

CITY OF SOUTHAVEN, MISSISSIPPI

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2007

CITY OF SOUTHAVEN, MISSISSIPPI

**ANNUAL FINANCIAL REPORT
Year Ended September 30, 2007**

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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, 2007, 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, 2007, 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 February 21, 2008 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 combining and individual non-major 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 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

February 21, 2008

CITY OF SOUTHAVEN

MISSISSIPPI



Management's Analysis and Discussion

FY 2007

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 COMPTROLLER

TISH CLARK

CITY ATTORNEY

MARK SORRELL

CITY CLERK

GLENDIA SMALLWOOD

DEPARTMENT HEADS

POLICE CHIEF

TOM LONG

FIRE CHIEF

MIKE BRACKIN, PhD

OPERATIONS

BRADLEY WALLACE

PARKS AND RECREATION

MIKE MULLINS

PLANNING AND DEVELOPMENT

WHITNEY CHOAT

UTILITY

CHRIS HADAWAY

PUBLIC WORKS

RAY TARRANCE

CITY ENGINEER

RON SMITH

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

The purpose of this narrative and analysis of the FY 2007 municipal budget is twofold: 1) Comply with the Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement NO. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999, and 2) Give the reader a clear understanding of the financial activities that occurred during the 2007 fiscal year.

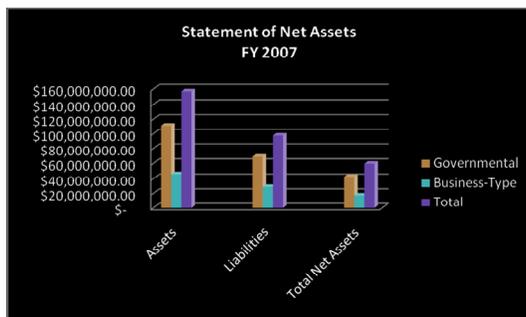
The City of Southaven's fiscal operating budget for both the General funds and the Utility fund are prepared, presented, and adopted by the Board of Aldermen prior to September 15 of each year. The City's fiscal year runs from October 1 to September 30.

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

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

A brief examination of the City of Southaven's FY 2007 financial highlights includes:

- Total net assets of governmental activities increased by \$12.7 million.
- Total general revenues exceeded \$31.1 million.
- Total Business-type revenues (sales of water and sewer service and income derived via our sanitation tax) were \$8.5 million.



ANALYSIS OF THE CITY'S FINANCIAL POSITION

The City of Southaven, Mississippi continues to experience strong financial operations and the period ending September 30, 2007 was no different.

A municipal government does not exist in order to make a profit, however it is paramount that any viable municipal corporation maintains a healthy financial standing in order to provide its tax payers and citizens

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
September 30, 2007

with the level of service they deserve. For FYE 2007, the City of Southaven ended the FY with an unreserved General Fund balance of \$5.2 million

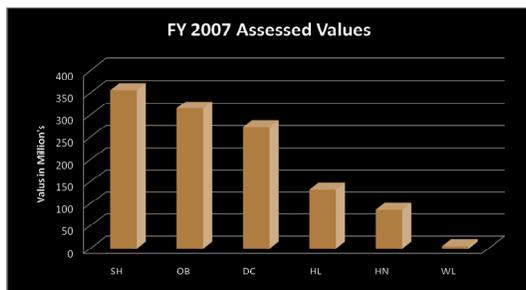
During FY 2007 Southaven once again reached a new high in sales tax revenues, due in large part to the continued success of the Southaven Towne Center retail shopping center.

For FY 07, the City of Southaven's millage rate was 44.73, which includes 6.0 mills dedicated to our sanitation service. There is no millage increase planned for FY 08.

The City of Southaven currently maintains a strong bond rating (credit rating) of AAA as rated by Standard & Poors. This strong rating allows for the City to benefit from greatly improved rates on bond issuances.

As a municipal corporation, the city has capital assets totaling over \$120.7 million.

For the fiscal year 2007, Southaven, Mississippi has an assessed value of \$356 million, which represents an increase of nearly \$50 million over FY 2006.



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

In Fiscal Year 2007, 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 measure available.

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

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

Southaven remains one of only a handful of Mississippi cities where one can go from pre-K to earning a

CITY OF SOUTHAVEN, MISSISSIPPI
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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.

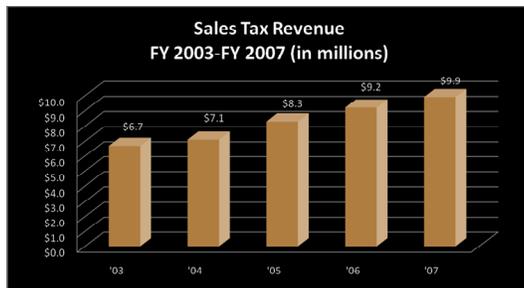
The primary source of revenues for the City of Southaven remains sales tax and the municipal reimbursement applied by the State of Mississippi.

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 while working hard to maintain low overall costs and expenditures.

Looking back at FY 2007, Southaven witnessed new revenue actualization with the on-going success of the Southaven Towne Center and other retail/commercial developments.

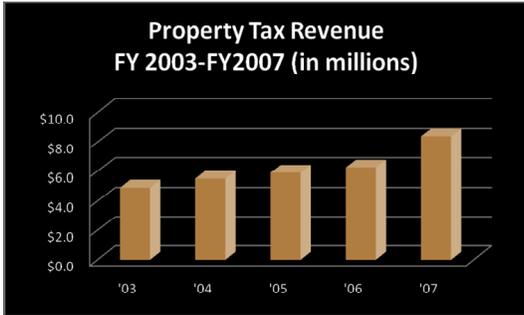
This open-air regional shopping center constructed by CBL, Inc with public improvements being completed with the assistance of state, county and municipal financing has been very successful and continues to serve as the primary source of municipal sales tax revenue generation.

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



Growth in FY 2007 was not limited to sales tax revenues. New homes and new commercial businesses continue to expand and grow our tax base, although Southaven is experiencing a slowdown in its housing market similar to other areas of our nation.

CITY OF SOUTHAVEN, MISSISSIPPI
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In FY 2007, Southaven issued 492 residential building permits and 22 commercial permits were issued representing. This represents a dramatic decrease in residential and commercial activity; however this is due in large part to Southaven becoming more built-out and larger residential subdivisions being completed.

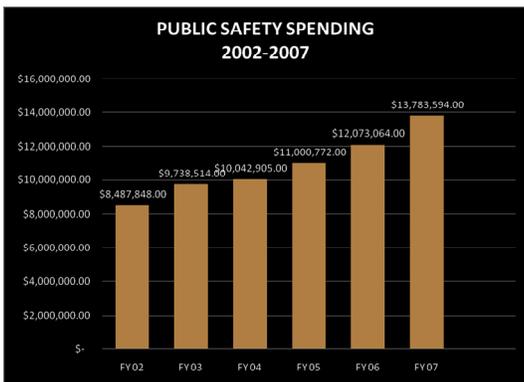
Over \$1 million was generated in the general fund budget via permitting fees and business licensing in FY 2007. Again, this represents a decrease of some \$500,000 from FY 2006. However, due to conservative budgeting principals, the City is able to absorb such a decrease in revenue without suffering any adverse effects.

FY 2007 also witnessed Southaven reach all time highs in revenue generated by our parks and recreational department and facilities.

Nearly \$2.4 million was generated by the City of Southaven parks and recreational department. This figure is now holding steady as our parks and the recreational tournaments held within have neared capacity. However, we anticipate continued growth in our parks and recreational revenue streams for FY 2008 and beyond.

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

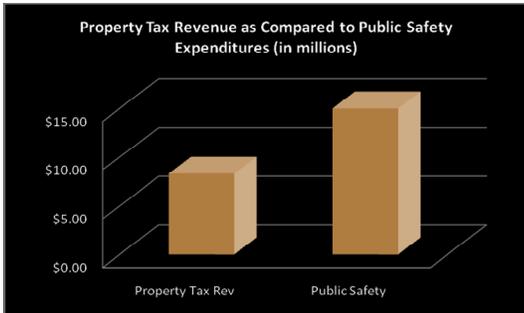
However, when it comes to public safety, the City of Southaven maintains its policies of staying ahead of the curve and providing our citizens with the best public safety departments the city can.



FY 2007 saw the hiring of twelve (12) new fire fighters as well as five (5) new patrol officers.

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The new hires in FY 2007 brought our total to 90 sworn officers in the department. This equates to a city wide ratio of one (1) sworn police officer for approximately every 390 Southaven residents.



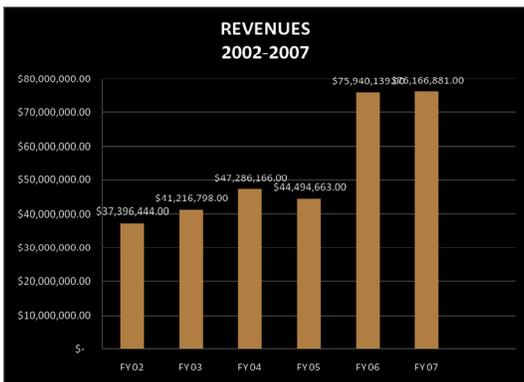
In FY 2007, Southaven maintained its successful partnership with Red River, Inc. which provides the city with sanitation services. Red River won the competitive bid process to serve the City with sanitation collection and disposal service. The City pays for this service via the six-mill property tax allocation.

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

FY 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 for FY 2007. The City’s millage rate will remain constant once again.

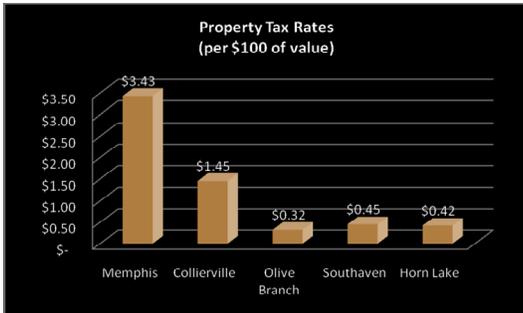
For FY 2007, the City’s tax rate remained at 44.73 mills, which equates roughly to a tax rate of \$0.45 per \$100 of valuation. In other words, if ones home is valued (assessed) at \$200,000.00, that homeowner will pay roughly \$900 a year in city property tax.



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.

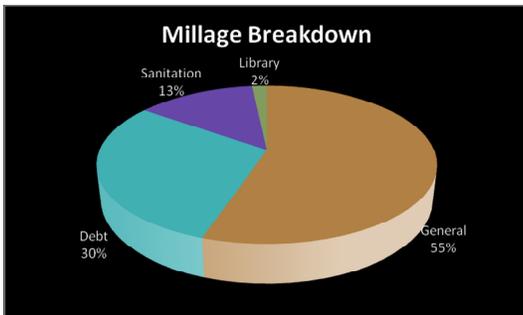
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Olive Branch, Mississippi has a tax rate of \$0.32 while Horn Lake, Mississippi currently has a tax rate of \$0.42, respectively.



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



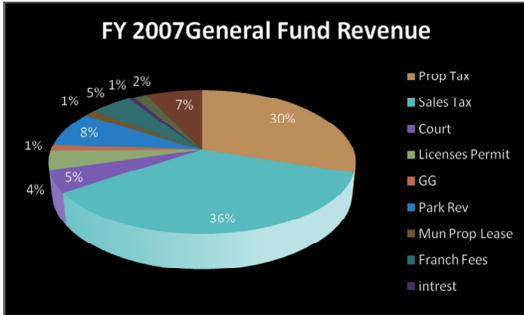
It is important to note that the City of Southaven’s tax rate *does* include a homeowner sanitation charge. The City, as voted on by the electorate in 2001, applies a 6-mill rate to our overall tax rate to cover the cost of our sanitation department.

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

In addition to our property tax rate, the City will benefit from nearly \$10 million in sales tax revenue in FY 2007.

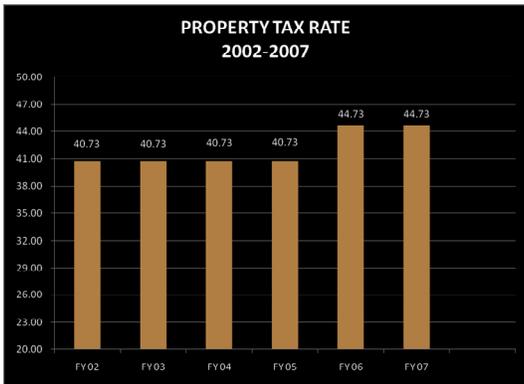
Southaven continues to experience tremendous retail sales growth and the revenues generated by retail/commercial sales continue to serve as a major source of revenue for the City.

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 Management Discussion and Analysis
 September 30, 2007

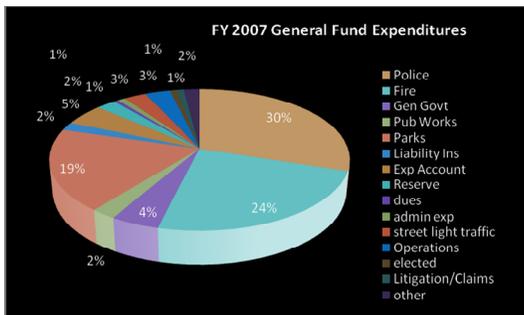


Franchise fees serve as the General Fund’s third largest single revenue source for FY 2007 behind sales tax revenue and property tax revenue, respectively. We have budgeted \$950,000 in franchise fee revenue for 2007.

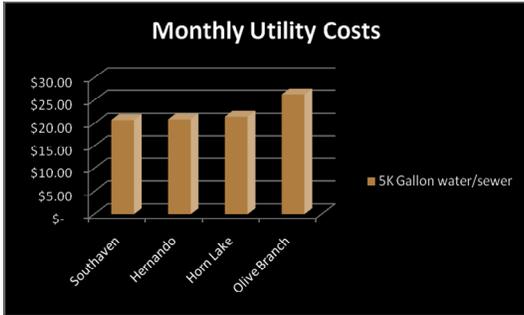
The City of Southaven continues to see increasing revenues generated by our residential and commercial growth as evident by our increasing property tax revenues. However the City’s property tax rate remains quite stable and has not increased since FY 2005/2006



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.

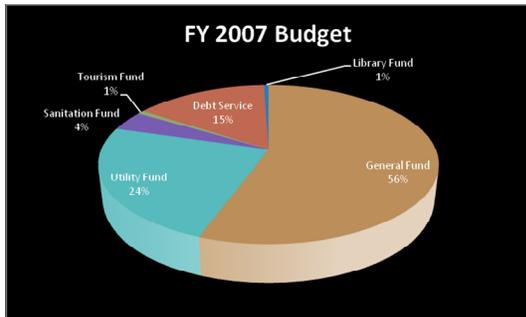


To be sure, expenses incurred by the City with regard to maintaining its top utility service have increased; however, the City continues to work towards not passing such increases on to the consumers.



In FY 2006 a \$9 million utility bond was issued by the City to provide the funding for utility lines for the DeSoto County Regional Utility Authority project. This bond’s balance forward made up the bulk of the FY 07 Utility Department revenue/expenditures.

The City of Southaven’s FY 2007 expenses for all governmental funds totaled \$69.7 million.



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

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

Included in the FY 2007 General Fund Expenditures are contingency and “Rainy Day” un-obligated funds totaling more than \$750,000.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The City of Southaven, Mississippi was successful in presenting its most recent annexation case to the Court. The annexation consists of parcels of land to the City’s west, north east and southern municipal boundaries. The affirmative ruling is currently under appeal to the Mississippi Supreme Court. As of September 30, 2007, the case had yet to be heard by the Supreme Court.

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

CITY OF SOUTHAVEN, MISSISSIPPI
Management Discussion and Analysis
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The City of Southaven remains active in improving its infrastructure and work has begun on the City's phase of Church Road and the improvements necessary to widen Church Road from its current two-lanes to five-lanes from Swinnea Road, west towards Airways. This project should be completed in FY 08.

Major budgeted expenditures for FY 2007 also include; \$700,000 for facility management; \$500,000 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 and some \$5.5 million for the new amphitheater located at Snowden Grove Park. The City has also budgeted some \$800,000 in park renovations for FY 2007.

BASIC FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets
September 30, 2007

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Cash in bank and on hand | \$ 5,544,035 | \$ 5,290,007 | \$ 10,834,042 |
| Accounts receivable | 442,192 | 550,331 | 992,523 |
| Intergovernmental receivable | 1,172,024 | - | 1,172,024 |
| Franchise tax receivable | 430,114 | - | 430,114 |
| Prepaid expense | 28,743 | - | 28,743 |
| Due from other funds | 71,649 | - | 71,649 |
| Restricted assets: | | | |
| Cash in bank | - | 555,086 | 555,086 |
| Bond discount | 11,190 | - | 11,190 |
| Bond issue costs (net) | 357,461 | 304,299 | 661,760 |
| Fixed assets (net, where applicable, of accumulated depreciation) | 103,040,517 | 39,096,594 | 142,137,111 |
| Total assets and other debits | 111,097,925 | 45,796,317 | 156,894,242 |
| Liabilities | | | |
| Accounts payable | 1,817,763 | 1,157,782 | 2,975,545 |
| Accrued expenses | 2,151,675 | 178,445 | 2,330,120 |
| Customer deposits | - | 555,086 | 555,086 |
| Accrued interest | 12,880 | 19,538 | 32,418 |
| Due to other funds | - | 71,649 | 71,649 |
| Current liabilities | | | |
| General obligation bonds payable | 2,225,000 | 150,000 | 2,375,000 |
| Notes payable | 551,954 | 477,447 | 1,029,401 |
| Leases payable | 98,136 | 51,354 | 149,490 |
| Revenue bonds payable | - | 895,000 | 895,000 |
| Tax increment financing bonds payable | 865,000 | - | 865,000 |
| Compensated absences | 530,784 | 22,411 | 553,195 |
| Noncurrent liabilities | | | |
| General obligation bonds payable | 41,190,000 | 510,000 | 41,700,000 |
| Notes payable | 9,788,142 | 4,788,503 | 14,576,645 |
| Leases payable | 494,862 | 662,825 | 1,157,687 |
| Revenue bonds payable | - | 19,425,000 | 19,425,000 |
| Tax increment financing bonds payable | 9,160,000 | - | 9,160,000 |
| Bond premium | 22,551 | - | 22,551 |
| Deferred loss on bond refunding | (197,980) | (225,179) | (423,159) |
| Total liabilities | 68,710,767 | 28,739,861 | 97,450,628 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 37,605,855 | 12,091,643 | 49,697,498 |
| Unrestricted | 4,781,303 | 4,964,813 | 9,746,116 |
| Total net assets | \$ 42,387,158 | \$ 17,056,456 | \$ 59,443,614 |

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Activities
September 30, 2007

| | Program Revenues | | | | Net (Expenses)Revenue and Changes in Net Assets | | |
|--------------------------------|-------------------|-------------------------|--|--|--|-----------------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| | | | | | | | |
| Governmental activities | | | | | | | |
| General government | \$ 4,221,701 | \$ 2,539,887 | \$ - | \$ 11,432,628 | \$ 9,750,814 | \$ - | \$ 9,750,814 |
| Public safety | 14,060,237 | 3,112,346 | - | 400,000 | (10,547,891) | - | (10,547,891) |
| Public works | 1,166,530 | - | - | - | (1,166,530) | - | (1,166,530) |
| Cultural and recreational | 4,285,597 | 2,324,925 | - | - | (1,960,672) | - | (1,960,672) |
| Health and welfare | 217,135 | 23,337 | - | - | (193,798) | - | (193,798) |
| Library | 255,250 | - | - | - | (255,250) | - | (255,250) |
| Tourist and convention | 442,701 | 351,153 | - | - | (91,548) | - | (91,548) |
| Other | 1,031,501 | - | - | 15,000 | (1,016,501) | - | (1,016,501) |
| Interest on long-term debt | 2,950,093 | - | - | - | (2,950,093) | - | (2,950,093) |
| Depreciation | 6,602,562 | - | - | - | (6,602,562) | - | (6,602,562) |
| Facilities management | 835,824 | - | - | - | (835,824) | - | (835,824) |
| Insurance | 584,483 | - | - | - | (584,483) | - | (584,483) |
| Total governmental activities | <u>36,653,614</u> | <u>8,351,648</u> | <u>-</u> | <u>11,847,628</u> | <u>(16,454,338)</u> | <u>-</u> | <u>(16,454,338)</u> |
| Business-type activities | | | | | | | |
| Interest on long-term debt | 2,112,607 | - | - | - | - | (2,112,607) | (2,112,607) |
| Water and sewer | 3,647,283 | 8,487,012 | - | - | - | 4,839,729 | 4,839,729 |
| Sanitation | 2,142,672 | 73,245 | - | - | - | (2,069,427) | (2,069,427) |
| Total business-type activities | <u>7,902,562</u> | <u>8,560,257</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>657,695</u> | <u>657,695</u> |
| | | | | | | | |
| | | | | General revenues | | | |
| | | | | Taxes | 14,433,136 | 1,904,571 | 16,337,707 |
| | | | | Intergovernmental | 12,479,920 | - | 12,479,920 |
| | | | | Rents | 497,359 | - | 497,359 |
| | | | | Penalty and interest | 98,341 | - | 98,341 |
| | | | | Interest | 547,817 | 40,731 | 588,548 |
| | | | | Miscellaneous | 1,585,299 | 71,363 | 1,656,662 |
| | | | | Transfers other funds | (88,935) | 88,935 | - |
| | | | | Sale of assets | (324,520) | (213,114) | (537,634) |
| | | | | Total general revenues | <u>29,228,417</u> | <u>1,892,486</u> | <u>31,120,903</u> |
| | | | | Change in net assets | 12,774,079 | 2,550,181 | 15,324,260 |
| | | | | Net assets-beginning of year | 30,795,556 | 13,643,320 | 44,438,876 |
| | | | | Prior period adjustments | (1,182,477) | 862,955 | (319,522) |
| | | | | Net assets-end of year | <u>\$ 42,387,158</u> | <u>\$ 17,056,456</u> | <u>\$ 59,443,614</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, 2007

| | General Fund | Bond Funded Capital Project | Debt Service | Other Governmental Funds | Total Governmental Funds |
|-------------------------------------|---------------------|--------------------------------|-------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash in bank and on hand | \$ 3,553,863 | \$ 1,272,713 | \$ (278,989) | \$ 996,448 | \$ 5,544,035 |
| Due from other funds | 3,086,287 | 920,091 | 532,845 | 530,572 | 5,069,795 |
| Accounts receivable | 442,192 | - | - | - | 442,192 |
| Intergovernmental receivable | 1,153,074 | - | - | 18,950 | 1,172,024 |
| Franchise tax receivable | 430,114 | - | - | - | 430,114 |
| Prepaid expenses | 253 | 28,490 | - | - | 28,743 |
| | <u>8,665,783</u> | <u>2,221,294</u> | <u>253,856</u> | <u>1,545,970</u> | <u>12,686,903</u> |
| Total assets | <u>\$ 8,665,783</u> | <u>\$ 2,221,294</u> | <u>\$ 253,856</u> | <u>\$ 1,545,970</u> | <u>\$ 12,686,903</u> |
| Liabilities | | | | | |
| Accounts payable | \$ 1,042,214 | \$ 345,876 | \$ - | \$ 429,673 | \$ 1,817,763 |
| Accrued expenses | 1,090,299 | - | - | - | 1,090,299 |
| Deferred revenue | - | 12,879 | - | - | 12,879 |
| Due to other funds | 1,285,671 | 2,270,554 | 532,845 | 909,078 | 4,998,148 |
| | <u>3,418,184</u> | <u>2,629,309</u> | <u>532,845</u> | <u>1,338,751</u> | <u>7,919,089</u> |
| Total liabilities | <u>3,418,184</u> | <u>2,629,309</u> | <u>532,845</u> | <u>1,338,751</u> | <u>7,919,089</u> |
| Fund balances | | | | | |
| Unreserved | <u>5,247,599</u> | <u>(408,015)</u> | <u>(278,989)</u> | <u>207,219</u> | <u>4,767,814</u> |
| Total fund balances | <u>5,247,599</u> | <u>(408,015)</u> | <u>(278,989)</u> | <u>207,219</u> | <u>4,767,814</u> |
| Total liabilities and fund balances | <u>\$ 8,665,783</u> | <u>\$ 2,221,294</u> | <u>\$ 253,856</u> | <u>\$ 1,545,970</u> | <u>\$ 12,686,903</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, 2007

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

Total Fund Balance - Governmental Funds \$ 4,767,814

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 | 3,094,394 | |
| Buildings and improvements | 40,535,344 | |
| Equipment and vehicles | 8,981,343 | |
| Infrastructure | 70,932,285 | |
| Construction in progress | 11,150,050 | |
| Leased equipment | 263,579 | |
| Accumulated depreciation | (31,916,478) | |
| Bond issue cost | <u>357,461</u> | |
| | | 103,397,978 |

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 | (10,340,096) | |
| Leases payable | (592,998) | |
| General obligation and revenue bonds | (52,575,000) | |
| Accrued expenses | (1,061,375) | |
| Bond discount | 11,190 | |
| Bond premium | (22,551) | |
| Deferred loss on refunding | 197,980 | |
| Compensated absences | <u>(530,784)</u> | |
| | | <u>(64,913,634)</u> |

Net Assets of Governmental Activities \$ 43,252,158

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, 2007

| | General Fund | Bond Funded Capital Project | Debt Service | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|---------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 8,683,808 | \$ - | \$ 5,494,078 | \$ 255,250 | \$ 14,433,136 |
| Licenses and permits | 2,539,887 | - | - | - | 2,539,887 |
| Intergovernmental | 12,319,157 | - | - | 160,763 | 12,479,920 |
| Charges for services | 3,256,283 | - | - | 351,153 | 3,607,436 |
| Fines | 2,204,326 | - | - | - | 2,204,326 |
| Interest | 535,974 | - | - | 11,842 | 547,816 |
| Miscellaneous | 585,665 | 2,396 | 936,892 | 158,687 | 1,683,640 |
| Total revenues | <u>30,125,100</u> | <u>2,396</u> | <u>6,430,970</u> | <u>937,695</u> | <u>37,496,161</u> |
| Expenditures | | | | | |
| Administrative | 4,396,083 | - | - | - | 4,396,083 |
| Capital outlay | 3,573,088 | 10,357,918 | 14,988 | 1,557,608 | 15,503,602 |
| Culture & recreation | 5,430,245 | - | - | - | 5,430,245 |
| Facilities management | 835,824 | - | - | - | 835,824 |
| Fire | 6,791,037 | - | - | - | 6,791,037 |
| Health & welfare | 216,985 | - | - | - | 216,985 |
| Insurance | 584,483 | - | - | - | 584,483 |
| Library | - | - | - | 255,250 | 255,250 |
| Miscellaneous | 1,314,768 | - | - | 266 | 1,315,034 |
| Police | 7,933,741 | - | - | - | 7,933,741 |
| Public works | 1,170,220 | - | - | - | 1,170,220 |
| Tourism & convention | - | - | - | 442,701 | 442,701 |
| Debt service | | | | | |
| Principal | - | - | 8,137,179 | - | 8,137,179 |
| Interest | 597,450 | - | 2,352,643 | - | 2,950,093 |
| Total expenditures | <u>32,843,924</u> | <u>10,357,918</u> | <u>10,504,810</u> | <u>2,255,825</u> | <u>55,962,477</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(2,718,824)</u> | <u>(10,355,522)</u> | <u>(4,073,840)</u> | <u>(1,318,130)</u> | <u>(18,466,316)</u> |
| Other financing sources (uses) | | | | | |
| Grant revenue | 415,000 | 1,300,000 | - | 103,396 | 1,818,396 |
| Rents | 497,359 | - | - | - | 497,359 |
| Sale of assets | 114,998 | - | - | - | 114,998 |
| Interfund transfers | (150,000) | 61,065 | - | - | (88,935) |
| Lease proceeds | 634,348 | - | - | - | 634,348 |
| Bond proceeds | - | 6,000,000 | 4,185,000 | - | 10,185,000 |
| Bond issue cost | - | - | (390,149) | - | (390,149) |
| Premium | - | 23,737 | - | - | 23,737 |
| Total other financing sources (uses) | <u>1,511,705</u> | <u>7,384,802</u> | <u>3,794,851</u> | <u>103,396</u> | <u>12,794,754</u> |
| Net change in fund balances | (1,207,119) | (2,970,720) | (278,989) | (1,214,734) | (5,671,562) |
| Fund balance - beginning of year | <u>6,454,718</u> | <u>2,562,705</u> | <u>-</u> | <u>1,421,953</u> | <u>10,439,376</u> |
| Fund balance - end of year | <u>\$ 5,247,599</u> | <u>\$ (408,015)</u> | <u>\$ (278,989)</u> | <u>\$ 207,219</u> | <u>\$ 4,767,814</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, 2007

Net Change in Fund Balances - Total Governmental Funds \$ (5,671,562)

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 (\$27,940,850) exceeded depreciation (\$6,751,054) 21,382,419

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 (\$10,819,348) and amortization expense (\$44,131) in the current period exceeded repayments (\$8,137,178) (2,726,300)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increase/(decrease) is

| | |
|------------------------------|-----------|
| Compensated absences payable | (137,373) |
| Bond premium | (23,737) |
| Bond issue cost | 390,149 |
| Sale of surplus property | (439,517) |

Change in Net Assets of Governmental Activities \$ 12,774,079

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, 2007

| | Utility Fund | Sanitation Fund | Total |
|--|----------------------|---------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash in bank and on hand | \$ 4,151,651 | \$ 1,138,356 | \$ 5,290,007 |
| Accounts receivable(net of allowance for doubtful accounts) | 544,332 | 5,999 | 550,331 |
| Due from other funds | - | 1,143,841 | 1,143,841 |
| Total current assets | <u>4,695,983</u> | <u>2,288,196</u> | <u>6,984,179</u> |
| Restricted assets: | | | |
| Cash | <u>555,086</u> | - | <u>555,086</u> |
| Other assets | | | |
| Deferred loss on bond refunding | 225,179 | - | 225,179 |
| Bond issue cost (net) | 304,299 | - | 304,299 |
| Total other assets | <u>529,478</u> | <u>-</u> | <u>529,478</u> |
| Fixed assets | | | |
| Land | 335,540 | - | 335,540 |
| Buildings | 401,125 | - | 401,125 |
| Infrastructure | 31,917,939 | - | 31,917,939 |
| Improvements | 5,697 | - | 5,697 |
| Machinery and equipment | 305,875 | 341,233 | 647,108 |
| Vehicles | 115,596 | 1,042,095 | 1,157,691 |
| Construction in progress | 11,932,577 | - | 11,932,577 |
| Leased equipment | 744,057 | - | 744,057 |
| Accumulated depreciation | <u>(7,248,676)</u> | <u>(796,464)</u> | <u>(8,045,140)</u> |
| Total fixed assets | <u>38,509,730</u> | <u>586,864</u> | <u>39,096,594</u> |
| Total assets | <u>\$ 44,290,277</u> | <u>\$ 2,875,060</u> | <u>\$ 47,165,337</u> |
| Liabilities and fund equity | | | |
| Current liabilities | | | |
| Accounts payable | \$ 959,104 | \$ 198,678 | \$ 1,157,782 |
| Accrued expenses | 174,646 | 3,799 | 178,445 |
| Deferred revenue | 19,538 | - | 19,538 |
| Due to other funds | 1,208,710 | 6,780 | 1,215,490 |
| Total current liabilities | <u>2,361,998</u> | <u>209,257</u> | <u>2,571,255</u> |
| Current liabilities payable from restricted assets | | | |
| Leases payable | 51,354 | - | 51,354 |
| Notes payable | 477,447 | - | 477,447 |
| Revenue bonds payable | 895,000 | - | 895,000 |
| General obligation bond payable | 150,000 | - | 150,000 |
| Compensated absences | 19,643 | 2,768 | 22,411 |
| Customer deposits | <u>555,086</u> | <u>-</u> | <u>555,086</u> |
| Total current liabilities payable from restricted assets | <u>2,148,530</u> | <u>2,768</u> | <u>2,151,298</u> |
| Long-term liabilities | | | |
| Leases payable | 662,825 | - | 662,825 |
| Notes payable | 4,788,503 | - | 4,788,503 |
| Revenue bonds payable | 19,425,000 | - | 19,425,000 |
| General obligation bond payable | 510,000 | - | 510,000 |
| Total long-term liabilities | <u>25,386,328</u> | <u>-</u> | <u>25,386,328</u> |
| Total liabilities | <u>29,896,856</u> | <u>212,025</u> | <u>30,108,881</u> |
| Fund equity | | | |
| Net assets | 14,393,421 | 2,663,035 | 17,056,456 |
| Total fund equity | <u>14,393,421</u> | <u>2,663,035</u> | <u>17,056,456</u> |
| Total liabilities and fund equity | <u>\$ 44,290,277</u> | <u>\$ 2,875,060</u> | <u>\$ 47,165,337</u> |

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

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2007

| | <u>Utility</u> | <u>Sanitation</u> | <u>Total</u> |
|---|----------------------|---------------------|----------------------|
| Operating revenues | | | |
| Taxes | \$ - | \$ 1,904,571 | \$ 1,904,571 |
| Water and sewer sales | 8,487,012 | 73,245 | 8,560,257 |
| Miscellaneous | 28,242 | 43,120 | 71,362 |
| | <u>8,515,254</u> | <u>2,020,936</u> | <u>10,536,190</u> |
| Operating expenses | | | |
| Personnel | 951,647 | 130,131 | 1,081,778 |
| Supplies | 499,792 | 17,000 | 516,792 |
| Depreciation | 445,447 | 142,679 | 588,126 |
| Maintenance and other | 1,495,283 | 40,307 | 1,535,590 |
| Professional services | 255,114 | 1,812,555 | 2,067,669 |
| | <u>3,647,283</u> | <u>2,142,672</u> | <u>5,789,955</u> |
| Total operating expenses | <u>3,647,283</u> | <u>2,142,672</u> | <u>5,789,955</u> |
| Operating income | <u>4,867,971</u> | <u>(121,736)</u> | <u>4,746,235</u> |
| Non-operating revenues (expenses) | | | |
| Interest revenue | 34,827 | 5,904 | 40,731 |
| Interest expense | (2,112,607) | - | (2,112,607) |
| Interfund transfers | (116,404) | 205,340 | 88,936 |
| Sale of assets | 150 | (213,264) | (213,114) |
| | <u>(2,194,034)</u> | <u>(2,020)</u> | <u>(2,196,054)</u> |
| Total non-operating revenues (expenses) | <u>(2,194,034)</u> | <u>(2,020)</u> | <u>(2,196,054)</u> |
| Net income | 2,673,937 | (123,756) | 2,550,181 |
| Net assets - beginning of year | 10,856,529 | 2,786,791 | 13,643,320 |
| Prior period adjustments | 862,955 | - | 862,955 |
| Net assets - end of year | <u>\$ 14,393,421</u> | <u>\$ 2,663,035</u> | <u>\$ 17,056,456</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, 2007

| | Utility Fund | Sanitation Fund | Total |
|--|---------------------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Cash received from customers | \$ 8,553,608 | \$ 2,021,532 | \$ 10,575,140 |
| Cash payments for goods and services | (2,351,820) | (1,838,690) | (4,190,510) |
| Cash payments to employees | (948,312) | (127,363) | (1,075,675) |
| Net cash provided by operating activities | <u>5,253,476</u> | <u>55,479</u> | <u>5,308,955</u> |
| Cash flows from noncapital financing activities | | | |
| Interfund transfers | (114,135) | 203,070 | 88,935 |
| Net cash provided by noncapital financing activities | <u>(114,135)</u> | <u>203,070</u> | <u>88,935</u> |
| Cash flows from capital and related financing activities | | | |
| Payments for capital acquisitions | (9,463,702) | (337,923) | (9,801,625) |
| Customer deposits | 46,325 | - | 46,325 |
| Loan proceeds | 5,400,000 | - | 5,400,000 |
| Principal payments on debt | (358,267) | - | (358,267) |
| Interest payments on debt | (2,112,607) | - | (2,112,607) |
| Bond issue cost | (46,358) | - | (46,358) |
| Gain on sale of fixed asset | 8,150 | - | 8,150 |
| Net cash provided by capital and related financing activities | <u>(6,526,459)</u> | <u>(337,923)</u> | <u>(6,864,382)</u> |
| Cash flows from investing activities | | | |
| Receipts of interest | 34,827 | 5,904 | 40,731 |
| Net increase in cash and cash equivalents | (1,352,291) | (73,470) | (1,425,761) |
| Cash and cash equivalents-beginning of year | 6,059,027 | 1,211,825 | 7,270,852 |
| Cash and cash equivalents-end of year | <u>\$ 4,706,736</u> | <u>\$ 1,138,355</u> | <u>\$ 5,845,091</u> |
| Reconciliation of operating income to net cash provided by operating activities | | | |
| Operating income | \$ 4,867,971 | \$ (121,736) | \$ 4,746,235 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation and amortization | 445,447 | 142,679 | 588,126 |
| (Increase) decrease in customer receivables | 18,815 | 596 | 19,411 |
| Increase (decrease) in accounts payable | (35,548) | 27,373 | (8,175) |
| Increase (decrease) in accrued expenses | (66,082) | 3,799 | (62,283) |
| Increase (decrease) in compensated absences | 3,335 | 2,768 | 6,103 |
| Increase (decrease) in deferred revenue | 19,538 | - | 19,538 |
| Total adjustments | <u>385,505</u> | <u>177,215</u> | <u>562,720</u> |
| Net cash provided by operating activities | <u>\$ 5,253,476</u> | <u>\$ 55,479</u> | <u>\$ 5,308,955</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, 2007

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

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

Fund Financial Statements

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

Governmental Funds

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

F. Capital Assets and Depreciation

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

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

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

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

G. Budgets and Budgetary Accounting:

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

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

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

H. Revenue Recognition:

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

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

I. Expenditure Recognition

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

Proprietary Funds

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

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, 2007

(4) Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

| | Balance at 9/30/2006 | Additions | Deletions | Adjustments | Balance at 9/30/2007 |
|---|-------------------------|----------------------|---------------------|-----------------------|-------------------------|
| <i>Governmental activities:</i> | | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | | |
| Land | \$ 2,961,692 | \$ 132,702 | \$ - | \$ - | \$ 3,094,394 |
| Construction in progress | 7,014,455 | 9,605,097 | 4,287,026 | (1,182,476) | 11,150,050 |
| Total capital assets, not being depreciated: | <u>9,976,147</u> | <u>9,737,799</u> | <u>4,287,026</u> | <u>(1,182,476)</u> | <u>14,244,444</u> |
| <i>Capital assets, being depreciated:</i> | | | | | |
| Buildings and improvements | 35,451,834 | 5,083,510 | - | - | 40,535,344 |
| Equipment and vehicles | 8,509,455 | 1,240,302 | 865,370 | 96,956 | 8,981,343 |
| Infrastructure | 55,126,556 | 15,902,685 | - | (96,956) | 70,932,285 |
| Leased equipment | - | 263,579 | - | - | 263,579 |
| Total capital assets, being depreciated: | <u>99,087,845</u> | <u>22,490,076</u> | <u>865,370</u> | <u>-</u> | <u>120,712,551</u> |
| <i>Less accumulated depreciation for:</i> | | | | | |
| Buildings and improvements | (3,972,561) | (1,424,830) | - | - | (5,397,391) |
| Equipment and vehicles | (4,415,058) | (1,492,191) | (425,852) | - | (5,481,397) |
| Infrastructure | (17,396,281) | (3,597,480) | - | - | (20,993,761) |
| Leased equipment | - | (43,929) | - | - | (43,929) |
| Total accumulated depreciation | <u>(25,783,900)</u> | <u>(6,558,430)</u> | <u>(425,852)</u> | <u>-</u> | <u>(31,916,478)</u> |
| Total capital assets, being depreciated, net | <u>73,303,945</u> | <u>15,931,646</u> | <u>439,518</u> | <u>-</u> | <u>88,796,073</u> |
| Governmental activities capital assets, net | <u>\$ 83,280,092</u> | <u>\$ 25,669,445</u> | <u>\$ 4,726,544</u> | <u>\$ (1,182,476)</u> | <u>\$ 103,040,517</u> |
| <i>Business-type activities:</i> | | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | | |
| Land | \$ 300,580 | \$ 34,960 | \$ - | \$ - | \$ 335,540 |
| Construction in progress | 4,781,811 | 6,734,827 | 447,016 | 862,955 | 11,932,577 |
| Total capital assets, not being depreciated: | <u>5,082,391</u> | <u>6,769,787</u> | <u>447,016</u> | <u>862,955</u> | <u>12,268,117</u> |
| <i>Capital assets, being depreciated:</i> | | | | | |
| Buildings | 19,552 | 381,573 | - | - | 401,125 |
| Infrastructure | 30,076,930 | 1,841,011 | - | - | 31,917,941 |
| Improvements | 5,696 | - | - | - | 5,696 |
| Equipment | 398,676 | 248,433 | - | - | 647,109 |
| Vehicles | 1,306,159 | 263,780 | 412,248 | - | 1,157,691 |
| Leased equipment | - | 744,057 | - | - | 744,057 |
| Total capital assets, being depreciated: | <u>31,807,013</u> | <u>3,478,854</u> | <u>412,248</u> | <u>-</u> | <u>34,873,619</u> |
| <i>Less accumulated depreciation for:</i> | | | | | |
| Buildings | (19,552) | (1,060) | - | - | (20,612) |
| Infrastructure | (6,894,464) | (278,272) | - | - | (7,172,736) |
| Improvements | (5,696) | - | - | - | (5,696) |
| Equipment | (114,731) | (78,451) | - | - | (193,182) |
| Vehicles | (667,326) | (136,818) | (190,982) | - | (613,162) |
| Leased equipment | - | (39,754) | - | - | (39,754) |
| Total accumulated depreciation | <u>(7,701,769)</u> | <u>(534,355)</u> | <u>(190,982)</u> | <u>-</u> | <u>(8,045,142)</u> |
| Total capital assets, being depreciated, net | <u>24,105,244</u> | <u>2,944,499</u> | <u>221,266</u> | <u>-</u> | <u>26,828,477</u> |
| Business-type activities capital assets, net | <u>\$ 29,187,635</u> | <u>\$ 9,714,286</u> | <u>\$ 668,282</u> | <u>\$ 862,955</u> | <u>\$ 39,096,594</u> |

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

Commitments under construction contracts at September 30, 2007 are summarized as follows:

| <u>Project</u> | <u>Contract Amount</u> | <u>Remaining Balance</u> |
|--------------------------|----------------------------|------------------------------|
| Library | \$ 4,511,667 | \$ 1,669,925 |
| Snowden Grove Box Office | 241,000 | 9,908 |
| City Hall Renovations | 49,648 | 2,651 |
| | | <u>\$ 1,682,484</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:*

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

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 | 2,335,000 |
| | 4.20% | | | | |
| 1998 | 5.00% | 1-Mar-99 | 1-Sep-08 | 1,045,000 | 125,000 |
| 1998 | 6.00% | 1-Mar-99 | 1-Sep-08 | 285,000 | 35,000 |
| 1998 | 4.00% | 1-Sep-98 | 1-Sep-13 | 1,700,000 | 825,000 |
| | 5.88% | | | | |
| 1999 | 4.30% | 1-Jun-99 | 1-Jun-19 | 2,500,000 | 1,765,000 |
| | 6.13% | | | | |
| 1999 | 4.13% | 1-Sep-99 | 1-Sep-19 | 5,000,000 | 3,580,000 |
| | 5.75% | | | | |
| 2000 | 4.75% | 1-Oct-00 | 1-Nov-20 | 5,000,000 | 3,995,000 |
| | 6.75% | | | | |
| 2000 | 4.50% | 1-Oct-01 | 1-Oct-21 | 5,000,000 | 3,945,000 |
| 2001 | 5.50% | 1-Mar-00 | 1-Mar-20 | 6,000,000 | 525,000 |
| | 5.25% | | | | |
| 2003 | 3.64% | 1-Jul-03 | 1-Jul-23 | 4,000,000 | 3,465,000 |
| 2004 | 4.24% | 11-Mar-04 | 1-Mar-24 | 4,500,000 | 4,060,000 |
| 2004 | 4.02% | 1-Dec-04 | 1-Dec-24 | 4,500,000 | 4,215,000 |
| 2005 | 3.97% | 1-Dec-05 | 1-Dec-25 | 4,500,000 | 4,360,000 |
| 2007 | 4.37% | 1-Jul-07 | 1-Jul-27 | 6,000,000 | 6,000,000 |
| | 5.50% | | | | |
| 2007 | 3.70% | 1-Mar-07 | 1-Sep-20 | 4,185,000 | 4,185,000 |
| | 4.25% | | | | |
| 1996 Water/Sewer | 4.10% | 1-Mar-96 | 1-Mar-11 | 1,850,000 | 660,000 |
| | 5.25% | | | | |
| <i>Total general obligation bonds</i> | | | | <u>\$ 59,565,000</u> | <u>\$ 44,075,000</u> |

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

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> | <i>3.00%</i> | <i>15-Apr-98</i> | <i>1-Aug-08</i> | <i>\$ 629,802</i> | <i>\$ 65,908</i> |
| <i>Whitten Family Trust</i> | <i>6.00%</i> | <i>27-Jun-03</i> | <i>21-Jun-13</i> | <i>575,640</i> | <i>319,800</i> |
| <i>MS Development Bank - 2001</i> | <i>3.00%</i> | <i>7-Jun-02</i> | <i>7-Jun-22</i> | <i>453,831</i> | <i>336,591</i> |
| <i>MS Development Bank - 2001</i> | <i>3.00%</i> | <i>11-Dec-02</i> | <i>11-Dec-22</i> | <i>3,357,883</i> | <i>2,546,394</i> |
| <i>MS Dept of Health DWSLRF</i> | <i>3.00%</i> | <i>1-Dec-02</i> | <i>1-Sep-22</i> | <i>1,400,961</i> | <i>1,154,003</i> |
| <i>MS Dept of Health DWSLRF</i> | <i>3.00%</i> | <i>1-Jan-03</i> | <i>1-Oct-22</i> | <i>1,361,525</i> | <i>1,120,160</i> |
| <i>MS Dept of Health DWSLRF</i> | <i>3.00%</i> | <i>1-Jul-03</i> | <i>1-Apr-23</i> | <i>1,250,436</i> | <i>1,056,465</i> |
| <i>MS Development Bank - 2004</i> | <i>3.00%</i> | <i>11-Mar-04</i> | <i>1-Feb-24</i> | <i>1,188,287</i> | <i>975,389</i> |
| <i>MS Dept of Health DWSLRF</i> | <i>4.00%</i> | <i>20-Sep-04</i> | <i>1-Jul-24</i> | <i>1,425,168</i> | <i>1,278,525</i> |
| <i>Bancorsouth - 2004</i> | <i>4.24%</i> | <i>30-Jan-04</i> | <i>30-Jan-14</i> | <i>775,000</i> | <i>575,317</i> |
| <i>Bancorsouth - 2004</i> | <i>4.24%</i> | <i>24-Feb-04</i> | <i>5-Mar-14</i> | <i>450,000</i> | <i>334,153</i> |
| <i>Bancorsouth - 2005</i> | <i>4.08%</i> | <i>1-Feb-06</i> | <i>1-Feb-16</i> | <i>4,000,000</i> | <i>3,729,655</i> |
| <i>Merchants & Farmers - 2005</i> | <i>4.10%</i> | <i>1-Aug-06</i> | <i>1-Aug-16</i> | <i>1,900,000</i> | <i>1,742,917</i> |
| <i>Bancorsouth - 2007</i> | <i>4.50%</i> | <i>4-Dec-06</i> | <i>5-Jan-12</i> | <i>370,769</i> | <i>370,769</i> |
| <i>Total notes</i> | | | | <u><u><i>\$ 19,139,302</i></u></u> | <u><u><i>\$ 15,606,046</i></u></u> |

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

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 | \$ 80,000 |
| 1999 S Lake Phase I | 4.95% | 2-Mar-99 | 1-Mar-19 | 560,000 | 390,000 |
| 1999 S Lake Phase II | 4.45% | 1-Mar-01 | 1-Mar-09 | 1,900,000 | 540,000 |
| | 4.60% | | | | |
| 2001 Sam's Club | 4.93% | 1-Apr-01 | 1-Apr-13 | 500,000 | 305,000 |
| | 5.30% | | | | |
| 2005A Towne Cener | 4.07% | 30-Sep-06 | 30-Sep-20 | 5,000,000 | 4,720,000 |
| | 4.63% | | | | |
| 2005B Towne Center | 5.94% | 30-Sep-06 | 30-Sep-20 | 4,200,000 | 3,990,000 |
| | 6.64% | | | | |
| <i>Total TIF Bonds</i> | | | | <u>\$ 12,480,000</u> | <u>\$ 10,025,000</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> |
|----------------------------|----------------------|-------------------|----------------------|-----------------------|-----------------------|
| 1998 Water/Sewer | 4.05% | 1-Jun-98 | 1-Sep-12 | 4,185,000 | \$ 2,040,000 |
| | 4.65% | | | | |
| 2003 Water/Sewer | 4.00% | 23-Dec-03 | 1-Dec-23 | 4,500,000 | 4,070,000 |
| | 4.65% | | | | |
| 2006 Water/Sewer | 4.00% | 1-Mar-06 | 1-Mar-31 | 9,000,000 | 8,810,000 |
| | 5.50% | | | | |
| 2007 Water/Sewer | 4.12% | 1-Aug-07 | 1-Aug-27 | 5,400,000 | 5,400,000 |
| | 5.00% | | | | |
| <i>Total Revenue Bonds</i> | | | | <u>\$ 147,738,604</u> | <u>\$ 116,317,092</u> |

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

Annual requirements to retire debt obligations

The aggregate maturities of general obligation bonds and loans for the years subsequent to September 30, 2007 as follows:

| <u>September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------|----------------------|----------------------|----------------------|----------------------|
| 2008 | \$ 3,873,037 | \$ 3,016,419 | \$ 1,522,447 | \$ 1,240,965 |
| 2009 | 3,815,712 | 2,838,202 | 1,579,927 | 1,179,021 |
| 2010 | 3,715,887 | 2,406,852 | 1,554,458 | 1,051,188 |
| 2011 | 3,866,504 | 3,472,052 | 1,465,646 | 872,442 |
| 2012 | 4,236,917 | 2,079,958 | 1,343,902 | 814,248 |
| 2013-2017 | 22,706,322 | 7,593,010 | 5,093,384 | 3,444,406 |
| 2018-2022 | 16,276,800 | 2,790,658 | 6,340,604 | 2,303,901 |
| 2023-2027 | 5,288,917 | 494,822 | 5,080,582 | 1,068,217 |
| 2028-2031 | - | - | 2,265,000 | 209,934 |
| <i>Total</i> | <u>\$ 63,780,096</u> | <u>\$ 24,691,973</u> | <u>\$ 26,245,950</u> | <u>\$ 12,184,322</u> |

Advanced Refunding – On July 1, the City of Southaven, Mississippi, issued \$4,185,000 in 2006 Special Obligation Refunding Bonds with a rate of 3.70% to currently refund the 2000 Special Obligation Bonds which had an average rate of 5.37%. The 2000 Special Obligation Bond had a balance of \$5,160,000 at the time of refunding. The difference of \$600,149 between the new balance and the balance paid off was \$210,000 for debt service and \$390,149 for net bond issuance costs.

Long-term activity for the year ended September 30, 2007 was as follows:

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

| | <i>Balance at</i> <u>9/30/2006</u> | <i>Additions</i> | <i>Deletions</i> | <i>Balance at</i> <u>9/30/2007</u> | <i>Amounts</i> <i>Due Within</i> <i>One Year</i> |
|---|---------------------------------------|----------------------|---------------------|---------------------------------------|--|
| <i>Governmental activities:</i> | | | | | |
| General obligation bonds payable | \$ 39,590,000 | \$ 10,185,000 | \$ 6,360,000 | \$ 43,415,000 | \$ 2,225,000 |
| Tax increment financing bonds payable | 10,865,000 | - | 840,000 | 10,025,000 | 865,000 |
| Notes payable | 10,758,319 | 370,769 | 788,992 | 10,340,096 | 551,954 |
| Leases payable | 477,605 | 263,579 | 148,186 | 592,998 | 98,136 |
| Compensated absences | <u>393,411</u> | <u>137,373</u> | <u>-</u> | <u>530,784</u> | <u>-</u> |
| <i>Governmental activities long-term liabilities</i> | <u>\$ 62,084,335</u> | <u>\$ 10,956,721</u> | <u>\$ 8,137,178</u> | <u>\$ 64,903,878</u> | <u>\$ 3,740,090</u> |
| <i>Business-type activities:</i> | | | | | |
| General obligation bonds payable | \$ 800,000 | \$ - | \$ 140,000 | \$ 660,000 | \$ 150,000 |
| Revenue bonds payable | 15,605,000 | 5,400,000 | 685,000 | 20,320,000 | 895,000 |
| Notes payable | 5,486,161 | - | 220,212 | 5,265,949 | 477,447 |
| Leases payable | 27,234 | 704,303 | 17,358 | 714,179 | 51,354 |
| Compensated absences | <u>16,308</u> | <u>6,103</u> | <u>-</u> | <u>22,411</u> | <u>-</u> |
| <i>Business-type activities long-term liabilities</i> | <u>\$ 21,934,703</u> | <u>\$ 6,110,406</u> | <u>\$ 1,062,570</u> | <u>\$ 26,982,539</u> | <u>\$ 1,573,801</u> |

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

(6) Capital Leases

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2007 were as follows:

| <u>September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------|-------------------|------------------|-------------------|-------------------|
| 2008 | \$ 417,343 | \$ 17,576 | \$ 51,354 | \$ 30,725 |
| 2009 | 85,982 | 7,539 | 43,275 | 28,725 |
| 2010 | 89,673 | 3,849 | 45,150 | 26,850 |
| 2011 | - | - | 47,107 | 24,893 |
| 2012 | - | - | 49,148 | 22,852 |
| 2013-2017 | - | - | 279,598 | 80,402 |
| 2018-2022 | - | - | 198,547 | 17,453 |
| <i>Total</i> | <u>\$ 592,998</u> | <u>\$ 28,964</u> | <u>\$ 714,179</u> | <u>\$ 231,900</u> |

(7) Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Southaven is required to contribute at an actuarially determined rate. The current rate is 11.85% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Southaven's contributions to PERS for the year ending September 30, 2007, and 2006, were \$1,443,565, and \$1,205,187 respectively, equal to the required contributions for each year.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

(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> | - | 906,864 |
| <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> | 375,222 | - |
| <i>Total general fund</i> | <u>3,086,287</u> | <u>1,285,669</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> | 392,654 | - |
| <i>Total capital project fund</i> | <u>920,091</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 | 593,223 |
| <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>909,079</u> |
| <i>Utility fund</i> | | |
| <i>Sanitation fund</i> | - | 576,544 |
| <i>TIF fund</i> | - | 17,000 |
| <i>General fund</i> | - | 222,511 |
| <i>Park bond fund</i> | - | 392,655 |
| <i>Total utility fund</i> | <u>-</u> | <u>1,208,710</u> |
| <i>Sanitation fund</i> | | |
| <i>Utility fund</i> | 576,544 | - |
| <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>1,143,841</u> | <u>6,780</u> |
| <i>Total</i> | <u>\$ 6,213,636</u> | <u>\$ 6,213,636</u> |

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

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

Interfund Transfers

| | <i>Transfers In</i> | <i>Transfers Out</i> |
|-----------------------------------|---------------------|----------------------|
| <i>General fund</i> | | |
| <i>Utility fund</i> | \$ - | \$ 150,000 |
| <i>Total general fund</i> | <u>-</u> | <u>150,000</u> |
| <i>Capital project fund</i> | | |
| <i>Utility fund</i> | <u>61,065</u> | |
| <i>Total capital project fund</i> | <u>61,065</u> | <u>-</u> |
| <i>Utility fund</i> | | |
| <i>General fund</i> | 150,000 | |
| <i>Capital project fund</i> | | 61,065 |
| <i>Sanitation fund</i> | | <u>205,340</u> |
| <i>Total utility fund</i> | <u>150,000</u> | <u>266,405</u> |
| <i>Sanitation fund</i> | | |
| <i>Utility fund</i> | <u>205,340</u> | <u>-</u> |
| <i>Total sanitation fund</i> | <u>205,340</u> | <u>-</u> |
| <i>Total</i> | <u>\$ 416,405</u> | <u>\$ 416,405</u> |

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

(9) Intergovernmental Receivables

Intergovernmental Receivables consist of the following:

| | <i>General Fund</i> |
|--------------------------------|-------------------------|
| <i>County pro rata</i> | |
| <i>Ad valorem</i> | \$ 245,762 |
| <i>Franchise and Sales tax</i> | 907,312 |
| <i>Miscellaneous</i> | <u>18,950</u> |
| <i>Totals</i> | <u>\$ 1,172,024</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.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2007

(11) Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

| <i>Governmental Activities Explanations</i> | <u>Amount</u> |
|---|-----------------------|
| (1) Governmental construction in progress was overstated in the prior year. | <u>(\$ 1,182,477)</u> |
| <i>Total governmental adjustments</i> | <u>(\$ 1,182,477)</u> |
| <i>Proprietary Activities Explanations</i> | <u>Amount</u> |
| (1) Proprietary construction in progress was understated in the prior year. | <u>\$ 862,955</u> |
| <i>Total proprietary adjustments</i> | <u>\$ 862,955</u> |

(12) Deficit Fund Balances

A deficit unreserved fund balance of \$408,015 exists in the bond funded capital project fund. The deficit results from a deficiency of total revenue under total expenditures plus beginning fund balance.

A deficit unreserved fund balance of \$278,989 exists in the debt service fund. The deficit results from a deficiency of total revenue under total expenditures plus beginning fund balance.

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

| | |
|---|---------------------|
| <i>Governmental activities:</i> | |
| <i>General government</i> | \$ 348,037 |
| <i>Culture and recreation</i> | 1,056,090 |
| <i>Public safety</i> | 1,226,552 |
| <i>Public works</i> | <u>3,927,751</u> |
| <i>Total depreciation expense, governmental activities</i> | <u>\$ 6,558,430</u> |
| <i>Business-type activities:</i> | |
| <i>Water and Sewer</i> | \$ 351,922 |
| <i>Sanitation</i> | <u>142,679</u> |
| <i>Total depreciation expense, business-type activities</i> | <u>\$ 494,601</u> |

CITY OF SOUTHAVEN, MISSISSIPPI
 Budgetary Comparison Schedule
 For the Year Ended September 30, 2007

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget |
|--|--------------------|---------------------|-----------------------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 9,065,900 | \$ 8,630,534 | \$ 8,253,693 | \$ (376,841) |
| Licenses and permits | 2,489,000 | 2,477,000 | 2,518,623 | 41,623 |
| Intergovernmental | 10,610,000 | 11,768,127 | 11,166,083 | (602,044) |
| Charges for services | 2,808,262 | 3,104,762 | 2,882,125 | (222,637) |
| Fines | 1,460,000 | 2,010,000 | 2,157,556 | 147,556 |
| Interest | 200,000 | 390,000 | 535,974 | 145,974 |
| Miscellaneous | 209,341 | 872,841 | 585,665 | (287,176) |
| Total revenues | <u>26,842,503</u> | <u>29,253,264</u> | <u>28,099,719</u> | <u>(1,153,545)</u> |
| Expenditures | | | | |
| Administrative | 3,969,825 | 4,408,095 | 4,208,458 | (199,637) |
| Capital outlay | 700,000 | 3,962,171 | 3,746,390 | (215,781) |
| Culture & recreation | 5,246,800 | 5,515,331 | 5,286,557 | (228,774) |
| Facilities management | 700,000 | 679,000 | 676,746 | (2,254) |
| Fire | 6,454,311 | 6,554,989 | 6,325,079 | (229,910) |
| Health & welfare | 212,227 | 216,727 | 211,472 | (5,255) |
| Insurance | 525,000 | 585,000 | 584,483 | (517) |
| Miscellaneous | 1,548,508 | 1,410,052 | 1,308,203 | (101,849) |
| Police | 7,142,000 | 7,381,936 | 7,308,577 | (73,359) |
| Public works | 1,432,240 | 1,312,240 | 1,140,557 | (171,683) |
| Total expenditures | <u>27,930,911</u> | <u>32,025,541</u> | <u>30,796,522</u> | <u>(1,229,019)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,088,408)</u> | <u>(2,772,277)</u> | <u>(2,696,803)</u> | <u>75,474</u> |
| Other financing sources (uses) | | | | |
| Grant revenue | - | - | 415,000 | 415,000 |
| Rents | 370,000 | 411,000 | 497,359 | 86,359 |
| Sale of assets | 10,000 | 105,000 | 114,998 | 9,998 |
| Interfund transfers | 909,761 | 2,091,079 | (150,000) | (2,241,079) |
| Lease proceeds | - | - | 634,348 | 634,348 |
| Total other financing sources(uses) | <u>1,289,761</u> | <u>2,607,079</u> | <u>1,511,705</u> | <u>(1,095,374)</u> |
| Net changes in fund balances | <u>\$ 201,353</u> | <u>\$ (165,198)</u> | <u>(1,185,098)</u> | <u>\$ (1,019,900)</u> |
| Fund balance - beginning of year | | | <u>6,454,718</u> | |
| Fund balance - end of year | | | 5,269,620 | |
| Adjustments to conform with GAAP: | | | | |
| Revenues | | | 2,025,380 | |
| Expenditures | | | <u>(2,047,401)</u> | |
| Fund balance - end of year(GAAP basis) | | | <u>\$ 5,247,599</u> | |

CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Surety Bonds for Municipal Officials
 Year Ended September 30, 2007

Fidelity Bonds

Fidelity bonds in force at September 30, 2007 were as follows:

| <u>Name</u> | <u>Position</u> | <u>Bond Amount</u> |
|-------------------------|-------------------------------|------------------------|
| Charles G. Davis | Mayor | \$ 100,000 |
| Greg Guy | Alderman | 100,000 |
| James Stark | Alderman | 100,000 |
| James Loftis | Alderman | 100,000 |
| Ricky Jobes | Alderman | 100,000 |
| Lorine Cady | Alderman | 100,000 |
| Paul Ollar | Alderman | 100,000 |
| Randall Huling | Alderman | 100,000 |
| Glenda Smallwood | City Clerk | 100,000 |
| Blanket Policy Officers | Police Officer per officer | 10,000 |
| William T. Long | Police Chief | 25,000 |
| Michael Brackin | 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, 2007, which collectively comprise the City of Southaven, Mississippi's basic financial statements and have issued our report thereon dated February 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

The Court department, for the last two years, has exhibited substantial and significant internal control weaknesses. We strongly recommend that immediate action be implemented.

Establish Initial Control Over Cash Receipts

Since cash is so readily subject to error and mishandling, effective control of checks, currency, and other cash items, such as credit cards and money orders, should begin at the time of receipt. The person who opens incoming mail should prepare a detailed list of cash items received daily, at the time of opening the mail and before the cash items are routed to the person responsible for depositing funds. We also recommend that preprinted, prenumbered receipts be given for all collections and that copies be retained for audit purposes.

During the prior and current year audits, the type of payment for cash items was not being utilized in the computer software. We recommend that when entering the Court fine payments into Munis that the payment type be properly used and reconciled back to the bank deposit. This establishes an adequate audit trail.

Deposit Cash Receipts on a Timely Basis

Cash receipts are not being deposited on a timely basis. An internal audit of controls uncovered payments, several money orders and checks that were written six months or more prior to being deposited. Each cash item received should be deposited daily, with no exceptions. Also, a periodic examination of the deposit activity is recommended to eliminate the possible misappropriation of cash.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC
Certified Public Accountants
February 21, 2008

**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, 2007, and have issued our report thereon dated February 21, 2008.

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
February 21, 2008