

CITY OF SOUTHAVEN
SOUTHAVEN, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

CITY OF SOUTHAVEN, MISSISSIPPI

ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the City of Southaven, Mississippi (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southaven's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Southaven, Mississippi, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 13 and page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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 do not express an opinion or provide any assurance on it.

F.O. Givens & Co.
Certified Public Accountants
August 24, 2012



City of Southaven, Mississippi Management's Discussion and Analysis For the Year Ended September 30, 2011

As management of the City of Southaven (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$72,651,154 (net assets).
- The government's total net assets increased by \$927,815, primarily due to increases in the business type activities net assets.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net assets of \$50,374,128 an increase of \$290,572 in comparison with the prior year. Approximately 10 percent of this total amount, or \$4,985,282, is available for spending at the government's discretion (unrestricted net assets).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,444,568, or 12.5 percent of total general fund expenditures for the fiscal year.
- The City's total debt decreased by \$6,552,997 (6.4%) during the current fiscal year. The key factor in this decrease was the only new debt issued in the current year was to refinance old debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

Basic Financial Statements

The first two statements (Pages 15 and 16) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Pages 17 through 23) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's general fund. Budgetary information required by the General Statutes can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and sales tax finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and sanitation services offered by the City.

The government-wide financial statements are on pages 15 and 16 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Mississippi, uses fund accounting to ensure and reflect compliance

City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011

(or non-compliance) with finance-related legal requirements. All of the funds of City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City adopts an annual budget for its General Fund. The budget is a legally adopted document that incorporates input from the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The City has one type of proprietary fund.

Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer and for its sanitation operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 24 through 43 of this report.

**City of Southaven, Mississippi
Management's Discussion and Analysis
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Government-Wide Financial Analysis

The City of Southaven's Net Assets

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 30,426,388	\$ 21,831,035	\$ 20,838,008	\$ 21,103,996	\$ 51,264,396	\$ 42,935,031
Capital assets	105,231,115	113,588,417	41,384,855	42,134,094	146,615,970	155,722,511
Total assets	<u>135,657,503</u>	<u>135,419,452</u>	<u>62,222,863</u>	<u>63,238,090</u>	<u>197,880,366</u>	<u>198,657,542</u>
Long-term liabilities outstanding						
Due within one year	5,530,400	5,290,796	1,977,918	1,968,973	7,508,318	7,259,769
Payable after one year	56,227,982	61,350,672	33,441,944	35,585,089	89,669,926	96,935,761
Deferred revenue	19,567,692	16,470,034	3,111,745	2,619,141	22,679,437	19,089,175
Other liabilities	3,957,301	2,224,394	1,414,230	1,425,104	5,371,531	3,649,498
Total liabilities	<u>85,283,375</u>	<u>85,335,896</u>	<u>39,945,837</u>	<u>41,598,307</u>	<u>125,229,212</u>	<u>126,934,203</u>
Net assets:						
Invested in capital assets, net of related debt	44,265,704	48,298,598	5,964,993	4,608,627	50,230,697	52,907,225
Restricted	2,070,752	986,963	1,380,956	1,238,584	3,451,708	2,225,547
Unrestricted	4,037,672	797,995	14,931,077	15,792,572	18,968,749	16,590,567
Total net assets	<u>\$ 50,374,128</u>	<u>\$ 50,083,556</u>	<u>\$ 22,277,026</u>	<u>\$ 21,639,783</u>	<u>\$ 72,651,154</u>	<u>\$ 71,723,339</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Southaven exceeded liabilities by \$72,651,154 as of September 30, 2011.

The largest portion of net assets (70%) is reflected in the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (4.75%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$18,968,749 is unrestricted.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

- Increased property tax collections of approximately \$1,390,000
- Increased sales tax revenues of approximately \$390,000 due to economic growth in the City.
- Continued low cost of debt due to the City's high bond rating.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

City of Southaven's Changes in Net Assets

Figure 2

	Governmental Activities	Governmental Activities	Business Type Activities	Business Type Activities	Total	Total
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 3,586,738	\$ 3,891,538	\$ 10,447,424	9,820,910	\$ 14,034,162	\$ 13,712,448
Capital grants and contributions	1,247,811	1,505,312	-	-	1,247,811	1,505,312
General revenues:						
Property taxes	20,372,157	19,161,567	2,672,406	2,491,907	23,044,563	21,653,474
Sales taxes	11,735,308	11,343,015	-	-	11,735,308	11,343,015
Other	8,240,774	10,029,872	82,252	151,972	8,323,026	10,181,844
Total revenues	<u>45,182,788</u>	<u>45,931,304</u>	<u>13,202,082</u>	<u>12,464,789</u>	<u>58,384,870</u>	<u>58,396,093</u>
Expenses:						
General government	10,436,692	8,568,595	-	-	10,436,692	8,568,595
Public safety	19,414,775	17,614,451	-	-	19,414,775	17,614,451
Public works	5,928,955	6,190,707	-	-	5,928,955	6,190,707
Culture and recreation	6,151,226	5,649,556	-	-	6,151,226	5,649,556
Economic development	602,828	589,578	-	-	602,828	589,578
Health and welfare	302,934	262,735	-	-	302,934	262,735
Interest on long-term debt	2,562,392	2,607,710	1,595,352	2,150,898	4,157,744	4,758,608
Water and sewer	-	-	6,419,682	10,121,450	6,419,682	10,121,450
Sanitation	-	-	3,053,597	2,544,396	3,053,597	2,544,396
Total expenses	<u>45,399,802</u>	<u>41,483,332</u>	<u>11,068,631</u>	<u>14,816,744</u>	<u>56,468,433</u>	<u>56,300,076</u>
Increase in net assets before transfers	(217,014)	4,447,972	2,133,451	(2,351,955)	1,916,437	2,096,017
Transfers	(471,797)	-	471,797	-	-	-
Increase in net assets	(688,811)	4,447,972	2,605,248	(2,351,955)	1,916,437	2,096,017
Net assets, October 1	50,083,556	44,216,110	21,639,783	20,085,540	71,723,339	64,301,650
Prior period adjustment	979,383	1,419,474	(1,968,005)	3,906,198	(988,622)	5,325,672
Net assets, September 30	<u>\$ 50,374,128</u>	<u>\$ 50,083,556</u>	<u>\$ 22,277,026</u>	<u>\$ 21,639,783</u>	<u>\$ 72,651,154</u>	<u>\$ 71,723,339</u>

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

Governmental activities. Governmental activities decreased the City's net assets by \$688,811. Key elements of this decrease are as follows:

- General government and public safety expenditures increased which includes a \$370,000 rental expense for the fire station and an approximately \$1,000,000 increase in wages and salaries.
- There was a transfer to the Utility fund for \$656,000 to pay off debt through a refinance with general obligation bonds. The Utility Fund transferred \$185,000 cash to the general fund to assist with operating expenses for a net transfer of \$471,000.
- Franchise taxes decreased by approximately \$465,000.
- Property and sales taxes were up by approximately \$1,600,000 (5.2%).

Business-type activities: Business-type activities increased the City's net assets by \$2,605,248. Key elements of this increase are as follows:

- Charges for services increased by approximately \$626,000. This includes revenues from a full year of the new recycle program as well as increased rates.
- Taxes and other miscellaneous income increased by approximately \$110,000.
- While revenues increased in the current fiscal year, expenses decreased in the utility department, but increased in the sanitation department. The increase of expenses in the sanitation department is due to a full year of expenses related to the recycle program.

Financial Analysis of the City of Southaven's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$4,444,568, while total fund balance reached \$6,240,952. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 12.5 percent of total General Fund expenditures.

At September 30, 2011, the governmental funds of the City reported a combined fund balance of \$7,424,014, a 140 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Capital Projects Funds.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were more than the budgeted amounts primarily because general property taxes and sales taxes received were more than originally expected. Expenditures were also increased due to more street and ditch improvements than originally expected.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$13,328,399, and those for the Sanitation Fund amounted to \$1,602,678. The total growth in net assets for both funds was \$2,466,727 and \$138,521 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, totals \$146,615,970 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Vehicles of \$853,000 in governmental-type activities for a fire truck and new police cars (including leased vehicles).
- Construction in progress of \$766,000 in business-type activities for sewer infrastructure being put in place.
- The leased fire station was removed from the fixed assets schedule by a prior period adjustment and recorded as an operating lease.
- The value of Snowden Grove land was recorded on fixed assets as a prior period adjustment for \$1,900,000.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

The City of Southaven's Capital Assets

Figure 3

(net of depreciation)

	Governmental Activities 2011	Governmental Activities 2010	Business-type Activities 2011	Business-type Activities 2010	Total 2011	Total 2010
Land	\$ 7,432,521	\$ 5,482,521	\$ 579,036	\$ 579,036	\$ 8,011,557	\$ 6,061,557
Construction on progress	589,489	498,249	9,970,697	9,204,472	9,793,961	9,702,721
Infrastructure	50,361,753	57,325,675	29,643,417	31,695,357	82,057,110	89,021,032
Buildings and improvements	40,118,110	40,077,386	43,806	104,234	40,222,344	40,181,620
Leased Equipment	564,561	3,134,035	595,245	221,209	785,770	3,355,244
Equipment and vehicles	6,164,681	7,070,551	552,654	329,786	6,494,467	7,400,337
Total	\$ 105,231,115	\$ 113,588,417	\$ 41,384,855	\$ 42,134,094	\$ 147,365,209	\$ 155,722,511

Additional information on the City's capital assets can be found in note 3 of the Basic Financial Statements.

Long-Term Debt. As of September 30, 2011, the City had total bonded debt outstanding of \$56,305,000. All of this debt is backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds), notes payable, and leases payable.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

**City of Southaven's Outstanding Debt
General Obligation and Revenue Bonds**

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 47,355,000	\$ 47,040,000	\$ 8,950,000	\$ 9,455,000	\$ 56,305,000	\$ 56,495,000
Revenue bonds	6,940,000	7,600,000	16,470,000	17,505,000	\$ 23,410,000	\$ 25,105,000
Notes payable	6,921,865	9,299,809	9,602,012	10,163,944	\$ 16,523,877	\$ 19,463,753
Leases payable	421,864	2,102,878	527,294	574,401	\$ 949,158	\$ 2,677,279
Total	\$ 61,638,729	\$ 66,042,687	\$ 35,549,306	\$ 37,698,345	\$ 97,188,035	\$ 103,741,032

The City's total debt decreased by \$6,552,997 (6.4%) during the past fiscal year. The City issued \$6,730,000 in general obligation bonds to refinance previous debt in order to take advantage of historically low interest rates.

Mississippi general statutes limit the amount of general obligation debt that a unit of government can issue to 15 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City is \$30,438,645.

During the past fiscal year, the City refinanced some of its existing debt to take advantage of historically low interest rates. On November 1, 2010, the City refunded \$3,092,042 of a refunded note payable with a \$3,225,000 general obligation bond issue. On November 1, 2011, the City refunded \$3,300,000 of general obligation bonds with a \$3,505,000 general obligation bond issue.

Additional information regarding the City's long-term debt can be found in note 6 beginning on page 36 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

- Low unemployment. The City's unemployment rate of 6.1%, as of September 30, 2011, is well below the State average of 8.8%.
- For 2011, Southaven's population was calculated, according to the United States Census most recent numbers, to be 48,982. This equates to roughly 30% of the total DeSoto County population and makes Southaven the 3rd largest city in Mississippi.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

- 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.

Budget Highlights for the Fiscal Year Ending September 30, 2012

Governmental Activities: Property taxes (benefiting from the economic growth) and revenues Sales Taxes are expected to lead the increase in budgeted revenue by 2 percent. The City will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to rise 1-2%. The increase in budgeted expenditures is mainly due to increased cost to maintenance and materials.

Business – type Activities: The water and sewer rates in the City will increase primarily to cover increased costs of operations. General operating expenses will decrease by 3%, despite the increase in personnel costs and increased debt payments. This is caused by a \$750,000 decrease in budgeted water improvements.

Requests for Information

This report is designed to provide an overview of the City of Southaven's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chris Wilson, Chief Administrative Officer/City Administrator or Edi McIlwain, Finance Director at 662-280-2489

BASIC FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets
September 30, 2011

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,057,246	\$ 5,824,051	\$ 10,881,297
Accounts receivable, net of allowance for doubtful accounts of \$1,201,885	358,775	731,198	1,089,973
Intergovernmental receivable	1,084,639	-	1,084,639
Franchise tax receivable	434,310	-	434,310
Property tax receivable	19,567,692	3,111,745	22,679,437
Other receivable	-	2,867	2,867
Prepaid expense	462,122	-	462,122
Internal balances	-	-	-
Restricted assets:			
Cash in bank	2,584,565	707,770	3,292,335
Customer deposits	84,068	576,054	660,122
Bean patch receivable	-	9,109,080	9,109,080
Bond issue costs, net	792,971	775,243	1,568,214
Capital assets, net of accumulated depreciation	105,231,115	41,384,855	146,615,970
Total Assets	<u>135,657,503</u>	<u>62,222,863</u>	<u>197,880,366</u>
<u>LIABILITIES</u>			
Accounts payable	1,830,642	638,067	2,468,709
Accrued expenses	727,001	12,523	739,524
Customer deposits	84,068	576,054	660,122
Accrued interest	626,242	150,660	776,902
Deferred revenue	19,567,692	3,111,745	22,679,437
Long-term liabilities			
Due within one year:			
Capital debt	5,530,400	1,977,918	7,508,318
Due in more than one year:			
Capital debt	56,227,982	33,441,944	89,669,926
Non-capital debt	689,348	36,926	726,274
Total Liabilities	<u>85,283,375</u>	<u>39,945,837</u>	<u>125,229,212</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	44,265,704	5,964,993	50,230,697
Restricted for:			
Debt services	661,020	1,380,956	2,041,976
Prepaid expense	462,122	-	462,122
Unrestricted	4,985,282	14,931,077	19,916,359
Total Net Assets	<u>\$ 50,374,128</u>	<u>\$ 22,277,026</u>	<u>\$ 72,651,154</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities							
General government	\$10,436,692	\$ 327,945	\$ -	\$ -	\$ (10,108,747)	\$ -	\$(10,108,747)
Public safety	19,414,775	743,136	-	86,262	(18,585,377)	-	(18,585,377)
Public works	5,928,955	-	-	1,161,549	(4,767,406)	-	(4,767,406)
Culture and recreation	6,151,226	2,249,319	-	-	(3,901,907)	-	(3,901,907)
Economic development	602,828	245,408	-	-	(357,420)	-	(357,420)
Health and welfare	302,934	20,930	-	-	(282,004)	-	(282,004)
Interest on long-term debt	2,562,392	-	-	-	(2,562,392)	-	(2,562,392)
Total governmental activities	<u>45,399,802</u>	<u>3,586,738</u>	<u>-</u>	<u>1,247,811</u>	<u>(40,565,253)</u>	<u>-</u>	<u>(40,565,253)</u>
Business-Type Activities							
Water and sewer	6,419,682	9,846,238	-	-	-	3,426,556	3,426,556
Sanitation	3,053,597	601,186	-	-	-	(2,452,411)	(2,452,411)
Interest on long-term debt	1,595,352	-	-	-	-	(1,595,352)	(1,595,352)
Total business-type activities	<u>11,068,631</u>	<u>10,447,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(621,207)</u>	<u>(621,207)</u>
Total government	<u>\$56,468,433</u>	<u>\$ 14,034,162</u>	<u>\$ -</u>	<u>\$ 1,247,811</u>	<u>(40,565,253)</u>	<u>(621,207)</u>	<u>(41,186,460)</u>
General Revenue							
					20,372,157	2,672,406	23,044,563
					1,140,165	-	1,140,165
					11,735,308	-	11,735,308
					3,690,411	-	3,690,411
					1,844,083	-	1,844,083
					659,839	-	659,839
					288,233	13,086	301,319
					592,391	69,166	661,557
					(471,797)	471,797	-
					25,652	-	25,652
					<u>39,876,442</u>	<u>3,226,455</u>	<u>43,102,897</u>
					(688,811)	2,605,248	1,916,437
					50,083,556	21,639,783	71,723,339
					979,383	(1,968,005)	(988,622)
					<u>\$ 50,374,128</u>	<u>\$22,277,026</u>	<u>\$ 72,651,154</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Balance Sheet - Governmental Funds
September 30, 2011

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,864,904	\$ -	\$ 192,342	\$ 5,057,246
Due from other funds	89,223	-	-	89,223
Accounts receivable, net of allowance for doubtful accounts of \$940,469	358,775	-	-	358,775
Intergovernmental receivable	1,062,754	-	21,885	1,084,639
Franchise tax receivable	434,310	-	-	434,310
Property tax receivable	10,569,562	8,609,162	388,968	19,567,692
Prepaid expenses	462,122	-	-	462,122
Restricted - cash in bank	1,471,961	982,388	130,216	2,584,565
Restricted - customer deposits	84,068	-	-	84,068
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 19,397,679</u>	<u>\$ 9,591,550</u>	<u>\$ 733,411</u>	<u>\$ 29,722,640</u>
<u>LIABILITIES</u>				
Accounts payable	1,776,096	17,154	\$ 37,392	\$ 1,830,642
Accrued expenses	727,001	-	-	727,001
Customer Deposits	84,068	-	-	84,068
Due to other funds	-	-	89,223	89,223
Deferred revenue	10,569,562	8,609,162	388,968	19,567,692
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>13,156,727</u>	<u>8,626,316</u>	<u>515,583</u>	<u>22,298,626</u>
<u>FUND BALANCES</u>				
Nonspendable for Prepaid	462,122	-	-	462,122
Restricted for:				
Debt Service	-	982,388	-	982,388
Tourism	-	-	183,050	183,050
Library	-	-	34,778	34,778
Public Safety	418,783	-	-	418,783
Committed for:				
Public Works	912,262	-	-	912,262
Parks and Recreation	3,217	-	-	3,217
Assigned	-	-	-	-
Unassigned	4,444,568	(17,154)	-	4,427,414
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>6,240,952</u>	<u>965,234</u>	<u>217,828</u>	<u>7,424,014</u>
Total Liabilities and Fund Balances	<u>\$ 19,397,679</u>	<u>\$ 9,591,550</u>	<u>\$ 733,411</u>	<u>\$ 29,722,640</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
September 30, 2011

Total Fund Balance - Governmental Funds \$ 7,424,014

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	7,432,521	
Buildings and improvements	50,071,351	
Equipment and vehicles	14,679,933	
Infrastructure	88,740,802	
Construction in progress	589,490	
Leased equipment	1,647,006	
Accumulated depreciation	(57,929,988)	
Bond issue cost	<u>792,971</u>	
		106,024,086

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	(6,921,865)	
Leases payable	(421,864)	
General obligation and revenue bonds	(54,295,000)	
Accrued expenses	(626,242)	
Bond discount	7,459	
Bond premium	(259,099)	
Deferred loss on refunding	131,987	
Compensated absences	<u>(689,348)</u>	
		<u>(63,073,972)</u>

Net Assets of Governmental Activities \$ 50,374,128

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds
For the Year Ended September 30, 2011

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
General property taxes	12,033,488	8,004,618	334,051	\$ 20,372,157
Licenses and permits	327,945	-	-	327,945
Intergovernmental	12,654,641	-	220,833	12,875,474
Charges for services	3,013,386	-	245,408	3,258,794
Fines	3,690,411	-	-	3,690,411
Franchise taxes	1,844,083	-	-	1,844,083
Interest	288,233	-	-	288,233
Miscellaneous	438,009	149,714	4,668	592,391
Total Revenues	<u>34,290,196</u>	<u>8,154,332</u>	<u>804,960</u>	<u>43,249,488</u>
<u>EXPENDITURES</u>				
General government	8,068,212	-	-	8,068,212
Public safety	18,106,522	-	-	18,106,522
Public works	1,410,208	-	-	1,410,208
Culture and recreation	4,610,617	-	314,000	4,924,617
Health and welfare	302,832	-	-	302,832
Tourism and convention	-	-	602,828	602,828
Capital outlay	2,989,055	-	214,283	3,203,338
Debt service:				
Principal	-	7,234,031	-	7,234,031
Interest	-	2,524,747	-	2,524,747
Bond issue cost	-	196,897	-	196,897
Agent Fees	-	114,599	-	114,599
Total Expenditures	<u>35,487,446</u>	<u>10,070,274</u>	<u>1,131,111</u>	<u>46,688,831</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,197,250)</u>	<u>(1,915,942)</u>	<u>(326,151)</u>	<u>(3,439,343)</u>
<u>OTHER FINANCIAL SOURCES (USES)</u>				
Rents	494,839	165,000	-	659,839
Sale of assets	25,652	-	-	25,652
Interfund transfers	1,184,333	(2,070,110)	413,980	(471,797)
Grant proceeds	1,247,811	-	-	1,247,811
Lease proceeds	-	268,624	-	268,624
Loan proceeds	-	774,283	-	774,283
Refunding bond proceeds	-	6,730,000	-	6,730,000
Payment to bond refunding escrow agent	-	(3,300,000)	-	(3,300,000)
Loss on extinguishment of debt	-	-	-	-
Total Other Financing Sources	<u>2,952,635</u>	<u>2,567,797</u>	<u>413,980</u>	<u>5,934,412</u>
Net Change in Fund Balances	1,755,385	651,855	87,829	2,495,069
Fund Balance - Beginning of Year	3,865,676	196,370	(1,010,629)	3,051,417
Equity Transfers	187,454	-	(187,454)	-
Prior Period Adjustment	432,437	117,009	1,328,082	1,877,528
Fund Balance - End of Year	<u>\$ 6,240,952</u>	<u>\$ 965,234</u>	<u>\$ 217,828</u>	<u>\$ 7,424,014</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 Governmental Funds to Statement of Activities
Year Ended September 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$	2,495,069
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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 \$1,397,217 exceeded depreciation of \$7,213,472 in the current period.</p>		
		(5,816,255)
<p>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 \$7,772,907 and amortization expense of \$209,146 in the current period exceeded repayments of \$10,534,031.</p>		
		2,551,978
<p>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</p>		
Compensated absences payable		(11,484)
Bond issue costs		218,178
Bond premium		(88,581)
Accrued interest payable		(37,716)
		(688,811)
Change in Net Assets of Governmental Activities	\$	(688,811)

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets - Proprietary Funds
September 30, 2011

	Utility Fund	Sanitation Fund	Total
<u>ASSETS</u>			
Current Assets			
Cash and cash equivalents	4,595,943	1,228,108	\$ 5,824,051
Accounts receivable, net of allowance for doubtful accounts \$261,416	644,569	86,629	731,198
Property tax receivable	-	3,111,745	3,111,745
Other receivable	2,867	-	2,867
Due from other funds	-	595,150	595,150
Total Current Assets	5,243,379	5,021,632	10,265,011
Noncurrent Assets			
Restricted assets:			
Cash	707,770	-	707,770
Customer deposits	576,054	-	576,054
Bean Patch receivable	9,109,080	-	9,109,080
Bond issue cost, net	775,243	-	775,243
Fixed assets, net of accumulated depreciation	41,148,351	236,504	41,384,855
Total Noncurrent Assets	52,316,498	236,504	52,553,002
Total Assets	\$ 57,559,877	\$ 5,258,136	\$ 62,818,013
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities			
Accounts payable	330,858	307,209	\$ 638,067
Accrued expenses	12,523	-	12,523
Accrued interest	150,660	-	150,660
Deferred revenue	-	3,111,745	3,111,745
Due to other funds	595,150	-	595,150
Total Current Liabilities	1,089,191	3,418,954	4,508,145
Current Liabilities Payable from Restricted Assets			
Customer deposits	576,054	-	576,054
Long-term liabilities due within one year:			
Capital debt	1,977,918	-	1,977,918
Total current liabilities payable from restricted assets	2,553,972	-	2,553,972
Long-term liabilities due in more than one year:			
Capital debt	33,441,944	-	33,441,944
Non-capital debt	36,926	-	36,926
Total Long-Term Liabilities	33,478,870	-	33,478,870
Total Liabilities	37,122,033	3,418,954	40,540,987
Net Assets			
Invested in capital assets, net of related debt	5,728,489	236,504	5,964,993
Restricted for:			
Debt service	1,380,956	-	1,380,956
Unrestricted	13,328,399	1,602,678	14,931,077
Total Net Assets	20,437,844	1,839,182	22,277,026
Total Liabilities and Net Assets	\$ 57,559,877	\$ 5,258,136	\$ 62,818,013

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
For the Year Ended September 30, 2011

	<u>Utility</u>	<u>Sanitation</u>	<u>Total</u>
<u>OPERATING REVENUES</u>			
Property taxes	\$ -	\$ 2,672,406	\$ 2,672,406
Sales	9,846,238	601,186	10,447,424
Miscellaneous	56,896	12,270	69,166
Total Operating Revenues	<u>9,903,134</u>	<u>3,285,862</u>	<u>13,188,996</u>
<u>OPERATING EXPENSES</u>			
Personnel	1,162,435	-	1,162,435
Supplies	416,383	18,324	434,707
Depreciation and amortization	1,460,821	134,937	1,595,758
Maintenance and other	2,708,761	19,102	2,727,863
Professional services	671,282	2,881,234	3,552,516
Total Operating Expenses	<u>6,419,682</u>	<u>3,053,597</u>	<u>9,473,279</u>
Operating Income	<u>3,483,452</u>	<u>232,265</u>	<u>3,715,717</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Interest income	11,949	1,137	13,086
Interest expense	(1,595,352)	-	(1,595,352)
Interfund transfers	566,678	(94,881)	471,797
Total Non-Operating Revenues (Expenses)	<u>(1,016,725)</u>	<u>(93,744)</u>	<u>(1,110,469)</u>
Net Income	<u>2,466,727</u>	<u>138,521</u>	<u>2,605,248</u>
Net Assets - Beginning of Year	19,651,645	1,988,138	21,639,783
Prior Period Adjustment	(1,680,528)	(287,477)	(1,968,005)
Net Assets - End of Year	<u>\$ 20,437,844</u>	<u>\$ 1,839,182</u>	<u>\$ 22,277,026</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2011

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash received from customers	\$10,058,373	\$ 3,212,378	\$ 13,270,751
Cash payments for goods and services	(3,859,852)	(2,909,988)	(6,769,840)
Cash payments to employees	(1,149,725)	(4,377)	(1,154,102)
Other receipts	135,424	-	135,424
Net Cash Provided By (Used In) Operating Activities	<u>5,184,220</u>	<u>298,013</u>	<u>5,482,233</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Interfund activity	566,678	6,780	573,458
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>566,678</u>	<u>6,780</u>	<u>573,458</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Payments for capital acquisitions	(690,392)	(124,880)	(815,272)
Customer deposits	6,954	-	6,954
Loan proceeds	540,400	-	540,400
Principal payments on debt	(2,689,438)	-	(2,689,438)
Interest payments on debt	(1,595,352)	-	(1,595,352)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(4,427,828)</u>	<u>(124,880)</u>	<u>(4,552,708)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Notes receivable payments, net	108,559	-	108,559
Receipts of interest	11,949	1,137	13,086
Net Cash Provided By (Used In) Investing Activities	<u>120,508</u>	<u>1,137</u>	<u>121,645</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,443,578	181,050	1,624,628
Cash and Cash Equivalents-Beginning of Year	<u>4,436,189</u>	<u>1,047,058</u>	<u>5,483,247</u>
Cash and Cash Equivalents-End of Year	<u>\$ 5,879,767</u>	<u>\$ 1,228,108</u>	<u>\$ 7,107,875</u>
Reconciliation of Operating Income to Net Cash Provided By (Used In)			
Operating Activities			
Operating Income	<u>\$ 3,483,452</u>	<u>\$ 232,265</u>	<u>\$ 3,715,717</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,460,821	134,937	1,595,758
(Increase) decrease in customer receivables	155,239	(73,482)	81,757
(Increase) decrease in other receivables	135,424	-	135,424
(Increase) decrease in property tax receivables	-	(492,604)	(492,604)
Increase (decrease) in accounts payable	9,041	14,289	23,330
Increase (decrease) in accrued expenses	(72,467)	(5,617)	(78,084)
Increase (decrease) in compensated absences	12,710	(4,379)	8,331
Increase (decrease) in deferred revenue	-	492,604	492,604
Total adjustments	<u>1,700,768</u>	<u>65,748</u>	<u>1,766,516</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 5,184,220</u>	<u>\$ 298,013</u>	<u>\$ 5,482,233</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

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

The City complies with accounting principles generally accepted in the United States of America (“GAAP”). GAAP includes all relevant Governmental Accounting Standards Board (“GASB”) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) Opinions, and Accounting Research Bulletins (“ARB”) of the Committee on Accounting Procedure. The City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to business type activities, as permitted under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. The accounting framework and the more significant accounting policies are discussed in subsequent sections of this note.

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 include a statement of net assets and a statement of activities and changes in net assets. They include all funds of the financial reporting entity with the exception of any fiduciary funds. These statements distinguish between governmental and business-type activities.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Government-Wide Financial Statements

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.

Governmental Fund Financial Statements

The City segregates 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.

Government Funds

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

General Fund:

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

Debt Service Funds:

This is a fund that is used to account for the payment of principal and interest on the City's outstanding governmental debt.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds

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

Sanitation Fund:

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

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

D. Measurement Focus/Basis of Accounting

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

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

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting, pursuant to GASB Statement No. 33. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A two month 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 generally not measureable or available until actually received.

E. Budgets and Budgetary Accounting

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

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

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

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

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

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

G. Prepaid Expenses

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

H. Interfund Transactions and Balances

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

I. Restricted Assets

Each customer deposits funds with the City when a water/sewer account is opened. These funds are restricted due to the deposits and are held by the City until the customer account is closed, at which time the amounts are refundable to the customer. Also certain debt issues require contingency deposits be maintained desperately for future debt payments.

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. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

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

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

K. Compensated Absences

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

L. Net Assets

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

In February 2009, the GASB issued Statement No. 54, fund Balance Reporting and Governmental Fund Type Definitions ("GASB Statement No. 54"), which became effective in fiscal 2011. Under GASB Statement No. 54, net assets in governmental fund financial statements are classified as non-spendable, restricted, committed, assigned, and unassigned. It is the practice of the City to spend restricted fund balance amounts first, followed by committed, assigned, and unassigned.

The governmental fund type classified fund balances as follows:

NONSPENDABLE

Non-spendable fund balance consists of funds that cannot be spent due to their form (e.g. inventories and prepaid expenses) or funds that legally or contractually must be maintained intact (e.g. corpus of endowment funds).

RESTRICTED

Restricted fund balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMMITTED

Committed fund balance consists of funds that are set aside for a specific purpose by the City's highest level of decision making authority (Mayor and Board of Aldermen). Formal action must be taken by the end of the fiscal year to commit fund balances. The same formal action must be taken to remove or change the limitations placed on the funds.

ASSIGNED

Assigned fund balance consists of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

UNASSIGNED

Unassigned fund balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

M. Property Tax Revenues

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

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

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

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

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 the institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depositary Insurance Corporation ("FDIC").

Custodial credit risk is the risk that, in the event of a financial institution's failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2011, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2011, the carrying amount of the City's deposits was \$14,831,103 and the bank balances totaled \$14,966,107. Of the bank balances, \$250,000 was insured by the FDIC and \$14,716,107 was covered by pooled and/or pledged collateral.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 3 – CAPITAL ASSETS

	Balance at 9/30/2010	Additions	Deletions	Adjustments/ Transfers	Balance at 9/30/2011
<u>GOVERNMENTAL ACTIVITIES</u>					
Capital assets, not being depreciated:					
Land	\$ 5,482,521	\$ -	\$ -	\$ 1,950,000	\$ 7,432,521
Construction in progress	498,249	91,240	-	-	589,489
Total capital assets, not being depreciated	<u>5,980,770</u>	<u>91,240</u>	<u>-</u>	<u>1,950,000</u>	<u>8,022,010</u>
Capital assets, being depreciated:					
Buildings and improvements	49,576,535	88,597	-	406,219	50,071,351
Equipment and vehicles	14,267,458	799,053	(77,533)	(309,045)	14,679,933
Infrastructure	89,013,466	221,542	-	(494,205)	88,740,803
Leased equipment	4,021,471	196,785	-	(2,571,250)	1,647,006
Total capital assets, being depreciated	<u>156,878,930</u>	<u>1,305,977</u>	<u>(77,533)</u>	<u>(2,968,281)</u>	<u>155,139,093</u>
Less accumulated depreciation for:					
Buildings and improvements	(9,499,149)	(1,350,675)	-	896,583	(9,953,241)
Equipment and vehicles	(7,196,907)	(1,217,230)	77,533	(178,648)	(8,515,252)
Infrastructure	(31,687,791)	(4,383,377)	-	(2,307,882)	(38,379,050)
Leased equipment	(887,436)	(262,190)	-	67,181	(1,082,445)
Total accumulated depreciation	<u>(49,271,283)</u>	<u>(7,213,472)</u>	<u>77,533</u>	<u>(1,522,766)</u>	<u>(57,929,988)</u>
Total capital assets, being depreciated, net	<u>107,607,647</u>	<u>(5,907,495)</u>	<u>-</u>	<u>(4,491,047)</u>	<u>97,209,105</u>
Governmental activities capital assets, net	<u>\$ 113,588,417</u>	<u>\$ (5,816,255)</u>	<u>\$ -</u>	<u>\$ (2,541,047)</u>	<u>\$ 105,231,115</u>
<u>BUSINESS-TYPE ACTIVITIES</u>					
Capital assets, not being depreciated:					
Land	\$ 579,036	\$ -	\$ -	\$ -	\$ 579,036
Construction in progress	9,204,472	766,225	-	-	9,970,697
Total capital assets, not being depreciated	<u>9,783,508</u>	<u>766,225</u>	<u>-</u>	<u>-</u>	<u>10,549,733</u>
Capital assets, being depreciated:					
Buildings	381,573	-	-	-	381,573
Infrastructure	42,531,366	62,637	-	(185,894)	42,408,109
Equipment and vehicles	1,415,882	71,469	-	642,647	2,129,998
Leased equipment	488,645	-	-	255,412	744,057
Total capital assets, being depreciated	<u>44,817,466</u>	<u>134,106</u>	<u>-</u>	<u>712,165</u>	<u>45,663,737</u>
Less accumulated depreciation for:					
Buildings	(277,339)	(49,829)	-	(10,599)	(337,767)
Infrastructure	(10,836,009)	(1,191,391)	-	(737,292)	(12,764,692)
Equipment and vehicles	(1,086,096)	(240,095)	-	(251,153)	(1,577,344)
Leased equipment	(267,436)	(29,762)	-	148,386	(148,812)
Total accumulated depreciation	<u>(12,466,880)</u>	<u>(1,511,077)</u>	<u>-</u>	<u>(850,658)</u>	<u>(14,828,615)</u>
Total capital assets, being depreciated, net	<u>32,350,586</u>	<u>(1,376,971)</u>	<u>-</u>	<u>(138,493)</u>	<u>30,835,122</u>
Business-type activities capital assets, net	<u>\$ 42,134,094</u>	<u>\$ (610,746)</u>	<u>\$ -</u>	<u>\$ (138,493)</u>	<u>\$ 41,384,855</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

Depreciation expenses:

Governmental activities:		
General government	\$	852,839
Public safety		1,002,081
Public works		4,298,510
Culture and recreation		<u>1,060,042</u>
Total depreciation expense, governmental activities	\$	<u><u>7,213,742</u></u>
Business-type activities:		
Water and sewer	\$	<u>1,511,077</u>
Total depreciation expense, business-type activities	\$	<u><u>1,511,077</u></u>

Commitments under construction contracts at September 30, 2011 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
Getwell Road Project	4,975,651	328,225

The above information is per engineering department

NOTE 4 – INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivables consist of the following:

<u>Description</u>	<u>General Fund</u>
Ad Valorem tax	\$ 87,087
Sales tax	975,667
Tourism tax	<u>21,885</u>
Total	<u><u>\$ 1,084,639</u></u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

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	\$ 89,223	\$ -
Other governmental funds	-	89,223
Utility fund	-	595,150
Sanitation fund	595,150	-
Total	<u>\$ 684,373</u>	<u>\$ 684,373</u>

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

Transfers In/Out	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Tourism	-	197,500
Other governmental funds	-	2,197
Debt service fund	1,199,030	-
Utility fund	185,000	-
Total general fund	<u>1,384,030</u>	<u>199,697</u>
Debt service fund		
General fund	-	1,199,030
Other governmental funds	-	214,283
Utility fund	-	656,797
Total debt service fund	<u>-</u>	<u>2,070,110</u>
Other governmental funds		
General fund	413,980	-
Total other governmental funds	<u>413,980</u>	<u>-</u>
Utility fund		
General fund	-	185,000
Debt service fund	656,797	-
Total utility fund	<u>656,797</u>	<u>185,000</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2011

NOTE 6 – LONG-TERM DEBT

Long-term activity for the year ended September 30, 2011 was as follows:

	Balance at 9/30/2010	Additions	Deletions	Balance at 9/30/2011	Amounts Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 47,040,000	\$ 6,730,000	\$ 6,415,000	\$ 47,355,000	\$ 3,810,000
Tax increment financing bonds payable	7,600,000	-	660,000	6,940,000	685,000
Notes payable	9,299,809	772,616	3,150,560	6,921,865	801,601
Leases payable	2,102,848	268,624	1,949,608	421,864	233,799
Compensated absences	677,865	11,483	-	689,348	-
Bond premium	195,517	88,581	24,999	259,099	-
Bond discounts	(8,392)	-	(933)	(7,459)	-
Loss on bond refunding	(266,209)	-	(134,222)	(131,987)	-
Governmental activities long-term liabilities	\$ 66,641,438	\$ 7,871,304	\$ 12,065,012	\$ 62,447,730	\$ 5,530,400
Business-type activities:					
General obligation bonds payable	\$ 9,455,000	\$ -	\$ 505,000	\$ 8,950,000	\$ 335,000
Revenue bonds payable	17,505,000	-	1,035,000	16,470,000	1,085,000
Notes payable	10,163,944	540,400	1,102,332	9,602,012	508,770
Leases payable	574,401	-	47,107	527,294	49,148
Compensated absences	28,595	8,331	-	36,926	-
Bond discounts	(66,548)	-	(3,697)	(62,851)	-
Loss on bond refunding	(106,330)	-	(39,737)	(66,593)	-
Business-type activities long-term liabilities	\$ 37,554,062	\$ 548,731	\$ 2,646,005	\$ 35,456,788	\$ 1,977,918

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 6 – LONG TERM DEBT (CONTINUED)

General Obligation Bonds.

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
General Long Term					
1998	4.00-5.88%	9/1/1998	9/1/2008	1,700,000	300,000
2003	3.64%	7/1/2003	7/1/2023	4,000,000	2,825,000
2004	4.24%	3/11/2004	3/11/2024	4,500,000	3,370,000
2004	4.02%	12/1/2004	12/1/2024	4,500,000	3,550,000
2005	3.97%	12/1/2005	12/1/2025	4,500,000	3,730,000
2006	3.70-4.25%	3/1/2007	9/1/2020	4,185,000	3,555,000
2007	4.37-5.50%	7/1/2007	7/1/2027	6,000,000	5,180,000
2008	3.63-5.00%	7/1/2008	7/1/2028	4,000,000	3,610,000
2008	3.38%	2/1/2009	2/1/2013	3,300,000	2,070,000
2008	3.00-5.00%	4/16/2009	11/1/2020	6,665,000	6,250,000
2010	3.125 - 4.00%	2/1/2010	2/1/2020	6,000,000	5,810,000
2010	2.00 - 3.25%	3/23/2010	10/1/2019	3,595,000	3,280,000
2010	2.00 - 3.30%	11/4/2010	11/1/2024	3,225,000	3,225,000
2011	2.00 - 3.50%	1/25/2011	10/1/2021	3,505,000	3,505,000
2009 Water/Sewer	3.00-5.00%	2/1/2009	2/1/2029	6,500,000	6,045,000
Total general obligation bonds				<u>\$ 66,175,000</u>	<u>\$ 56,305,000</u>

Revenue Bonds.

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
1998 Water/Sewer	4.05-4.65%	7/1/1998	9/1/2012	\$ 4,185,000	\$ 455,000
2003 Water/Sewer	4.00-4.65%	12/23/2003	12/23/2023	4,500,000	3,390,000
2006 Water/Sewer	4.00-5.50%	3/1/2006	3/1/2031	9,000,000	7,950,000
2007 Water/Sewer	4.12-5.00%	8/1/2007	8/1/2027	5,400,000	4,675,000
Total Revenue Bonds				<u>\$ 23,085,000</u>	<u>\$ 16,470,000</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 6 – LONG TERM DEBT (CONTINUED)

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
1999 S Lake Phase I	4.95%	3/2/1999	3/1/2019	560,000	280,000
2001 Sam's Club	4.93-5.30%	4/1/2001	4/1/2013	500,000	105,000
2005A Towne Cener	4.07-4.63%	9/30/2006	9/30/2020	5,000,000	3,510,000
2005B Towne Center	5.94-6.64%	9/30/2006	9/30/2020	4,200,000	3,045,000
Total TIF Bonds				<u>\$ 10,260,000</u>	<u>\$ 6,940,000</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 6 – LONG TERM DEBT (CONTINUED)

Notes.

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Oustanding
Whitten Family Trust	6.00%	7/27/2003	7/21/2013	\$ 575,640	\$ 64,770
Bancorpsouth -2004	4.24%	1/30/2004	1/30/2014	775,000	266,512
Bancorpsouth - 2004	4.24%	2/24/2004	3/5/2014	450,000	154,961
Bancorpsouth - 2005	4.08%	2/1/2006	2/1/2016	4,000,000	3,112,095
Merchants & Farmers - 2005	4.10%	8/1/2006	8/1/2016	1,900,000	1,046,463
Bancorpsouth - 2007	4.50%	12/4/2006	1/5/2012	370,769	240,298
MS Dept of Health DWSLRF	3.00%	12/1/2002	9/1/2022	1,400,961	900,321
MS Dept of Health DWSLRF	3.00%	1/1/2003	10/1/2022	1,361,525	872,238
MS Dept of Health DWSLRF	3.00%	7/1/2003	4/1/2023	1,250,436	833,397
MS Dept of Health DWSLRF	4.00%	9/20/2004	7/1/2024	1,425,168	1,047,513
MS Dept of Health DWSLRF	1.95%	11/2/2007	1/1/2029	807,693	779,755
MS Dept of Health DWSLRF	1.95%	11/2/2007	10/1/2029	2,096,881	2,001,088
MS Dept of Health DWSLRF	1.95%	10/1/2008	6/1/2030	1,082,138	1,044,009
MS Dept of Health DWSLRF	1.95%	10/1/2008	9/30/2030	1,821,006	1,795,466
MS Development Authority	2.00%	8/1/2010	7/1/2020	531,753	471,029
MS Development Authority	3.00%	9/1/2010	9/1/2020	683,373	613,934
MS Development Authority	3.00%	9/30/2010	9/30/2020	187,479	160,695
MS Development Authority	2.00%	9/1/2011	8/1/2031	232,774	231,108
MS Dept of Environmental Quality WPCRLF	1.75%	9/1/2011	12/31/2033	328,225	328,225
Bancorpsouth - 2011	2.87%	3/1/2011	3/1/2021	560,000	560,000
Total Notes				<u>\$ 21,840,821</u>	<u>\$ 16,523,877</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 6 – LONG TERM DEBT (CONTINUED)

The aggregate maturities of general obligation bonds, revenue bonds, tax increment financing, and notes for the years subsequent to September 30, 2011 are as follows:

Year Ending September 30	General Long-Term Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2012	\$ 5,466,603	\$ 2,278,648	\$ 1,929,467	\$ 1,286,819
2013	5,311,278	2,084,674	1,537,930	1,225,522
2014	5,305,262	1,897,949	1,920,002	1,178,245
2015	4,597,033	1,701,638	1,656,018	1,114,842
2016	6,976,104	1,551,598	1,725,666	1,052,477
2017-2021	21,774,063	4,583,640	9,708,378	4,237,186
2022-2026	9,885,781	1,314,744	9,877,374	2,322,371
2027-2031	1,900,741	121,822	6,667,177	561,860
2032-2036	-	-	-	-
Total	<u>\$ 61,216,865</u>	<u>\$ 15,534,713</u>	<u>\$ 35,022,012</u>	<u>\$ 12,979,322</u>

Leases.

Description of Leasing Arrangements.

The City's leasing operations consist principally of the leasing of various police vehicles and utility lines. These leases are classified as capital leases. The vehicle leases expire over the next three years, while the utility lines leases expire over the next 10 years.

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2011 were as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 226,305	\$ 7,802	\$ 49,148	\$ 22,852
2013	141,878	2,843	51,278	20,722
2014	53,681	409	53,501	18,499
2015	-	-	55,819	16,181
2016	-	-	58,238	13,762
2017-2021	-	-	259,310	28,691
2022-2026	-	-	-	-
Present Value of Minimum Lease Payments	<u>\$ 421,864</u>	<u>\$ 11,054</u>	<u>\$ 527,294</u>	<u>\$ 120,707</u>

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 6 – LONG TERM DEBT (CONTINUED)

Legal Debt Margin.

The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness for such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$30,438,645 (the smaller of the two computed margins) as of September 30, 2011.

	<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2011:		
\$518,624,300 times applicable percentage	\$ 77,793,645	\$ 103,724,860
Less present debt subject to debt limits as of September 30, 2011:		
Total bonds outstanding (exclude proprietary)	<u>(47,355,000)</u>	<u>(47,355,000)</u>
Margin for additional debt	<u>\$ 30,438,645</u>	<u>\$ 56,369,860</u>

Advanced Refunding.

On November 4, 2010, the City issued \$3,225,000 in General Obligation Refunding Bonds with interest rates ranging between 2.00% and 3.30%. The City remitted \$3,092,042 of the Bonds directly to the Series 2001 Bank Trustee for the prepayment and current refunding of the Refunded Note, pursuant to the Series 2001 Bank Indentures for the Series 2001 Bank Bonds.

On January 25, 2011, the City issued \$3,505,000 in General Obligation Refunding Bonds with interest rates ranging between 2.00% and 3.50%. The City issued the bonds to advance refund \$3,300,000 of the Series 2001 General Obligation Bonds with an interest rate of 4.50%. The City used the net proceeds along with other resources to purchase U.S. Government securities. These securities were deposited in an escrow fund to provide for all future debt service on the refunded portion of 2001 series bonds. As a result, the 2001 series bonds are considered defeased, and the City has removed the liability from its accounts. The refunding decreased total debt service payments over the next 10 years by almost \$156,000, resulting in an economic gain of \$147,530.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description.

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

Funding Policy.

PERS members are required to contribute 9% of their annual covered salary and the City is required to contribute at an actuarially determined rate. At September 30, 2011, 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, 2011, 2010, and 2009 were \$2,048,092, \$1,913,228 and \$1,839,313 respectively, equal to the required contributions for each year.

NOTE 8 – EQUITY TRANSFERS

The following is a summary of equity transfers made for the year ended September 30, 2011:

<u>Statement of Revenues, Expenditures and Changes in Net Assets</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major funds:		
General fund	\$ 187,454	\$ -
Other governmental fund	-	(187,454)
Total	<u>\$ 187,454</u>	<u>\$ (187,454)</u>

NOTE 9 – PRIOR PERIOD ADJUSTMENT

In the prior year, capital assets and accumulated depreciation were understated and overstated, respectively, within the governmental and business-like activities. Also, due to/from was overstated and understated within the governmental and business-like activities in the prior year. This resulted in a prior year understatement of the Statement of Net Assets in the governmental funds of \$979,383 and an overstatement in proprietary funds in the amounts of \$1,968,005.

CITY OF SOUTHAVEN, MISSISSIPPI

Notes to Financial Statements
Year Ended September 30, 2011

NOTE 10 – RISK MANAGEMENT

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

NOTE 11 – LITIGATION

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

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 24, 2012, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTHAVEN, MISSISSIPPI
 Budgetary Comparison Schedule – General Fund
 Year Ended September 30, 2011

	<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>		
<u>REVENUES</u>				
General property taxes	\$ 10,725,000	\$ 11,700,000	\$ 12,033,488	\$ 333,488
Licenses and permits	323,000	323,000	327,945	4,945
Intergovernmental	11,960,000	12,073,000	12,517,477	444,477
Charges for services	2,946,000	3,137,000	3,211,353	74,353
Fines	3,455,000	3,507,500	3,690,411	182,911
Franchise taxes	2,170,000	1,902,500	1,844,083	(58,417)
Interest	150,000	245,000	288,233	43,233
Miscellaneous	396,000	420,000	438,009	18,009
Total Revenues	32,125,000	33,308,000	34,350,999	1,042,999
<u>EXPENDITURES</u>				
General government	7,542,513	8,343,017	9,013,557	(670,540)
Public safety	17,798,062	18,121,387	18,055,927	65,460
Public works	1,583,721	1,454,286	1,397,096	57,190
Culture and recreation	4,257,000	4,498,165	4,401,894	96,271
Health and welfare	278,704	308,199	296,903	11,296
Capital outlay	1,280,000	3,946,855	2,914,685	1,032,170
Total Expenditures	32,740,000	36,671,909	36,080,062	591,847
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(615,000)</u>	<u>(3,363,909)</u>	<u>(1,729,063)</u>	<u>1,634,846</u>
Other Financing Sources (Uses)				
Rents	465,000	465,000	494,839	29,839
Grant proceeds	-	2,663,909	1,247,812	(1,416,097)
Sale of assets	50,000	50,000	25,652	(24,348)
Interfund transfers	100,000	185,000	1,184,333	999,333
Total Other Financing Sources (Uses)	615,000	3,363,909	2,952,636	(411,273)
Net Changes in Fund Balances	-	-	1,223,573	1,223,573
Fund Balance - Beginning of Year	-	-	3,865,676	3,865,676
Equity Transfers	-	-	187,454	
Prior Period Adjustment	-	-	432,437	
Fund Balance - End of Year	\$ -	\$ -	\$ 5,709,140	\$ 5,089,249
Adjustments to conform with GAAP:				
Revenues			(60,804)	
Expenditures			592,616	
Fund Balance - End of Year (GAAP basis)			\$ 6,240,952	

SUPPLEMENTARY INFORMATION

CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Surety Bonds for Municipal Officials
 Year Ended September 30, 2011

<u>Name</u>	<u>Position</u>	<u>Ins. Company</u>	<u>Amount</u>	<u>Expiration</u>
Charles G. Davis	Mayor	Clyde C Scott Insurance Agency	100,000	7/6/2013
Greg Guy	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Lorine Cady	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Ronnie Hale	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
George Payne	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
William Brooks	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Ricky Jobes	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Dr. Randy Huling	Alderman	Clyde C Scott Insurance Agency	100,000	7/6/2013
Sheila Heath	City Clerk	Clyde C Scott Insurance Agency	50,000	11/1/2011
Police Officers Bond	Per Office	Clyde C Scott Insurance Agency	50,000	11/1/2011
Thomas Long	Police Chief	Clyde C Scott Insurance Agency	50,000	11/1/2011
Ron White	Fire Chief	Clyde C Scott Insurance Agency	50,000	11/1/2011
Dispatchers Bonds	per Dispatcher	Clyde C Scott Insurance Agency	50,000	11/1/2011

SPECIAL REPORTS

F. O. GIVENS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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FRANK O. GIVENS, III
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W. BUFORD GIVENS
Certified Public Accountant

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

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Southaven, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the City of Southaven, Mississippi's basic financial statements and have issued our report thereon dated August 24, 2012. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in the internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We

consider the deficiencies described as findings 2011-1 and 2011-2 in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City of Southaven, Mississippi in a separate letter dated August 24, 2012.

City of Southaven, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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, the board of aldermen, others within the entity, and the Mississippi State Department of Audit and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

F.O. Givens & Co.
Certified Public Accountants
August 24, 2012

F. O. GIVENS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

We have audited the basic financial statements of the City of Southaven, Mississippi, as of and for the year ended September 30, 2011, and have issued our report thereon dated August 24, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

Finding 1:

Municipal Compliance Questionnaire

The Office of the State Auditor states in the *Mississippi Municipal Audit and Accounting Guide* that municipalities are required to complete the Municipal Compliance Questionnaire at the end of the municipality's fiscal year and enter the completed questionnaire into the official minutes of the governing authorities at their next regular meeting. As of June 2012, the City of Southaven's Municipal Compliance Questionnaire for fiscal year 2011 was still not completed, signed and entered into the minutes as required.

Recommendation

We recommend that the City of Southaven develop internal controls to prevent the delay in completing the questionnaire and entering it into the municipality's minutes as prescribed.

Response

The Municipal Compliance Questionnaire for fiscal year 2011 was approved on August 21, 2012. The Municipal Compliance Questionnaire for fiscal year 2012 will be approved at the first board meeting of October 2012.

Finding 2

Travel and Meals Expenses

Our audit uncovered instances of travel payment at the Federal meals & incidentals per diem rates, which is greater than the reimbursement amounts for meals authorized by Department of Finance and Administration per Section 25-3-41, Miss. Code Ann. (1972). The Mississippi Department of Finance and Administration only allows un-receipted reimbursements for meals up to the state-mandated maximum, and requires receipts for all other travel reimbursements over ten dollars.

Recommendation

We recommend the City of Southaven develop and enforce internal controls regarding documentation and approval of travel related expenditures to prevent payment of expenditures not in compliance with Section 25-3-41, Miss. Code Ann. (1972) and Department of Finance and Administration limitations.

Response

The City of Southaven revised their travel policy on June 19, 2012 to ensure that appropriate per diem rates are used according to the Mississippi Department of Finance and Administration.

Finding 3

Budget

Section 21-35-9, Miss. Code Ann. (1972) requires a municipality's budget to contain revenues and expenditures that will be credited or charged to each fund, the working cash balance at the beginning and ending of the fiscal year, the estimated amount of revenue from sources other than taxation, and the amount necessary to be raised for each fund by tax levy. This section also requires the budget to be adopted in length and detail in the City's official minutes. Per Section 21-35-7 the budget shall be prepared on forms prescribed by the state auditor to show all estimates for the different municipal purposes of expenditure and source of revenue. After reviewing the budget entered into the minutes of the City of Southaven it was determined they were not in full compliance with Sections 21-35-9 or 21-35-7 of The Mississippi Code of 1972 Annotated.

Recommendation

The City should prepare and adopt in detail in the official minutes its annual budget prepared on forms prescribed by the state auditor in the Mississippi Municipal Audit and Accounting Guide. Section 21-35-29, Miss Code Ann. (1972) gives the state auditor the authority to prescribe rules, regulations and classifications necessary for municipalities to comply with provisions of budget law. Municipalities may substitute substantially equivalent forms to satisfy local preference and information requirements as mentioned in the Mississippi Municipal Audit and Accounting Guide, however, the substantially equivalent forms must contain detail equivalent to the minimum level prescribed by the state auditor, which includes fund, department, and purpose.

Response

The 2012 budget will be published in the minutes in accordance with the Mississippi Municipal Audit and Accounting Guide and in consultation with the Office of the State Auditor.

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

F.O. Givens & Co.
Certified Public Accountants
August 24, 2012

CITY OF SOUTHAVEN, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2011

Section 1: Summary of Auditors' Results

Financial Statements:

- | | |
|--|--------------------|
| (1) Type of auditors' report issued on the financial statements: | <u>Unqualified</u> |
| (2) Internal control over financial reporting: | |
| a. Material weaknesses identified? | <u>Yes</u> |
| b. Significant deficiency identified that is not considered to be material weaknesses? | <u>No</u> |
| (3) Material noncompliance relating to the financial statements: | <u>No</u> |

Section 2: Financial Statement Findings

Material Weaknesses:

2011-1 Criteria:

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

Condition:

The external auditors discovered that there were multiple errors in the fixed asset records. The lack of internal controls over fixed assets that would prevent or detect these errors would have led to misstatement of fixed assets in the accounting records were it not for review by external parties.

Cause:

The City has not designed internal control procedures for the appropriate monitoring and recording of entries in the fixed asset records.

Effect:

The City's fixed assets and net assets would have been misstated in the financial statements.

Recommendation:

Management should develop internal controls including review procedures to ensure all fixed assets and their related depreciation is properly recorded.

CITY OF SOUTHAVEN, MISSISSIPPI

Schedule of Findings and Responses
For the Year Ended September 30, 2011

Response:

Management is taking necessary steps to correct this matter.

2011-2 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 payment requests that are not for legitimate obligations of the City, therefore preventing overstatement of expenses in the financial records.

Condition:

The external auditors found multiple instances of payments for charges incurred by the Mayor's office that were made without adequate documentation provided to ensure that the expenditures were legitimate obligations of the City.

Cause:

The City has not designed and enforced internal control procedures appropriate to ensure that adequate documentation of expenditures is provided before payment is made.

Effect:

Without proper documentation of expenditures, the City is unable to ensure that expenses reported in the financial records are for valid and allowable expenditures, thus risking overstatement of expenses and understatement of net assets in financial records.

Recommendation:

Proper internal controls should be enacted and enforced to ensure that sufficient documentation for all expenses is provided. This will allow employees and management to confirm all requests for payment made to the City are for legitimate expenditures.

Response:

The City of Southaven follows the Mississippi Code of 1972 in all matters related to disbursements, which includes legislation over purchases. The City of Southaven revised the Employee Policies and Procedures Manual on June 19, 2012, to include more detail related to travel policy as it relates to the Mississippi Code of 1972 and the State of Mississippi Travel Policy Rules and Regulations Manual.