

CITY OF SOUTHAVEN, MISSISSIPPI

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2006

CITY OF SOUTHAVEN, MISSISSIPPI

**ANNUAL FINANCIAL REPORT
Year Ended September 30, 2006**

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INDEPENDENT AUDITORS' REPORT

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of City of Southaven, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southaven's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects. The respective financial position of the governmental activities, the business-type activities and each major fund of the City of Southaven, Mississippi as of September 30, 2006, 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 January 23, 2007 on our consideration of the City of Southaven, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 34 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Southaven's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statement of City of Southaven, Mississippi. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 23, 2007

CITY OF SOUTHAVEN

MISSISSIPPI



Management's Analysis and Discussion

FY 2006

THE CITY OF SOUTHAVEN, MISSISSIPPI

CITY OFFICIALS

MAYOR

CHARLES G. "GREG" DAVIS

ALDERMAN

LORINE CADY, WARD 1

JAMES STARK, WARD 2

JIM LOFTIS, WARD 3

PAUL OLLAR, WARD 4

RICKY JOBES, WARD 5

RANDY HULING, MD WARD 6

GREG GUY, ALDERMAN-AT-LARGE

CITY ADMINISTRATOR/CAO

CHRIS WILSON

CITY ACCOUNTANT

ANDREA FREEZE

CITY ATTORNEY

MARK SORRELL

CITY CLERK

GLEENDA SMALLWOOD

DEPARTMENT HEADS

POLICE CHIEF

TOM LONG

FIRE CHIEF

MIKE BRACKIN

OPERATIONS

BRADLEY WALLACE

PARKS AND RECREATION

MIKE MULLINS

PLANNING AND DEVELOPMENT

WHITNEY CHOAT

UTILITY

CHRIS HADAWAY

PUBLIC WORKS

RAY TARRANCE

ENGINEERING

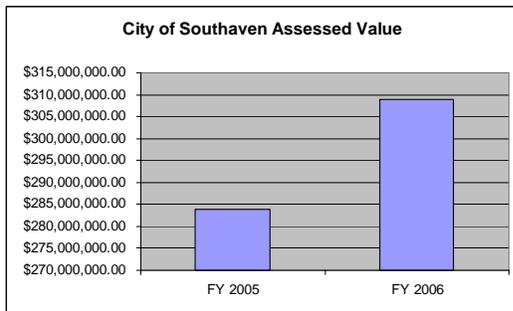
RON SMITH

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

The City of Southaven currently maintains a strong bond rating (credit rating) of Aaa as rated by Standard & Poors.

For the fiscal year 2006, Southaven, Mississippi has an assessed value of \$308,947,178, which represents an increase of some \$25 million over FY 2005.

As a municipal corporation, the city has fixed assets totaling over \$112.5 million.



The City of Southaven, pending the 2006 annexation, consists of some 23,680 acres (37 square miles) which, percentage-wise, are comprised of 38 % residentially zoned areas, 26% agricultural, 17% commercial, 11% industrial and 6% office .

In Fiscal Year 2006, the City's population was, according to the United States Census most recent numbers, 38,840 (2005 estimate). This equates to roughly 28% of the total DeSoto County population and makes Southaven the 5th largest city in Mississippi.

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

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

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

This trend, however, will surely change given the commitment to education the City of Southaven has shown and the leadership role the City is taking in education.

In FY 2006, the City established an educational scholarship in the amount of \$100,000.00 to the DeSoto County campus of the University of Mississippi and Northwest Mississippi Community College.

Southaven remains one of only a handful of Mississippi cities where one can go from pre-K to earning a master's degree without ever leaving the city limits.

Housing statistics provided by the U.S. Census show seventy-two percent (72%) of Southaven residents own their housing unit while twenty-eight percent rent.

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

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

The primary source of revenues for the City of Southaven remains sales tax and the municipal reimbursement applied by the State of Mississippi.

While much of the nation, and many states and local governments have been faced with severe fiscal constraints and budgetary crisis, Southaven, Mississippi remains financially strong and, in fact, has achieved new highs in several revenue accounts while working hard to maintain low overall costs and expenditures.

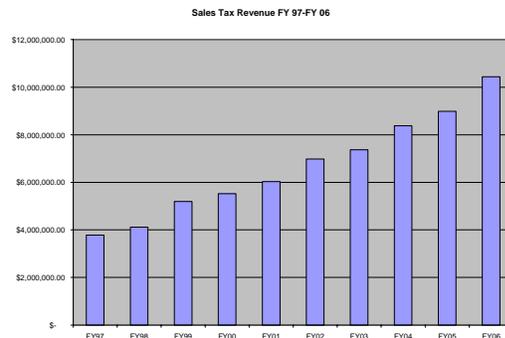
Looking back at FY 2006, Southaven witnessed tremendous new revenue potential and actualization with the opening of the Southaven Towne Center.

This open-air regional shopping center constructed by CBL, Inc with public improvements being completed with the assistance of state, county and municipal financing has been very successful.

Adding to the City's already strong retail base, FY 2006 Southaven witnessed the opening of the Southaven Towne Center. The Towne Center is a regional

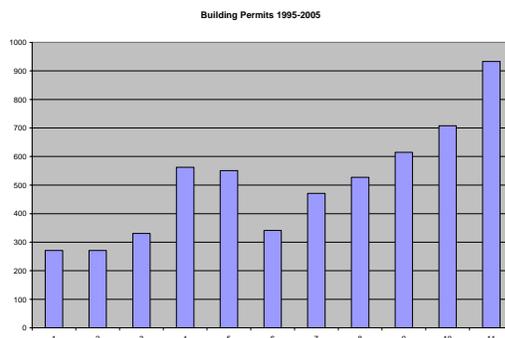
shopping center that has fast become a commercial and economical success.

FY 2006 witnessed a sales tax revenue increase of some \$1.4 million over the previous year and we can now accurately forecast annual sales tax revenues topping the \$10 million mark for Southaven.



Growth in FY 2006 was not limited to sales tax revenues. New homes and new commercial businesses continue to expand and grow our tax base.

In FY 2006, Southaven issued 960 residential building permits, which represents an estimated valuation of over \$103 million. 65 commercial permits were issued representing some \$30.5 million in estimated value.



Nearly \$1.5 million was generated in the general fund budget via permitting fees and business licensing in FY 2006.

The City of Southaven's General Fund budgeted revenues exceeded our budgeted projections by 8.9%, which equates to some \$2.6 million in surplus General Fund revenues.

FY 2006 also witnessed Southaven reach all time highs in revenue generated by our parks and recreational department and facilities.

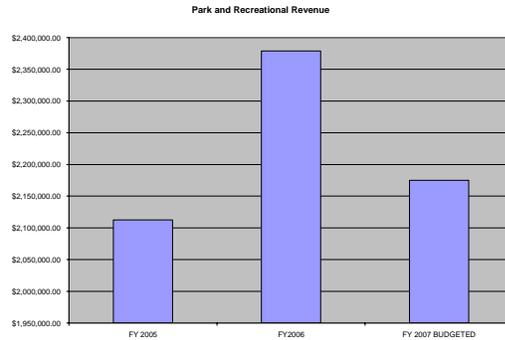
The City of Southaven parks and recreational department generated nearly \$2.4 million, or 7% of our total FY 2006 General Fund revenue.

This represents an increase of some \$300,000 over our FY 2005 revenue amount and we anticipate continued growth in our parks and recreational revenue streams for FY 2007, although we have once again budgeted this growth very conservatively.

FY 06 also witnessed the successful litigation of a suit brought against the City by a former private contractor charged with operating tournaments at Snowden Grove Park.

The litigation was successfully adjudicated with a summary judgment in favor of the City, and the City has since moved on with our tournament operations, and been very successful in doing so.

Park revenue projections for FY 2007 have been budgeted at \$2.175 million.



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

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

FY 2006 saw the hiring of six (6) new patrol officers as work continued on our public safety training facility compound.

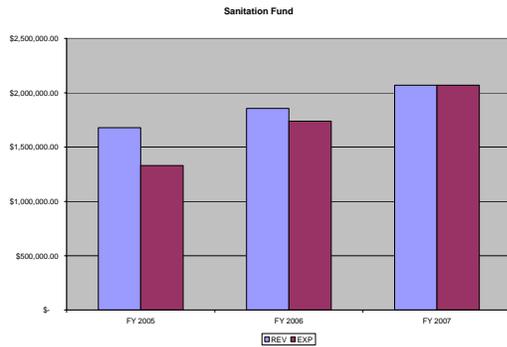
Southaven has adopted an aggressive plan to bring our total sworn officer ranks to 110 by 2010, and we are well on our way to meeting this goal.

The new hires in FY 2006 brought our total to 81 sworn officers in the department. This equates to a city wide ratio of one (1) sworn police officer for every 480 residents.

In FY 2006, Southaven privatized our sanitation service. Red River, Inc. won the competitive bid process to serve the City with sanitation collection and disposal service. The City pays for this service via the six-mill property tax allocation.

Rising employee costs and other increasing service expenses led the City to investigate and ultimately award a

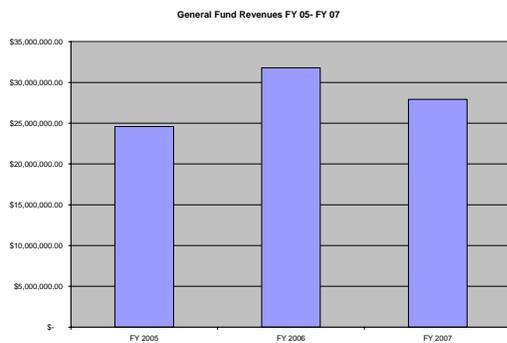
private contractor the bid for sanitation service.



FY 2007 will be the second fiscal year in which Red River will provide the City with sanitation service. The City does maintain a sanitation truck and the employees necessary to provide sanitation collection services as needed to assist Red River.

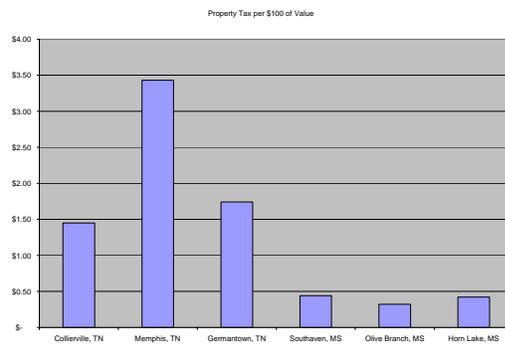
Southaven continues to experience increasing revenues as a City without raising the property tax rate once again for FY 2007.

For FY 2006, the City's tax rate remained at 44.73 mills, which equates roughly to a tax rate of \$0.45 per \$100 of valuation. In other words, if ones home is valued (assessed) at \$200,000.00, that homeowner will pay roughly \$900 a year in city property tax.



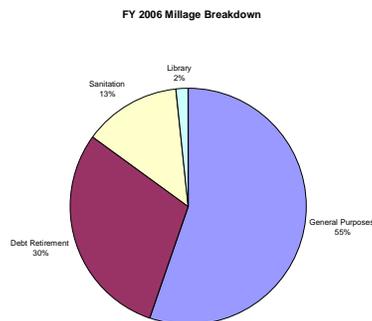
By comparison, the tax rate of Collierville, Tennessee is \$1.45 per \$100 of valuation (which would equate to some \$2,900 in property taxes for a home valued at \$200,000.00). The tax rate for the city of Memphis, Tennessee is, pending any proposed increase, \$3.43 per \$100 of valuation.

Olive Branch, Mississippi has a tax rate of \$0.32 while Horn Lake, Mississippi currently has a tax rate of \$0.42, respectively.



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

- 24.668 mills for general revenue
- 13.312 mills for debt retirement
- 6.0 mills for sanitation
- 0.75 for library

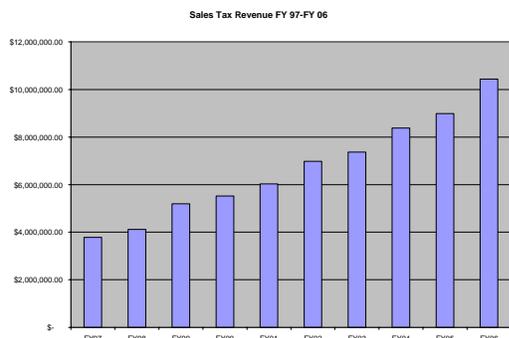


rate to cover the cost of our sanitation department.

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

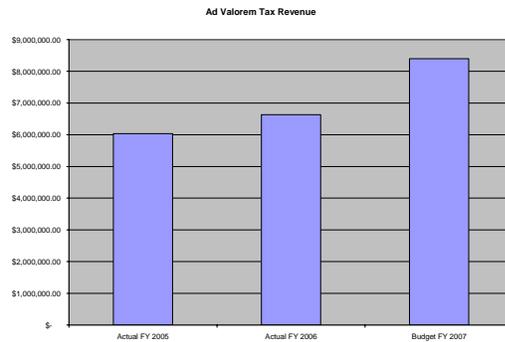
In addition to our property tax rate, the City will benefit from nearly \$10 million in sales tax revenue in FY 2006.

Southaven continues to experience tremendous retail sales growth and the revenues generated by retail/commercial sales continue to serve as a major source of revenue for the City.



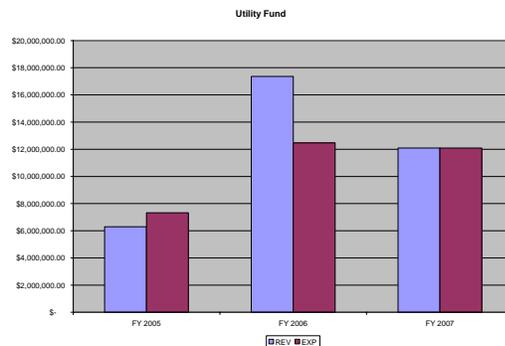
Franchise fees serve as the General Fund's third largest single revenue source for FY 2006 behind sales tax revenue and property tax revenue, respectively. We have budgeted \$950,000 in franchise fee revenue for 2006.

The City of Southaven continues to see increasing revenues generated by our residential and commercial growth as evident by our increasing property tax revenues.



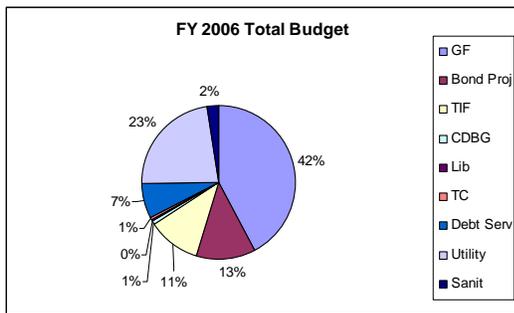
The City of Southaven's Utility Fund revenues continue to maintain their strength and continue to grow. The growth in Utility Fund revenue is more representative of increasing water usage rather than increasing costs.

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



The dramatic increase in revenues seen in FY 2006 was caused by the issuance of a \$9 million utility bond, which was issued to provide the funding for utility lines for the DeSoto County Regional Utility Authority project.

The City of Southaven's FY 2006 expenses for all governmental funds totaled \$69.7 million.



The General Fund comprises some 42% of the total city expenditures while the Southaven Utility Fund makes up 23%.

The Debt Service Fund accounts for 7% of projected revenues. The City of Southaven Sanitation Fund makes up 2% of the City's revenue while the Library Fund and the Tourism Fund both comprise 1% respectively.

Included in the FY 2006 General Fund Expenditures are contingency and "Rainy Day" un-obligated funds totaling more than \$400,000.

Major budgeted expenditures for FY 2006 also include \$8.865 million in utility system improvements; \$1.7 million for sanitation service; \$675,000 for facility management; \$760,000 for street and ditch improvements; \$610,000 for litigation expenses; \$565,000 for liability insurance; \$1.385 million for Capital Improvements and over \$4.5 million for the new M.R. Davis Library.

BASIC FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets
September 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in bank and on hand	\$ 10,705,474	\$ 6,762,091	\$ 17,467,565
Accounts receivable	420,928	569,742	990,670
Intergovernmental receivable	1,147,770	-	1,147,770
Franchise tax receivable	413,892	-	413,892
Prepaid expense	28,939	-	28,939
Due from other funds	4,609,513	1,141,571	5,751,084
Restricted assets:			
Cash in bank	-	508,761	508,761
Bond issue costs (net)	221,799	271,975	493,774
Deferred loss on bond refunding	-	264,916	264,916
Fixed assets (net, where applicable, of accumulated depreciation)	83,280,092	29,187,635	112,467,727
Total assets and other debits	100,828,407	38,706,691	139,535,098
Liabilities			
Accounts payable	3,410,652	1,406,686	4,817,338
Customer deposits	-	508,761	508,761
Due to other funds	4,537,864	1,213,220	5,751,084
Current liabilities			
General obligation bonds payable	2,115,000	140,000	2,255,000
Loans payable	2,811,277	745,865	3,557,142
Leases payable	148,186	17,357	165,543
Revenue bonds payable	1,245,000	495,000	1,740,000
Compensated absences	393,411	16,308	409,719
Noncurrent liabilities			
General obligation bonds payable	37,475,000	660,000	38,135,000
Loans payable	7,947,042	4,740,297	12,687,339
Leases payable	329,419	9,877	339,296
Revenue bonds payable	9,620,000	15,110,000	24,730,000
Total liabilities	70,032,851	25,063,371	95,096,222
Net assets			
Invested in capital assets, net of related debt	21,195,757	7,252,931	28,448,688
Restricted for:			
Capital projects	2,562,705	-	2,562,705
Debt service	-	-	-
Unrestricted	7,037,094	6,390,389	13,427,483
Total net assets	\$ 30,795,556	\$ 13,643,320	\$ 44,438,876

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Activities
September 30, 2006

	Program Revenues			Net (Expenses)Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities						
General government	\$ 3,285,429	\$ 3,146,029	\$ -	\$ (139,400)	\$ -	\$ (139,400)
Public safety	11,562,185	2,406,698	-	(9,155,487)	-	(9,155,487)
Public works	1,306,348	-	-	(1,306,348)	-	(1,306,348)
Cultural and recreational	4,156,674	2,397,366	-	(1,759,308)	-	(1,759,308)
Health and welfare	197,406	30,753	-	(166,653)	-	(166,653)
Other	1,973,878	-	-	(1,973,878)	-	(1,973,878)
Interest on long-term debt	2,561,718	-	-	(2,561,718)	-	(2,561,718)
Library	231,000	-	-	(231,000)	-	(231,000)
Depreciation	5,272,051	-	-	(5,272,051)	-	(5,272,051)
Facilities management	668,775	-	-	(668,775)	-	(668,775)
Insurance	552,003	-	-	(552,003)	-	(552,003)
Tourist and convention	428,528	308,137	-	(120,391)	-	(120,391)
Total governmental activities	<u>32,195,995</u>	<u>8,288,983</u>	<u>-</u>	<u>(23,907,012)</u>	<u>-</u>	<u>(23,907,012)</u>
Business-type activities						
Interest on long-term debt	1,513,221	-	-	-	(1,513,221)	(1,513,221)
Water and sanitation	5,341,143	8,279,050	-	-	2,937,907	2,937,907
Total business-type activities	<u>6,854,364</u>	<u>8,279,050</u>	<u>-</u>	<u>-</u>	<u>1,424,686</u>	<u>1,424,686</u>
General revenues						
Taxes				13,097,851	1,717,028	14,814,879
Intergovernmental				11,542,658	-	11,542,658
Rents				424,409	-	424,409
Penalty and interest				89,498	-	89,498
Interest				658,306	22,582	680,888
Grant proceeds				432,885	-	432,885
Miscellaneous				997,424	219,041	1,216,465
Sale of assets				(74,908)	(12,372)	(87,280)
Total general revenues				<u>27,168,123</u>	<u>1,946,279</u>	<u>29,114,402</u>
Change in net assets				3,261,111	3,370,965	6,632,076
Net assets-beginning of year				27,696,734	10,272,355	37,969,089
Prior period adjustments				(162,289)	-	(162,289)
Net assets-end of year				<u>\$ 30,795,556</u>	<u>\$ 13,643,320</u>	<u>\$ 44,438,876</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
 Balance Sheet
 Governmental Funds
 September 30, 2006

	General Fund	Bond Funded Capital Project	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in bank and on hand	\$ 4,244,041	\$ 4,253,110	\$ -	\$ 2,208,323	\$ 10,705,474
Due from other funds	2,626,004	920,091	532,845	530,573	4,609,513
Accounts receivable	420,928	-	-	-	420,928
Intergovernmental receivable	1,143,213	-	-	4,557	1,147,770
Franchise tax receivable	413,892	-	-	-	413,892
Prepaid expenses	450	28,489	-	-	28,939
Total assets	<u>\$ 8,848,528</u>	<u>\$ 5,201,690</u>	<u>\$ 532,845</u>	<u>\$ 2,743,453</u>	<u>\$ 17,326,516</u>
Liabilities					
Accounts payable	\$ 1,482,160	\$ 368,432	\$ -	\$ 498,685	\$ 2,349,277
Due to other funds	911,650	2,270,553	532,845	822,816	4,537,864
Total liabilities	<u>2,393,810</u>	<u>2,638,985</u>	<u>532,845</u>	<u>1,321,501</u>	<u>6,887,141</u>
Fund balances					
Reserved for:					
Capital projects	-	2,562,705	-	-	2,562,705
Debt service	-	-	-	-	-
Unreserved	6,454,718	-	-	1,421,952	7,876,670
Total fund balances	<u>6,454,718</u>	<u>2,562,705</u>	<u>-</u>	<u>1,421,952</u>	<u>10,439,375</u>
Total liabilities and fund balances	<u>\$ 8,848,528</u>	<u>\$ 5,201,690</u>	<u>\$ 532,845</u>	<u>\$ 2,743,453</u>	<u>\$ 17,326,516</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Assets
 September 30, 2006

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

Total Fund Balance - Governmental Funds \$ 10,439,375

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	2,961,692	
Buildings and improvements	35,451,833	
Equipment and vehicles	8,509,456	
Infrastructure	55,126,556	
Construction in progress	7,014,455	
Accumulated depreciation	(25,783,900)	
Bond issue cost	221,799	
	83,501,891	83,501,891

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	(10,758,319)	
Leases payable	(477,605)	
General obligation and revenue bonds	(50,455,000)	
Accrued expenses	(1,061,375)	
Compensated absences	(393,411)	
	(63,145,710)	(63,145,710)

Net Assets of Governmental Activities \$ 30,795,556

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2006

	General Fund	Bond Funded Capital Project	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 7,381,905	\$ -	\$ 5,479,031	\$ 236,914	\$ 13,097,850
Licenses and permits	3,146,029	-	-	-	3,146,029
Intergovernmental	11,434,568	-	-	108,090	11,542,658
Charges for services	3,226,367	-	-	308,137	3,534,504
Fines	1,608,450	-	-	-	1,608,450
Interest	623,838	10,997	-	23,470	658,305
Miscellaneous	1,089,635	2,072	-	38,492	1,130,199
Total revenues	<u>28,510,792</u>	<u>13,069</u>	<u>5,479,031</u>	<u>715,103</u>	<u>34,717,995</u>
Expenditures					
Administrative	3,561,334	-	-	-	3,561,334
Capital outlay	1,172,178	4,932,520	-	7,064,759	13,169,457
Culture & recreation	6,025,770	-	-	-	6,025,770
Facilities management	668,775	-	-	-	668,775
Fire	5,554,034	-	-	-	5,554,034
Health & welfare	197,406	-	-	-	197,406
Insurance	552,003	-	-	-	552,003
Library	-	-	-	231,000	231,000
Miscellaneous	2,758,983	-	-	270	2,759,253
Police	6,524,208	-	-	-	6,524,208
Public works	1,304,855	-	-	-	1,304,855
Tourism & convention	-	-	-	428,528	428,528
Debt service					
Principal	-	-	2,952,813	-	2,952,813
Interest	-	-	2,561,718	-	2,561,718
Total expenditures	<u>28,319,546</u>	<u>4,932,520</u>	<u>5,514,531</u>	<u>7,724,557</u>	<u>46,491,154</u>
Excess (deficiency) of revenues over (under) expenditures	<u>191,246</u>	<u>(4,919,451)</u>	<u>(35,500)</u>	<u>(7,009,454)</u>	<u>(11,773,159)</u>
Other financing sources (uses)					
Grant revenue	-	-	-	432,885	432,885
Rents	424,409	-	-	-	424,409
Sale of assets	5,227	-	-	-	5,227
Interfund transfers	(35,500)	-	35,500	-	-
Loan proceeds	-	6,400,000	-	-	6,400,000
Lease proceeds	-	-	-	-	-
Bond proceeds	-	-	-	9,200,000	9,200,000
Total other financing sources (uses)	<u>394,136</u>	<u>6,400,000</u>	<u>35,500</u>	<u>9,632,885</u>	<u>16,462,521</u>
Net change in fund balances	585,382	1,480,549	-	2,623,431	4,689,362
Fund balance - beginning of year	<u>5,869,336</u>	<u>1,082,156</u>	<u>-</u>	<u>(1,201,479)</u>	<u>5,750,013</u>
Fund balance - end of year	<u>\$ 6,454,718</u>	<u>\$ 2,562,705</u>	<u>\$ -</u>	<u>\$ 1,421,952</u>	<u>\$ 10,439,375</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
 Reconciliation of Revenues, Expenditures, and Changes in Fund
 Balances of Government Funds to the Statement of Activities
 For The Year Ended September 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 4,689,362

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

Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$16,266,194) exceeded depreciation (\$5,256,744) and amortization expense (\$15,306) in the current period. 10,994,144

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 (\$15,600,000) exceeded repayments (\$3,212,309). (12,387,691)

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 is compensated absences payable. (34,704)

Change in Net Assets of Governmental Activities \$ 3,261,111

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Assets
Proprietary Funds
For the Year Ended September 30, 2006

	Utility Fund	Sanitation Fund	Total
Assets			
Current assets			
Cash in bank and on hand	\$ 5,550,266	\$ 1,211,825	\$ 6,762,091
Accounts receivable(net of allowance for doubtful accounts)	563,147	6,595	569,742
Due from other funds	-	1,141,571	1,141,571
Total current assets	6,113,413	2,359,991	8,473,404
Restricted assets:			
Cash	508,761	-	508,761
Other assets			
Deferred loss on bond refunding	264,916	-	264,916
Bond issue cost (net)	271,975	-	271,975
Total other assets	536,891	-	536,891
Fixed assets			
Land	300,580	-	300,580
Buildings	19,552	-	19,552
Improvements	5,696	-	5,696
Machinery and equipment	30,266,955	208,651	30,475,606
Vehicles	72,156	1,234,003	1,306,159
Construction in progress	4,781,811	-	4,781,811
Accumulated depreciation	(6,864,000)	(837,769)	(7,701,769)
Total fixed assets	28,582,750	604,885	29,187,635
Total assets	\$ 35,741,815	\$ 2,964,876	\$ 38,706,691
Liabilities and fund equity			
Current liabilities			
Accounts payable	\$ 1,235,380	\$ 171,305	\$ 1,406,685
Due to other funds	1,206,441	6,780	1,213,221
Total current liabilities	2,441,821	178,085	2,619,906
Current liabilities payable from restricted assets			
Leases payable	17,357	-	17,357
Notes payable	745,865	-	745,865
Revenue bonds payable	495,000	-	495,000
General obligation bond payable	140,000	-	140,000
Compensated absences	16,308	-	16,308
Customer deposits	508,761	-	508,761
Total current liabilities payable from restricted assets	1,923,291	-	1,923,291
Long-term liabilities			
Leases payable	9,877	-	9,877
Notes payable	4,740,297	-	4,740,297
Revenue bonds payable	15,110,000	-	15,110,000
General obligation bond payable	660,000	-	660,000
Total long-term liabilities	20,520,174	-	20,520,174
Total liabilities	24,885,286	178,085	25,063,371
Fund equity			
Net assets	10,856,529	2,786,791	13,643,320
Total fund equity	10,856,529	2,786,791	13,643,320
Total liabilities and fund equity	\$ 35,741,815	\$ 2,964,876	\$ 38,706,691

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2006

	<u>Utility</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues			
Taxes	\$ -	\$ 1,717,028	\$ 1,717,028
Water and sewer sales	8,238,894	40,156	8,279,050
Miscellaneous	<u>120,344</u>	<u>98,697</u>	<u>219,041</u>
Total operating revenues	<u>8,359,238</u>	<u>1,855,881</u>	<u>10,215,119</u>
Operating expenses			
Personnel	745,420	254,266	999,686
Supplies	520,870	31,164	552,034
Depreciation	654,511	216,650	871,161
Maintenance and other	1,485,900	64,710	1,550,610
Professional services	<u>304,188</u>	<u>1,063,464</u>	<u>1,367,652</u>
Total operating expenses	<u>3,710,889</u>	<u>1,630,254</u>	<u>5,341,143</u>
Operating income	<u>4,648,349</u>	<u>225,627</u>	<u>4,873,976</u>
Non-operating revenues (expenses)			
Interest revenue	18,932	3,650	22,582
Interest expense	(1,513,221)	-	(1,513,221)
Sale of assets	<u>(12,372)</u>	<u>-</u>	<u>(12,372)</u>
Total non-operating revenues (expenses)	<u>(1,506,661)</u>	<u>3,650</u>	<u>(1,503,011)</u>
Net income	3,141,688	229,277	3,370,965
Net assets - beginning of year	<u>7,714,841</u>	<u>2,557,514</u>	<u>10,272,355</u>
Net assets - end of year	<u>\$ 10,856,529</u>	<u>\$ 2,786,791</u>	<u>\$ 13,643,320</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2006

	Utility Fund	Sanitation Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 8,244,870	\$ 1,851,261	\$ 10,096,131
Cash payments for goods and services	(1,229,826)	(1,009,564)	(2,239,390)
Cash payments to employees	(744,705)	(260,302)	(1,005,007)
Net cash provided by operating activities	<u>6,270,339</u>	<u>581,395</u>	<u>6,851,734</u>
Cash flows from noncapital financing activities			
Payment of due to	-	(1,069)	(1,069)
Receipt of due from	(1,347,000)	(1,053,878)	(2,400,878)
Net cash provided by noncapital financing activities	<u>(1,347,000)</u>	<u>(1,054,947)</u>	<u>(2,401,947)</u>
Cash flows from capital and related financing activities			
Payments for capital acquisitions	(6,121,047)	(81,166)	(6,202,213)
Customer deposits	31,764	-	31,764
Loan proceeds	9,025,309	-	9,025,309
Principal payments on debt	(1,903,596)	-	(1,903,596)
Interest payments on debt	(1,513,221)	-	(1,513,221)
Net cash provided by capital and related financing activities	<u>(480,791)</u>	<u>(81,166)</u>	<u>(561,957)</u>
Cash flows from investing activities			
Receipts of interest	<u>18,932</u>	<u>3,650</u>	<u>22,582</u>
Net increase in cash and cash equivalents	4,461,480	(551,068)	3,910,412
Cash and cash equivalents-beginning of year	<u>1,597,547</u>	<u>1,762,893</u>	<u>3,360,440</u>
Cash and cash equivalents-end of year	<u>\$ 6,059,027</u>	<u>\$ 1,211,825</u>	<u>\$ 7,270,852</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	<u>\$ 4,648,349</u>	<u>\$ 225,627</u>	<u>\$ 4,873,976</u>
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	654,511	216,650	871,161
(Increase) decrease in customer receivables	(114,368)	(4,620)	(118,988)
Increase (decrease) in accounts payable	1,081,132	149,774	1,230,906
Increase (decrease) in accrued expenses	715	(6,036)	(5,321)
Total adjustments	<u>1,621,990</u>	<u>355,768</u>	<u>1,977,758</u>
Net cash provided by operating activities	<u>\$ 6,270,339</u>	<u>\$ 581,395</u>	<u>\$ 6,851,734</u>

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

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

A. General Statement

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

The financial statements of the City of Southaven have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's most significant accounting polices are described below.

B. Reporting Entity:

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

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

C. Encumbrance Accounting:

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

D. Fund Accounting:

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

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

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

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

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

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

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

E. Basis of Accounting:

Government-Wide Financial Statements

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

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

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

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

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

Fund Financial Statements

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

Governmental Funds

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

F. Capital Assets and Depreciation

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

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

G. Budgets and Budgetary Accounting:

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

1. *Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them*
2. *A public hearing is conducted at City Hall.*
3. *Prior to October 1, the budget is legally enacted through passage of ordinance.*
4. *The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.*
5. *The actual receipts and disbursements are accumulated each month and compared to the budgeted amounts and reviewed by the Mayor and Board of Aldermen. Any revisions on the budget during the year are approved by the Board of Aldermen.*

H. Revenue Recognition:

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

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

I. Expenditure Recognition

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

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility and hospital service receivables are recorded at depreciation, are recorded in proprietary funds. Proprietary fund types have selected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20.

J. Compensated Absences:

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

K. Net Assets

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

(2) Cash and Investments:

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

(3) Property Tax

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

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

(4) Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	Balance at 9/30/2005	Additions	Deletions	Balance at 9/30/2006
<i>Governmental activities:</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,592,136	\$ 1,369,556	\$ -	\$ 2,961,692
Construction in progress	4,880,444	7,029,291	4,895,280	7,014,455
Total capital assets, not being depreciated:	<u>6,472,580</u>	<u>8,398,847</u>	<u>4,895,280</u>	<u>9,976,147</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	23,114,940	12,336,894	-	35,451,834
Equipment and vehicles	6,160,268	2,851,962	502,775	8,509,455
Infrastructure	53,467,392	1,659,164	-	55,126,556
Total capital assets, being depreciated:	<u>82,742,600</u>	<u>16,848,020</u>	<u>502,775</u>	<u>99,087,845</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(3,003,189)	(969,372)	-	(3,972,561)
Equipment and vehicles	(3,235,724)	(1,558,697)	(379,363)	(4,415,058)
Infrastructure	(14,667,606)	(2,728,675)	-	(17,396,281)
Total accumulated depreciation	<u>(20,906,519)</u>	<u>(5,256,744)</u>	<u>(379,363)</u>	<u>(25,783,900)</u>
Total capital assets, being depreciated, net	<u>61,836,081</u>	<u>11,591,276</u>	<u>123,412</u>	<u>73,303,945</u>
Governmental activities capital assets, net	<u>\$ 68,308,661</u>	<u>\$ 19,990,123</u>	<u>\$ 5,018,692</u>	<u>\$ 83,280,092</u>
<i>Business-type activities:</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 300,580	\$ -	\$ -	\$ 300,580
Construction in progress	-	4,781,811	-	4,781,811
Total capital assets, not being depreciated:	<u>300,580</u>	<u>4,781,811</u>	<u>-</u>	<u>5,082,391</u>
<i>Capital assets, being depreciated:</i>				
Buildings	19,552	-	-	19,552
Infrastructure	29,003,966	1,072,964	-	30,076,930
Improvements	5,696	-	-	5,696
Equipment	127,485	288,054	16,863	398,676
Vehicles	1,395,134	59,383	148,358	1,306,159
Total capital assets, being depreciated:	<u>30,551,833</u>	<u>1,420,401</u>	<u>165,221</u>	<u>31,807,013</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(19,552)	-	-	(19,552)
Infrastructure	(6,291,407)	(603,057)	-	(6,894,464)
Improvements	(5,696)	-	-	(5,696)
Equipment	(55,694)	(75,900)	(16,863)	(114,731)
Vehicles	(662,561)	(140,751)	(135,986)	(667,326)
Total accumulated depreciation	<u>(7,034,910)</u>	<u>(819,708)</u>	<u>(152,849)</u>	<u>(7,701,769)</u>
Total capital assets, being depreciated, net	<u>23,516,923</u>	<u>600,693</u>	<u>12,372</u>	<u>24,105,244</u>
Business-type activities capital assets, net	<u>\$ 23,817,503</u>	<u>\$ 5,382,504</u>	<u>\$ 12,372</u>	<u>\$ 29,187,635</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

Commitments under construction contracts at September 30, 2006 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
Library	\$ 5,000,000	\$ 4,700,000
Rasco Road	1,100,000	209,470
Stateline Road	1,100,000	100,000
Towne Center	9,200,000	1,100,000
Firing Range/Training Facility	2,000,000	142,474
Conair	495,248	124,420
Helen of Troy	596,869	34,193
		<u>\$ 6,410,557</u>

(5) Long-Term Debt

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:

General obligation bonds

<i>Description</i>	<i>Interest Rate</i>	<i>Issue Date</i>	<i>Maturity Date</i>	<i>Amounts Issued</i>	<i>Outstanding</i>
1998	3.65%	1-Oct-98	1-Oct-18	3,500,000	2,490,000
	4.20%				
1998	5.00%	1-Mar-99	1-Sep-08	1,045,000	245,000
1998	6.00%	1-Mar-99	1-Sep-08	285,000	70,000
1998	4.00%	1-Sep-98	1-Sep-13	1,700,000	940,000
	5.88%				
1999	4.30%	1-Jun-99	1-Jun-19	2,500,000	1,870,000
	6.13%				
1999	4.13%	1-Sep-99	1-Sep-19	5,000,000	3,790,000
	5.75%				
2001	5.50%	1-Mar-00	1-Mar-20	6,000,000	5,160,000
2000	4.75%	1-Oct-00	1-Nov-20	5,000,000	4,195,000
	6.75%				
2000	4.50%	1-Oct-01	1-Oct-21	5,000,000	4,145,000
	5.25%				
2003	3.64%	1-Jul-03	1-Jul-23	4,000,000	3,610,000
2004	4.24%	11-Mar-04	1-Mar-24	4,500,000	4,215,000
2004	4.02%	1-Dec-04	1-Dec-24	4,500,000	4,360,000
2005	3.97%	1-Dec-05	1-Dec-25	4,500,000	4,500,000
<i>Total general obligation bonds</i>				<u>\$ 47,530,000</u>	<u>\$ 39,590,000</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

Notes outstanding at year end are as follows:

<i>Notes</i>	<i>Interest</i>	<i>Issue</i>	<i>Maturity</i>	<i>Amounts</i>	
<i>Description</i>	<i>Rate</i>	<i>Date</i>	<i>Date</i>	<i>Issued</i>	<i>Outstanding</i>
<i>MS DECD</i>	3.00%	15-Apr-98	1-Aug-08	\$ 629,802	\$ 135,767
<i>Whitten Family Trust</i>	6.00%	27-Jun-03	21-Jun-13	575,640	383,760
<i>MS Development Bank - 2001</i>	3.00%	7-Jun-02	7-Jun-22	453,831	359,283
<i>MS Development Bank - 2001</i>	3.00%	11-Dec-02	11-Dec-22	3,357,883	2,714,288
<i>MS Dept of Health DWSLRF</i>	3.00%	1-Dec-02	1-Sep-22	1,400,961	1,212,813
<i>MS Dept of Health DWSLRF</i>	3.00%	1-Jan-03	1-Oct-22	1,361,525	1,177,637
<i>MS Dept of Health DWSLRF</i>	3.00%	1-Jul-03	1-Apr-23	1,250,436	1,108,176
<i>MS Development Bank - 2004</i>	3.00%	11-Mar-04	1-Feb-24	1,188,287	1,034,802
<i>MS Dept of Health DWSLRF</i>	4.00%	20-Sep-04	1-Jul-24	1,425,168	1,330,738
<i>Bancorpsouth -2004</i>	4.24%	30-Jan-04	30-Jan-14	775,000	644,999
<i>Bancorpsouth - 2004</i>	4.24%	24-Feb-04	5-Mar-14	450,000	374,651
<i>Bancorpsouth - 2005</i>	4.08%	1-Feb-06	1-Feb-16	4,000,000	3,867,567
<i>Merchants & Farmers - 2005</i>	4.10%	1-Aug-06	1-Aug-16	1,900,000	1,900,000
<i>Total notes</i>				<u>\$ 18,768,533</u>	<u>\$ 16,244,481</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

TIF bonds outstanding at year end are as follows:

TIF Bonds

<i>Description</i>	<i>Interest Rate</i>	<i>Issue Date</i>	<i>Maturity Date</i>	<i>Amounts Issued</i>	<i>Outstanding</i>
1995 K Mart		1-Jun-95	1-Jun-10	\$ 320,000	\$ 105,000
1999 S Lake Phase I	4.95%	2-Mar-99	1-Mar-19	560,000	415,000
1999 S Lake Phase II	4.45%	1-Mar-01	1-Mar-09	1,900,000	795,000
	4.60%				
2001 Sam's Club	4.93%	1-Apr-01	1-Apr-13	500,000	350,000
	5.30%				
2005A Towne Cener	4.07%	30-Sep-06	30-Sep-20	5,000,000	5,000,000
	4.63%				
2005B Towne Center	5.94%	30-Sep-06	30-Sep-20	4,200,000	4,200,000
	6.64%				
<i>Total TIF Bonds</i>				<u>\$ 12,480,000</u>	<u>\$ 10,865,000</u>

Revenue bonds outstanding at year end are as follows:

Revenue Bonds

<i>Description</i>	<i>Interest Rate</i>	<i>Issue Date</i>	<i>Maturity Date</i>	<i>Amounts Issued</i>	<i>Outstanding</i>
1996 Water/Sewer	4.10%	1-Mar-96	1-Mar-11	\$ 1,850,000	\$ 800,000
	5.25%				
1998 Water/Sewer	4.05%	1-Jun-98	1-Sep-12	4,185,000	2,385,000
	4.65%				
2003 Water/Sewer	4.00%	23-Dec-03	1-Dec-23	4,500,000	4,220,000
	4.65%				
2006 Water/Sewer	4.00%	1-Mar-06	1-Mar-31	9,000,000	9,000,000
	5.50%				
<i>Total Revenue Bonds</i>				<u>\$ 19,535,000</u>	<u>\$ 16,405,000</u>

Annual requirements to retire debt obligations.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

The aggregate maturities of general obligation bonds and loans for the years subsequent to September 30, 2006 as follows:

Year Ending September 30	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
2007	\$ 3,590,748	\$ 2,803,243	\$ 1,295,211	\$ 1,225,664
2008	3,652,540	2,542,845	1,352,447	993,624
2009	3,583,843	2,376,451	1,311,727	875,167
2010	3,457,584	2,216,700	1,212,659	707,028
2011	3,601,702	2,064,013	1,270,646	655,936
2012-2016	21,472,354	7,812,354	4,222,755	2,712,065
2017-2021	17,171,169	2,910,523	4,671,765	1,871,833
2022-2026	4,683,379	362,892	3,788,952	956,256
2022-2026	-	-	2,765,000	322,140
Total	\$ 61,213,319	\$ 23,089,021	\$ 21,891,162	\$ 10,319,713

Long-term activity for the year ended September 30, 2006 was as follows:

	Balance at 9/30/2005	Additions	Deletions	Balance at 9/30/2006	Amounts Due Within One Year
<i>Governmental activities:</i>					
General obligation bonds payable	\$ 37,445,000	\$ 4,500,000	\$ 2,355,000	\$ 39,590,000	\$ 2,115,000
Revenue bonds payable	2,000,000	9,200,000	335,000	10,865,000	1,245,000
Notes payable	5,227,780	5,900,000	369,461	10,758,319	2,811,277
Leases payable	630,453	-	152,848	477,605	148,186
Compensated absences	358,707	34,704	-	393,411	-
Governmental activities long-term liabilities	\$ 45,661,940	\$ 19,634,704	\$ 3,212,309	\$ 62,084,335	\$ 6,319,463
<i>Business-type activities:</i>					
General obligation bonds payable	\$ 935,000	\$ -	\$ 135,000	\$ 800,000	\$ 140,000
Revenue bonds payable	7,080,000	9,000,000	475,000	15,605,000	495,000
Notes payable	6,511,553	-	1,025,392	5,486,161	745,865
Leases payable	43,502	25,309	41,577	27,234	17,357
Compensated absences	21,629	-	5,321	16,308	-
Business-type activities long-term liabilities	\$ 14,591,684	\$ 9,025,309	\$ 1,682,290	\$ 21,934,703	\$ 1,398,222

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

(6) Capital Leases

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2006 were as follows:

Year Ending September 30	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
2007	\$ 148,186	\$ 18,957	\$ 17,357	\$ 1,259
2008	329,419	11,979	9,877	202
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012-2016	\$ 477,605	\$ 30,936	\$ 27,234	\$ 1,461
<i>Total</i>				

(7) Defined Benefit Pension Plan

Plan Description. The City of Southaven contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS39201-1005 or by calling (601) 359-3589 or 1-800-444 PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Southaven is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Southaven's contributions to PERS for the year ending September 30, 2006, and 2005, were \$1,205,187, and 1,026,751 respectively, equal to the required contributions for each year.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

(8) Interfund Receivables and Payables

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
<i>General fund</i>		
<i>Airways fund</i>	\$ -	\$ 132,888
<i>Tourism fund</i>	37,773	-
<i>Utility fund</i>	222,511	-
<i>Debt service fund</i>	-	906,865
<i>Park bond fund</i>	2,270,553	-
<i>Sanitation fund</i>	-	245,917
<i>CDBG fund</i>	180,228	-
<i>Universal hiring fund</i>	288,960	-
<i>Total general fund</i>	<u>3,000,025</u>	<u>1,285,670</u>
<i>Capital project fund</i>		
<i>General fund</i>	-	2,270,553
<i>TIF fund</i>	309,192	-
<i>Tourism fund</i>	6,780	-
<i>Debt service fund</i>	211,465	-
<i>Utility fund</i>	392,655	-
<i>Total capital project fund</i>	<u>920,092</u>	<u>2,270,553</u>
<i>Debt service fund</i>		
<i>Sanitation fund</i>	-	321,380
<i>General fund</i>	532,845	-
<i>Park bond fund</i>	-	211,465
<i>Total debt service fund</i>	<u>532,845</u>	<u>532,845</u>
<i>Other governmental funds</i>		
<i>General fund</i>	513,572	506,960
<i>Utility fund</i>	17,000	-
<i>TIF fund</i>	-	6,664
<i>Park bond fund</i>	-	309,192
<i>Total other governmental funds</i>	<u>530,572</u>	<u>822,816</u>
<i>Utility fund</i>		
<i>Sanitation fund</i>	-	574,274
<i>TIF fund</i>	-	17,000
<i>General fund</i>	-	222,511
<i>Park bond fund</i>	-	392,656
<i>Total utility fund</i>	<u>-</u>	<u>1,206,441</u>
<i>Sanitation fund</i>		
<i>Utility fund</i>	574,274	-
<i>Debt service fund</i>	321,380	-
<i>General fund</i>	245,917	-
<i>Tourism fund</i>	-	6,780
<i>Total sanitation fund</i>	<u>1,141,571</u>	<u>6,780</u>
<i>Total</i>	<u>\$ 6,125,105</u>	<u>\$ 6,125,105</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2006

(9) Intergovernmental Receivables

Intergovernmental Receivables consist of the following:

	<u>General Fund</u>
<i>County pro rata</i>	
<i>Ad valorem</i>	\$ 228,960
<i>Franchise and Sales tax</i>	898,538
<i>Miscellaneous</i>	<u>15,715</u>
 <i>Totals</i>	 <u>\$ 1,143,213</u>

(10) Risk Management

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

(11) Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

<i>Governmental Activities Explanations</i>	<u>Amount</u>
<i>(1) A BancorpSouth Note was omitted during the previous year, resulting in an understatement. A prior period adjustment is required to correct fund balance.</i>	(\$ 4,000,000)
<i>(2) The BancorpSouth Sports Building was omitted from the previous year's fixed asset list resulting in a understatement. A prior period adjustment is required to correct fund balance.</i>	<u>3,837,711</u>
	<u>\$ 162,289</u>

CITY OF SOUTHAVEN, MISSISSIPPI
 Budgetary Comparison Schedule
 September 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,657,000	\$ 6,942,500	\$ 6,238,691	\$ (703,809)
Licenses and permits	1,974,000	2,731,000	2,732,137	1,137
Intergovernmental	9,831,000	10,530,885	11,437,408	906,523
Charges for services	2,460,000	2,586,500	2,805,440	218,940
Fines	1,340,000	1,390,000	1,608,450	218,450
Interest	50,000	300,000	623,838	323,838
Miscellaneous	705,000	4,177,100	1,089,635	(3,087,465)
Total revenues	<u>23,017,000</u>	<u>28,657,985</u>	<u>26,535,599</u>	<u>(2,122,386)</u>
Expenditures				
Administrative	3,394,202	3,741,466	3,416,314	325,152
Culture & recreation	3,907,699	5,700,199	5,815,951	(115,752)
Facilities management	525,000	675,000	668,775	6,225
Fire	5,522,890	5,696,990	5,434,504	262,486
Health & welfare	192,841	197,841	193,006	4,835
Insurance	565,000	565,000	552,003	12,997
Miscellaneous	1,411,235	3,117,760	3,286,161	(168,401)
Police	6,483,651	6,715,747	6,313,385	402,362
Public works	1,587,482	1,540,482	1,176,853	363,629
Total expenditures	<u>23,590,000</u>	<u>27,950,485</u>	<u>26,856,952</u>	<u>1,093,533</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(573,000)</u>	<u>707,500</u>	<u>(321,353)</u>	<u>(3,215,919)</u>
Other financing sources (uses)				
Lease proceeds	-	-	-	-
Rents	393,000	413,000	424,409	11,409
Sale of assets	100,000	100,000	5,227	(94,773)
Interfund transfers	100,000	164,500	(35,500)	(200,000)
Lease proceeds	-	-	-	-
Loan proceeds	-	-	-	-
Total other financing sources(uses)	<u>593,000</u>	<u>677,500</u>	<u>394,136</u>	<u>(283,364)</u>
Net changes in fund balances	<u>\$ 20,000</u>	<u>\$ 1,385,000</u>	<u>72,783</u>	<u>\$ (3,499,283)</u>
Fund balance - beginning of year			<u>5,869,336</u>	
Fund balance - end of year			5,942,119	
Adjustments to conform with GAAP:				
Revenues			1,978,032	
Expenditures			<u>(1,465,433)</u>	
Fund balance - end of year(GAAP basis)			<u>\$ 6,454,718</u>	

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

CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Federal Awards
 September 30, 2006

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u> Community Block Development Grant - State Programs	14.228	
Contract # 1121-04-346-ED-01		\$ 364,328
Contract # 1119-02-346-ED-02		<u>25,986</u>
		<u>390,314</u>
<u>U.S. Department of Homeland Security - FEMA</u> Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	344,848
<u>U.S. Department of Justice</u> Edward Byrne Memorial Justice Assistance	16.738	18,500
COPS Technology Initiative Grant	16.710	71,885
<u>U.S. Environmental Pollution Agency</u> Solid Waste Management Assistance Grant	66.808	<u>2,500</u>
Total Other Federal Awards		437,733
Total all Federal Awards		<u>\$ 828,047</u>

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

CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Surety Bonds for Municipal Officials
 Year Ended September 30, 2006

Fidelity Bonds

Fidelity bonds in force at September 30, 2006 were as follows:

<u>Name</u>	<u>Position</u>	<u>Bond Amount</u>
Charles G. Davis	Mayor	\$ 100,000
Greg Guy	Alderman	100,000
James Stark	Alderman	100,000
James Loftis	Alderman	100,000
Ricky Jobs	Alderman	100,000
Lorine Cady	Alderman	100,000
Paul Ollar	Alderman	100,000
Randall Huling	Alderman	100,000
Glenda Smallwood	City Clerk	100,000
Blanket Policy Officers	Police Officer per officer	10,000
William T. Long	Police Chief	25,000
Vernon McCammon	Fire Chief	25,000
Ronnie White	Fire Marshall	10,000
Dispatchers Bond	Dispatchers per Dispatcher	2,000

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

**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, 2006, which collectively comprise the City of Southaven, Mississippi's basic financial statements and have issued our report thereon dated January 23, 2007. 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level other risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control financial reporting and its operation that we consider to be a material weakness.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Mississippi State Department of Audit and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC
Certified Public Accountants
January 23, 2007

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

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

Compliance

We have audited the compliance of the City of Southaven, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. City of Southaven, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Southaven, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with major federal program occurred. An audit includes examining, on a test basis, evidence about City of Southaven, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on City of Southaven, Mississippi's compliance with those requirements. In our opinion, City of Southaven, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of City of Southaven, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Southaven, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation or one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by

Continued

Continued

Page 2

error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC

Certified Public Accountants

January 23, 2007

**INDEPENDENT AUDITORS' REPORT ON THE CITY'S COMPLIANCE WITH THE
REQUIREMENTS OF THE STATE AUDIT DEPARTMENT, AS SET FORTH
IN THE MUNICIPAL COMPLIANCE QUESTIONNAIRE**

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

We have audited the 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, 2006, and have issued our report thereon dated January 23, 2007.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Southaven, is the responsibility of City of Southaven's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the City of Southaven complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Southaven had not complied, in all material respects, with those provisions.

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

Williams, Pitts & Beard, PLLC
Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 23, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---------------------------------------------------------------------------------------|--------------------|
| 1. | Type of auditor's report issued on the financial statements: | <u>Unqualified</u> |
| 2. | Material noncompliance relating to the financial statements? | <u>No</u> |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | <u>No</u> |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |

Federal Awards:

- | | | |
|----|---------------------------------------------------------------------------------------|--------------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | <u>No</u> |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |
| 6. | Any audit finding(s) reported as required by section _____.510(a) of Circular A-133? | <u>No</u> |
| 7. | Federal programs identified as major programs: | |
| a. | Community Block Development Grant
CFDA # 14.228 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | <u>\$300,000</u> |
| 9. | Auditee qualified as a low-risk auditee? | <u>No</u> |

CITY OF SOUTHAVEN, MISSISSIPPI
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

10. Prior fiscal year audit prior finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? _____ No

Section 2: Findings Related to the Financial Statements

The results of our test did not disclose any findings and questioned cost related to the financial statements.

Section 3: Findings Related to Federal Awards

The results of our test did not disclose any findings and questioned cost related to federal awards.