761	1,811,230	1,193,180
2012	5,156,600	2,242,784	1,696,760	1,125,736
2013	5,004,599	2,023,490	1,335,499	1,084,054
2014	4,967,171	1,816,036	1,403,209	1,043,042
2015-2019	23,773,526	6,022,037	7,911,191	4,350,739
2020-2024	12,185,955	1,852,752	9,165,342	2,677,941
2025-2029	3,360,000	261,037	6,598,288	984,877
2030-2034	-	-	1,190,000	54,225
Total	<u>\$ 63,554,068</u>	<u>\$ 19,475,010</u>	<u>\$ 32,847,530</u>	<u>\$ 13,916,633</u>

Leases.

Description of Leasing Arrangement

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

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2009 were as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 577,771	\$ 79,244	\$ 45,150	\$ 26,850
2011	504,769	58,725	47,107	24,893
2012	380,964	41,688	49,148	22,852
2013	340,998	29,408	51,278	20,722
2014	353,127	17,280	53,501	18,499
2015-2019	301,413	4,825	304,357	55,643
2020-2024	-	-	69,010	2,991
Present Value of Minimum Lease Payments	<u>\$ 2,459,042</u>	<u>\$ 231,170</u>	<u>\$ 619,551</u>	<u>\$ 172,450</u>

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

Legal Debt Margin – The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$9,667,309 (the smaller of the two computed margins) as of September 30, 2009.

	15% Test	20% Test
Assessed value as of September 30, 2009:		
\$429,982,061 times applicable percentage	\$ 64,497,309	\$ 85,996,412
Less present debt subject to debt limits as of September 30, 2009:		
Total bonds outstanding (exclude proprietary)	(54,830,000)	(54,830,000)
Margin for additional debt	\$ 9,667,309	\$ 31,166,412

Advanced Refunding

On April 16, 2009, the City issued \$6,665,000 in General Obligation Refunding bonds with interest rates ranging between 3.00% and 4.00%. The City issued the bonds to advance refund \$3,360,000 of the 1999 General Obligation bonds and \$3,345,000 of the outstanding series 2000 General Obligation bonds with interest rates ranging between 4.75% and 6.75%. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1999 and 2000 series bonds. As a result, that portion of the 1999 and 2000 series bonds are considered defeased, and the City has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$450,000 at September 30, 2009.

The advance refunding reduced total debt service payments over the next 12 years. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$301,278.

**NOTE 7 – DEFINED BENEFIT PENSION PLAN**

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. At September 30, 2009, the current rate is 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Southaven's contributions to PERS for the years ending September 30, 2009, 2008, and 2007 were \$1,839,313, \$1,662,097 and \$1,443,565 respectively, equal to the required contributions for each year.

**CITY OF SOUTHAVEN, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2009

**NOTE 8 – EQUITY TRANSFERS**

The following is a summary of equity transfers made for the year ended September 30, 2009:

Statement of Revenues, Expenditures and Changes in Net Assets	Transfer In	Transfer Out
Major funds:		
General fund	\$ 23,941	\$ -
Other governmental fund	-	(23,941)
Total	<u>\$ 23,941</u>	<u>\$ (23,941)</u>

**NOTE 9 – PRIOR PERIOD ADJUSTMENT**

In the prior year, accounts payable and prepaid assets were overstated and cash was understated within the governmental activities. This resulted in a prior year understatement of net assets in the governmental funds in the amount of \$321,879. In addition, capital assets and accumulated depreciation were understated in the prior year resulting in an additional net assets understatement on the Statement of Net Assets of \$474,372 in the governmental activities and an \$893,105 understatement in the business-type activities.

**NOTE 10 - RISK MANAGEMENT**

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

**NOTE 11- LITIGATION**

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

**NOTE 12- SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 26, 2010, which is the date the financial statements were available to be issued.

In December 2009, the City of Southaven issued a \$3,000,000 Tax Anticipation Loan from Covenant Bank to meet cash operations need of the City.

In February 2010, the City was issued \$6,000,000 Water and Sewer Bond, Series 2010 to improve the water and sewer systems.

In March 2010, the City issued \$3,595,000 Refunding Bonds, Series 2010 to refund the remaining balances of the \$3,500,000 General Obligation Bond, Series 1998 and the \$2,500,000 General Obligation Bond, Series 1999.

**NOTE 13- DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS**

The Bond Funded Capital Project fund, Debt Service fund, and Tax Increment Financing fund reported deficits in fund balances at September 30, 2009. As a result, total governmental funds has a deficit fund balance of \$868,049.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SOUTHAVEN, MISSISSIPPI**  
 Budgetary Comparison Schedule – General Fund  
 Year Ended September 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>Budgetary Basis</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES</u></b>				
General property taxes	\$ 10,054,000	\$ 10,019,500	\$ 9,902,532	\$ (116,968)
Licenses and permits	575,000	435,500	429,215	(6,285)
Intergovernmental	12,112,000	12,113,300	12,114,838	1,538
Charges for services	2,927,500	3,241,000	3,256,372	15,372
Fines	2,790,000	3,324,500	3,266,474	(58,026)
Franchise taxes	1,500,000	2,263,000	2,264,017	1,017
Interest	225,000	164,000	185,641	21,641
Miscellaneous	397,500	637,200	613,864	(23,336)
<b>Total Revenues</b>	<b>30,581,000</b>	<b>32,198,000</b>	<b>32,032,953</b>	<b>(165,047)</b>
<b><u>EXPENDITURES</u></b>				
General government	7,000,234	8,365,389	8,417,016	(51,627)
Public safety	16,706,595	16,952,271	16,874,102	78,169
Public works	1,548,461	1,317,775	1,307,911	9,864
Culture and recreation	4,519,571	4,460,581	4,505,169	(44,588)
Health and welfare	252,602	253,402	250,178	3,224
Capital outlay	1,669,000	3,012,474	3,149,356	(136,882)
<b>Total Expenditures</b>	<b>31,696,463</b>	<b>34,361,892</b>	<b>34,503,732</b>	<b>(141,840)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,115,463)</u>	<u>(2,163,892)</u>	<u>(2,470,779)</u>	<u>(306,887)</u>
Other Financing Sources (Uses)				
Rents	435,000	467,500	456,919	(10,581)
Grant proceeds	-	243,392	243,392	-
Sale of assets	25,000	75,000	77,248	2,248
Interfund transfers	(94,537)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>365,463</b>	<b>785,892</b>	<b>777,559</b>	<b>(8,333)</b>
<b>Net Changes in Fund Balances</b>	<b>(750,000)</b>	<b>(1,378,000)</b>	<b>(1,693,220)</b>	<b>(315,220)</b>
Fund Balance - Beginning of Year	750,000	1,378,000	4,582,345	3,204,345
Equity Transfers	-	-	23,941	-
Prior Period Adjustment	-	-	253,816	-
<b>Fund Balance - End of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>3,166,882</b>	<b>\$ 2,889,125</b>
Adjustments to conform with GAAP:				
Revenues			2,376,216	
Expenditures			<u>(5,014,665)</u>	
<b>Fund Balance - End of Year (GAAP basis)</b>			<b>\$ 528,433</b>	

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

**SUPPLEMENTARY INFORMATION**

**CITY OF SOUTHAVEN, MISSISSIPPI**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
<b>U.S. Environmental Protection Agency</b>			
Passed-through Mississippi Department of Health			
<i>Capitalization Grants for Drinking Water State Revolving Funds (A)</i>	66.468	DWI-H280067-05-0	\$ 428,535
		DWI-H280067-06-0	314,808
		DWI-H280067-07-0	9,454
		DWI-H280067-08-0	<u>76,389</u>
Total U.S. Environmental Protection Agency			<u>829,186</u>
Total Expenditures of Federal Awards			<u><u>\$ 829,186</u></u>

NOTES TO SCHEDULE:

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

**CITY OF SOUTHAVEN, MISSISSIPPI**  
 Schedule of Surety Bonds for Municipal Officials  
 Year Ended September 30, 2009

Fidelity bonds in force at September 30, 2009 were as follows:

<u>Name</u>	<u>Position</u>	<u>Bond Amount</u>
Charles G. Davis	Mayor	\$ 100,000
Greg Guy	Alderman	100,000
Ronnie Harle	Alderman	100,000
George Payne	Alderman	100,000
Ricky Jobes	Alderman	100,000
Lorine Cady	Alderman	100,000
William Brooks	Alderman	100,000
Randall Huling	Alderman	100,000
Shelia Heath	City Clerk	50,000
Police Officer Bond	Per Officer	50,000
William T. Long	Police Chief	50,000
Michael Brackin	Fire Chief	50,000
Ronnie White	Fire Marshall	50,000
Dispatcher Bond	Per Dispatcher	50,000

## **SPECIAL REPORTS**



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**INDEPENDENT AUDITORS' 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, 2009, which collectively comprise the City of Southaven, Mississippi's basic financial statements and have issued our report thereon dated May 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Southaven, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Southaven, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Southaven, Mississippi's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 2009-1, 2009-2 and 2009-4 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 2009-1 and 2009-2 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Southaven, Mississippi's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed we consider finding 2009-3 to be an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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

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

*Williams, Pitts & Beard, PLLC*  
Williams, Pitts and Beard, PLLC  
Certified Public Accountants  
May 26, 2010



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and Board of Aldermen  
City of Southaven  
Southaven, Mississippi

Compliance

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

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

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

### Internal Control Over Compliance

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

A control deficiency in a city's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the city's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the city's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of federal program will not be prevented or detected by the entity's internal control.

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

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

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

*Williams, Pitts & Beard, PLLC*

Williams, Pitts & Beard, PLLC  
Certified Public Accountants  
May 26, 2010



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

Mayor and Board of Aldermen  
City of Southaven  
Southaven, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Southaven, Mississippi, as of and for the year ended September 30, 2009, and have issued our report thereon dated May 26, 2010. We conducted our audit in accordance with generally accepted auditing standards.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly we do not express such an opinion.

The results of those procedures and our audit of the general financial statements disclosed the following immaterial instance of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding 01:

Criteria

*Section 89-12-1 to 89-12-57, Miss Code Ann. (1972)* requires businesses and other organizations to report to the State Treasurer certain funds and securities that have remained unclaimed for 5 years.

Condition

As of September 30, 2009, \$4,850 in outstanding checks issued 5 years or more were not reported to the State Treasurer.

Effect

The City was not in compliance with state regulations.

Cause

The City has not designed procedures for appropriate adherence to state regulations.

Recommendation

The City should remit all outstanding checks over five years old to the State Treasurer.

Response

As of May 2010, the City has reported in accordance with *Section 89-12-1 to 89-12-57, Miss Code Ann. (1972)* and is in compliance with state regulations.

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  
May 26, 2010

**CITY OF SOUTHAVEN, MISSISSIPPI**  
 Schedule of Findings and Questioned Costs  
 For the Year Ended September 30, 2009

Section 1: Summary of Auditors' Results

**Financial Statements:**

- |   |             |
|---|-------------|
| 1. Type of auditor's report issued on the general purpose financial statements:               | Unqualified |
| 2. Material noncompliance relating to the general purpose financial statements?               | Yes         |
| 3. Internal control over financial reporting:   |             |
| a. Material weakness (es) identified?   | Yes         |
| b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | Yes         |

**Federal Awards:**

- |   |               |
|---|---------------|
| 4. Type of auditor's report issued on compliance for major federal programs:  | Unqualified   |
| 5. Internal control over major programs:  |               |
| a. Material weakness (es) identified?   | No            |
| b. Significant deficiency (ies) identified that are not considered to be material weaknesses?   | No            |
| 6. Any audit finding(s) reported as required by OMB Circular A-133?   | No            |
| 7. Federal programs identified as major programs:   |               |
| a. Capitalization Grants for Drinking Water State Revolving Funds (A)   | CFDA # 66.468 |
| 8. The dollar threshold used to distinguish between types A and type B programs:  | \$300,000     |
| 9. Auditee qualified as a low-risk auditee?   | No            |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? | No            |

**CITY OF SOUTHAVEN, MISSISSIPPI**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2009

Section 2: Financial Statement Findings

Material Weaknesses:

2009-1      Criteria:

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

Condition:

The City is not currently able to internally produce financial statements in accordance with generally accepted accounting principles.

Cause:

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

Effect:

The City must incur the expense of outsourcing the preparation of its financial statement, related notes and required supplemental information. Furthermore, the external auditors were required to make material journal entries to the financial statements.

Recommendation:

Management should develop internal control procedures to ensure that all cash, liabilities, and debt proceeds are properly reflected in the City's financial statements.

Response:

City is working towards the hiring of on-staff CPA/financial director to address this finding.

2009-2      Criteria:

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

Condition:

The external auditors discovered and recorded an adjustment to the City's accounts payable for amounts that were due to vendors during the fiscal year but were not recorded or paid until the subsequent year. In May, the board approved a \$100,000 payment to Summerhill Fire Station that was not recorded or paid until October 2009. Also, September's Court Assessment fines due to the State Treasurer were not recorded or paid until October 2009.

**CITY OF SOUTHAVEN, MISSISSIPPI**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2009

Cause:

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

Effect:

Had the errors not been discovered by the external auditors, the liabilities in the financial statements would have been understated by approximately \$181,000.

Recommendation:

Management should develop internal control procedures to ensure that all payables are properly recorded in the correct fiscal year.

Response:

Internal controls are being developed to better record accounts payable.

Material Noncompliance:

2009-3 Criteria:

*Section 21-35-17, Miss Code Ann. (1972)* requires the city not to make expenditures in excess of any of the budget appropriations as originally and finally determined.

Condition:

The City's expenditures exceeded the budgeted appropriations.

Effect:

The City was not in compliance with state regulations.

Cause:

The City has not designed procedures for appropriate adherence to state regulations.

Recommendation:

The City should not make expenditures in excess of any of the budget appropriations as originally and finally determined.

Response:

City will closely monitor the budget at year end and make the appropriate line-item amendments/transfers to comply with the finding.

**CITY OF SOUTHAVEN, MISSISSIPPI**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2009

Significant Deficiency:

2009-4      Criteria:

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

Condition:

In September 2009, the City expended \$79,042 on a federally funded project but did not record a receivable at year end for the portion that is a reimbursement to the City.

Cause:

The City has not designed internal control procedures for appropriate monitoring and recording of receivable transactions.

Effect:

Due to this oversight, the external auditors were required to make a material adjusting journal entry to the financial statements.

Recommendation:

Management should develop internal control procedures to ensure that all receivables are recorded in the proper year.

Response:

City will record all receivables in the proper fiscal year.

Section 3: Federal Award Findings and Questioned Costs.

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