

CITY OF SOUTHAVEN, MISSISSIPPI

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2005

CITY OF SOUTHAVEN, MISSISSIPPI

**ANNUAL FINANCIAL REPORT
Year Ended September 30, 2005**

TABLE OF CONTENTS

Independent Auditors' Report 1

Management's Discussion and Analysis..... 3

General Purpose Financial Statements

Statement of Net Assets..... 11

Statement of Activities..... 12

Balance Sheet – Governmental Funds 13

*Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Assets* 14

*Statement of Revenues, Expenditures and Changes in
 Fund Balances – Governmental Funds* 15

*Reconciliation of Revenues, Expenditures, and Changes in Fund Balances
 to the Statement of Activities*..... 16

Statement of Net Assets – Proprietary Funds 17

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds 18

Statement of Cash Flows – Proprietary Funds..... 19

Notes to Financial Statements 20

Combining Financial Statements and Schedules of Individual Fund Types and Account Groups

General Fund:

Budgetary Comparison Schedule..... 34

Fidelity Bond Coverage 35

Additional Auditors' Reports

*Report on Compliance and on Internal Control over Financial
 Reporting Based on an Audit of Financial Statements Performed
 in Accordance with Government Auditing Standards*..... 37

*Independent Auditors' Report on the City's Compliance with
 the Requirements of the State Audit Department, as set
 forth in the Municipal Compliance Questionnaire* 38

*Independent Auditors' Report on the City's Compliance with
 State Laws and Regulations* 39

*Report on Compliance with Requirements Applicable to each Major Program
 And Internal Control over Compliance in Accordance with OMB Circular A-133* 40

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, 2005, 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 an opinion 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, 2005, 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 34 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 nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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 tables 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006 on our consideration of the City of Southaven's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The combining and individual fund and account group financial statements and schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Southaven, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 20, 2006

City of Southaven, Mississippi

Management's Analysis and Discussion

FY 2005



Prepared by Chris Wilson, City Administrator/CAO

City of Southaven Socioeconomic Characteristics

Population In Fiscal Year 2004, the City's population was, according to the United States Census, 28,977. This equates to roughly 30% of the total DeSoto County population. 90.3% of Southaven's population is considered white, 6.7% black and 2.3% Hispanic. Southaven's population represents nearly 30% of the total population of DeSoto County.

Age Southaven, Mississippi is a relatively young community, with the largest number of residents being between the ages of 25-34, which equates to roughly 17% of the total population. Making up nearly 16% of the population are those between the ages of 35-44. 9% of Southaven's population is age 65 and older. The median age of a Southaven resident is 33.1 years old.

Education Educational attainment can be a major factor of a community. While the area boasts a high school education level 23.4% higher than the national average, the college graduate rate is 42.9% lower than the national average and the post graduate population is 56% less than the national average.

Housing 72% of Southaven residents own their housing unit while 28% 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.

Household Economy 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 resident's 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 delivered 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, once again achieved new highs in revenues.

This portion of the City of Southaven, Mississippi's Annual Financial Report provides a narrative overview and analysis of the financial activities of the City for FY 2004. The financial performance of the City of Southaven continues to be strong. Revenues continue to grow while general fund expenditures continue to be maintained at rates lower than our growth in revenues.

The City of Southaven operates under six (6) fund accounts; the General Fund, the Capital Improvement Fund, the Library Fund, the Debt Retirement Fund, the Tourism/Promotion Fund and the Utility Fund.

Southaven's general government operates under the General Fund. The Capital Improvement Fund includes the bond funded major capital improvement items such as Field of Dreams, the Snowden Home and the Multi Purpose Arena. The Library Fund serves the M.R. Davis Library by allocating 0.75 mills specifically toward the library. Southaven pays its annual debt service schedule through the Debt Service Fund via dedicated millage required to meet our debt payments. The Southaven Tourism/Promotion Fund operates under a specific 1% tax on hotel/motel charges and revenues generated by this fund are used to further promote our community. The City of Southaven Utility Fund consists of our water and sewer services and operates independent of all other funds. Revenues generated by the Southaven Utility Fund may only be expended throughout the same Utility Fund.

Financial Highlights

- Southaven's General Fund revenues in total exceeded the General Fund expenses by more than \$1.7 million.
- Southaven's Sales Tax revenues exceeded \$8.5 million.
- Major Capital Improvement projects within the FY 2004 Bonded Project Fund include the public infrastructure Community Development Block Grants (CDBG's) the construction of the Southaven Multi-Purpose Arena and

The following sections contain brief summaries of the various City Departments and list any significant changes and issues that are specific to that department for FY 2004. All departmental (and expenditure requests) listed derive funding from revenue line items within the General Fund, some of which are earmarked and some of which are not. Finally, it should be noted that the Enterprise Funds such as Water (Utility Fund) and Sewer Enterprise Funds produce their own revenue and those revenues/funds are specific for such Enterprise Fund that generated them. Other departmental request and expenses cannot be paid for by funds generated by Enterprise Funds.

Fiscal Year 2004 Budget Highlights

The City of Southaven FY 2004 General Fund Budget revenue forecasted totals \$20.3 M. This amount is made up of primarily sales tax revenue (\$7.7M) and property tax revenue (\$5.5M). New revenue streams specific for FY 2004 included increased revenue generated by our parks and recreational programs and the sale of municipal property located on Pepperchase. As the demands placed on municipal government increased, so must the capabilities of those charged with serving such demands, and as such many of Southaven's departments have seen increases in their overall training budgets.

The Southaven **Animal Control** department has four (4) full-time employees for FY 2004. The department has acquired new technology and new computer software for better tracking of animals brought to the shelter. The Animal Control departmental budget amount for FY 04 is \$219,669.

Southaven will budget \$203,000.00 for **Association Dues** and Fees for FY 2004 included in this line item are funds going to several association such as DeSoto Economic Council, the Southaven Chamber of Commerce and the Mississippi Municipal League among others.

For FY 2004, the City of Southaven will hire a full-time, in-house **Attorney**. The FY 2004 budgeted amount for this department is \$153,980.00.

The City of Southaven **Building Department** continues to achieve new certifications and experience and serves our community with professionalism and helpful insight. The FY 2004 budgeted amount for the Building Department is \$250,581.

The **Office of the City Clerk** FY 2004 budget reflects an allocation of \$248,578.00 and the City of Southaven **City Court** budget allocation is \$820,240.00 for FY 2004.

The Southaven **City Engineer's Office**. For FY 2004, the Engineering Department will have a budget of \$284,796.00, which includes increases in their professional services line-item due to increase services relating to ongoing projects.

The City of Southaven **Environmental Services** Department, which is charged with coordinating the efforts of several departments relative to public service, including public works, planning, engineering and building has a FY 2004 budget of \$102,263.00.

The City of Southaven will again budget for several capital improvement type items within the general fund budget in the **Expense Account** line item. FY 04 will see expenditures of some \$2.448 million for items such as facilities management, street and ditch improvements, and the Southern Lights display, emergency warning sirens and city-wide IT expenditures.

The Southaven Department of **Finance and Administration** continues to provide the city with the day-to-day administrative and financial services that allow for easier business transactions and improved employee services. The FY 2004 budgeted amount for this department is \$395,987.00.

The Southaven **Fire Department** continues to serve as the premier fire service in Mississippi. The FY 04 budget for the Southaven Fire Department is over \$4.77M. Of this amount, \$3.9M is dedicated for salaries and benefits.

The City of Southaven will spend some \$519,000.00 in our general liability **Insurance**. Including employee health insurance and liability, the City of Southaven will spend over \$1.2M in insurance in FY 2004.

The **Office of the Mayor** will see no substantial increases across any budgetary lines for FY 04 and as such has an appropriation of \$173, 975.

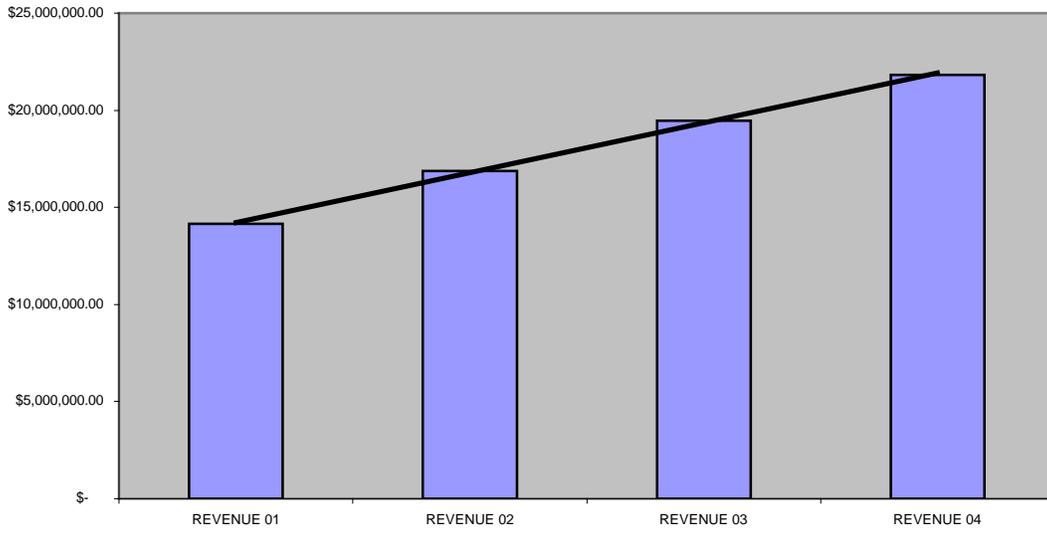
The Southaven **Parks and Recreation** department continues to grow to fill the needs and demands of an ever increasing parks and recreational system. The FY 04 budgeted amount for the Park's department is set at \$1,900,888.00.

The Southaven **Planning Department** has a budgeted FY 20034 amount of \$206,064.00. New equipment and increased training funds have been appropriated for the upcoming year.

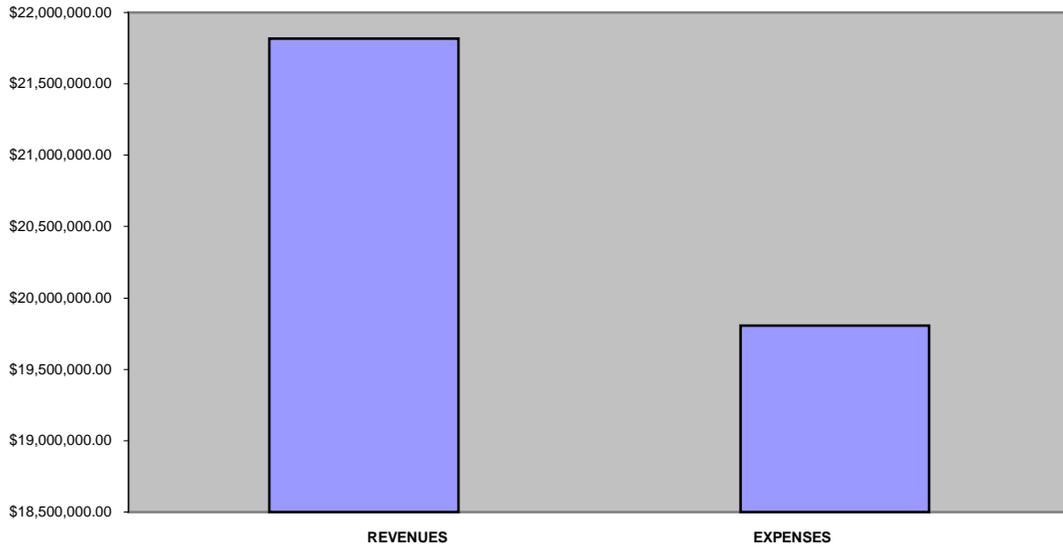
The Southaven **Police Department** continues to serve the community with pride and professionalism unmatched by any police force in the area. For FY 2004 the Southaven Police department will have an operating budget of over \$5.57M.

The **Public Works** division of Environmental Services has an FY 2004 budget of \$948,975.00 and will see the addition of a new service truck.

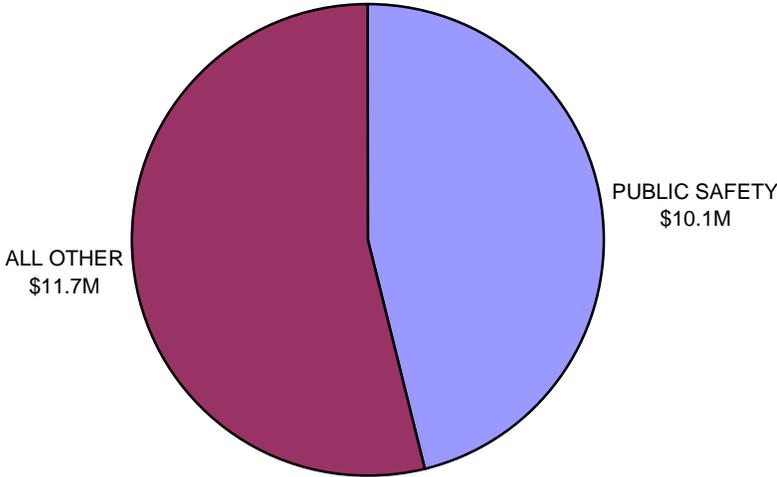
GENERAL FUND REVENUE COMPARISON



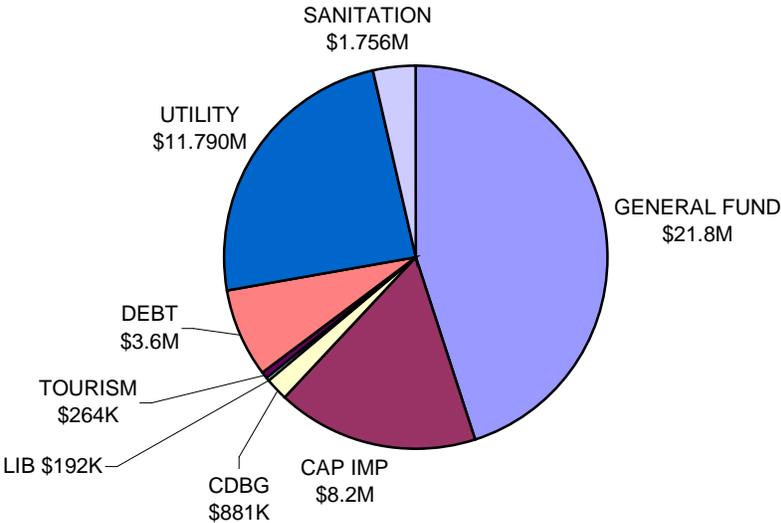
FY 2004 GENERAL FUND REVENUE AND EXPENSES



FY 2004 GENERAL FUND EXPENSES



FY 2004 BUDGET



BASIC FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets
September 30, 2005

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Activities
September 30, 2005

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

CITY OF SOUTHAVEN, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2005

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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
September 30, 2005

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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, 2005

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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, 2005

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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, 2005

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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, 2005

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, 2005

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. Nonmajor 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, 2005

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

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility and hospital service receivables are recorded at 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, 2005

(4) *Changes in General Fixed Assets* Error! Not a valid link.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

(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:

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CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

Notes outstanding at year end are as follows:

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CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

TIF bonds outstanding at year end are as follows:

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Revenue bonds outstanding at year end are as follows:

Error! Not a valid link.*Annual requirements to retire debt obligations.*

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

The aggregate maturities of general obligation bonds and loans for the years subsequent to September 30, 2005 are as follows:

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Long-term activity for the year ended September 30, 2005 was as follows:

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CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

(6) Capital Leases

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2005 were as follows:

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(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, as of July 1, 2005, is 10.75% of annual covered payroll. Prior to July, the rate was 9.75%. 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, 2005, and 2004, were \$1,026,751, and \$915,464 respectively, equal to the required contributions for each year.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

(8) Interfund Receivables and Payables

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CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

(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>	790,095
<i>Miscellaneous</i>	<u>10,179</u>
 <i>Totals</i>	 <u>\$ 1,029,234</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) Utility bond proceeds were incorrectly reported on the general fund during a previous year, resulting in an understatement. A prior period adjustment is required to correct fund balance.</i>	\$ 1,156,797
<i>(2) Fixed assets and accumulated depreciation were adjusted to properly report under GASB 34. A prior period adjustment is required to correct fund balance.</i>	330,445
<i>(3) Fund Balance – Reserved for Encumbrances was expensed in the prior year, resulting in a understatement. A prior period adjustment is required to correct fund balance.</i>	<u>60</u>
	<u>\$ 1,487,302</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2005

Business-type Activities Explanations

- | | |
|--|------------------------|
| (1) <i>Utility bond proceeds were incorrectly reported on the general fund in a previous year, resulting in an overstatement. A prior period adjustment is required to correct fund balance.</i> | (\$ 1,156,797) |
| (2) <i>Interest receivable was incorrectly recorded in the previous year, resulting in an overstatement. A prior period adjustment is required to correct fund balance.</i> | (1,447) |
| (3) <i>Fixed assets and accumulated depreciation were adjusted to properly report under GASB 34. A prior period adjustment is required to correct fund balance.</i> | <u>(722,102)</u> |
| | <u>(\$ 1,880,346)</u> |

(12) Subsequent Event

On October 1, 2005, the City issued two tax increment limited obligation bonds, (1) tax-exempt Series 2005A in the amount of \$5,000,000 and (2) taxable Series 2005B in the amount of \$4,200,000. The purpose of the bonds is (i) to finance city capital projects and (ii) to pay the costs of issuance of the bonds. The bonds bear interest rates ranging from 4.07% to 5.94% with principal maturities from October 2007 through October 2020.

CITY OF SOUTHAVEN, MISSISSIPPI
Budgetary Comparison Schedule
September 30, 2005

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CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Surety Bonds for Municipal Officials
 Year Ended September 30, 2005

Fidelity Bonds

Fidelity bonds in force at September 30, 2005 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

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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 basic financial statements of the City of Southaven, Mississippi as of and for the year ended, September 30, 2005, and have issued our report thereon dated January 20, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Southaven'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*.

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 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 in amounts that would be material in relation to the general purpose 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. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control financial reporting and its operation that we consider to be a material weakness. 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 20, 2006

**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 City of Southaven, Mississippi Year Ended September 30, 2005, and issued our report thereon dated January 20, 2006. Our audit was made in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Southaven, Mississippi is not in compliance with the requirements of the State Department of Audit, as set forth in the Municipal Compliance Questionnaire.

This report is intended for the use of the City of Southaven and the State Department of Audit. 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 20, 2006

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

Mayor and Board of Aldermen
City of Southaven
Southaven, Mississippi

We have audited the general purpose, combining and individual fund financial statements of the City of Southaven as of and for the year ended September 30, 2005, and have issued our report thereon dated January 20, 2006.

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, contract, 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 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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 20, 2006

**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 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, 2005. The City of Southaven's major federal programs are identified in the schedule of federal financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Southaven's management. Our responsibility is to express an opinion on the City of Southaven's compliance based on our audit.

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

In our opinion, the City of Southaven 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, 2005.

Internal Control Over Compliance

The management of The City of Southaven is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Southaven's internal control over

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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 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 condition in which the design or operation of 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 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 for information of the management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 20, 2006