

CITY OF SOUTHAVEN, MISSISSIPPI
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2004

CITY OF SOUTHAVEN, MISSISSIPPI

**ANNUAL FINANCIAL REPORT
Year Ended September 30, 2004**

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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, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southaven's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Southaven, Mississippi as of September 30, 2004, 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.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of September 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Southaven's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2005 on our consideration of the City of Southaven's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

July 15, 2005

City of Southaven, Mississippi

Management's Analysis and Discussion

FY 2004



Prepared by Chris Wilson, City Administrator/CAO

City of Southaven Socioeconomic Characteristics

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

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

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

Housing 72% of Southaven residents own their housing unit while 28% rent. The average household size for the owner-occupied residence is 2.65, while the average renter-occupied unit size is 2.54. 96% of all Southaven housing units are considered occupied, while 4% are considered vacant.

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

The primary source of revenues for the City of Southaven remains sales tax and the municipal reimbursement delivered by the State of Mississippi. While much of the nation, and many states and local governments, have been faced with severe fiscal constraints and budgetary crisis, Southaven, Mississippi remains financially strong and, in fact, once again achieved new highs in revenues.

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

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

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

Financial Highlights

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

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

Fiscal Year 2004 Budget Highlights

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

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

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

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

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

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

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

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

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

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

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

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

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

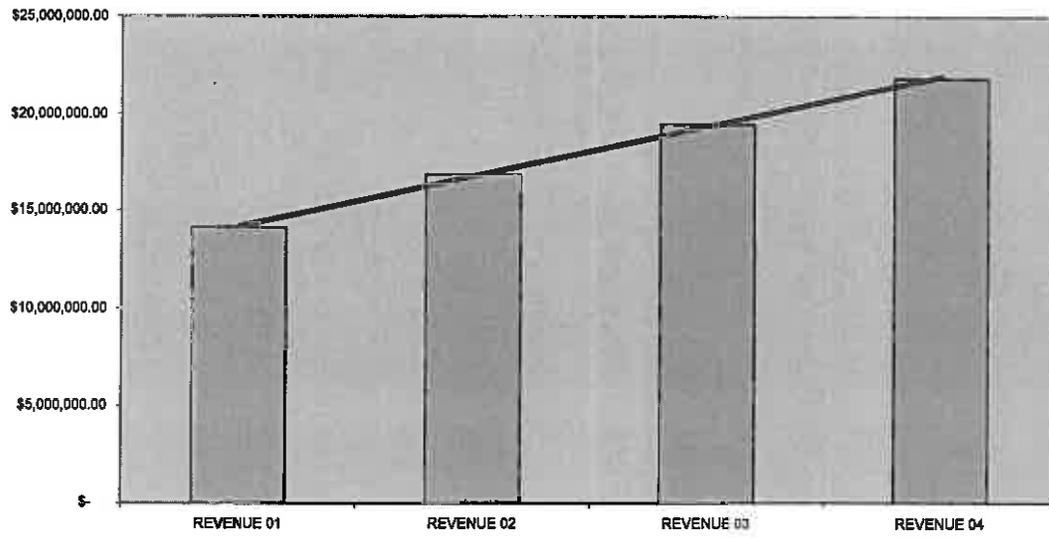
The Southaven **Parks and Recreation** department continues to grow to fill the needs and demands of an ever increasing parks and recreational system. The FY 04 budgeted amount for the Park's department is set at \$1,900,888.00.

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

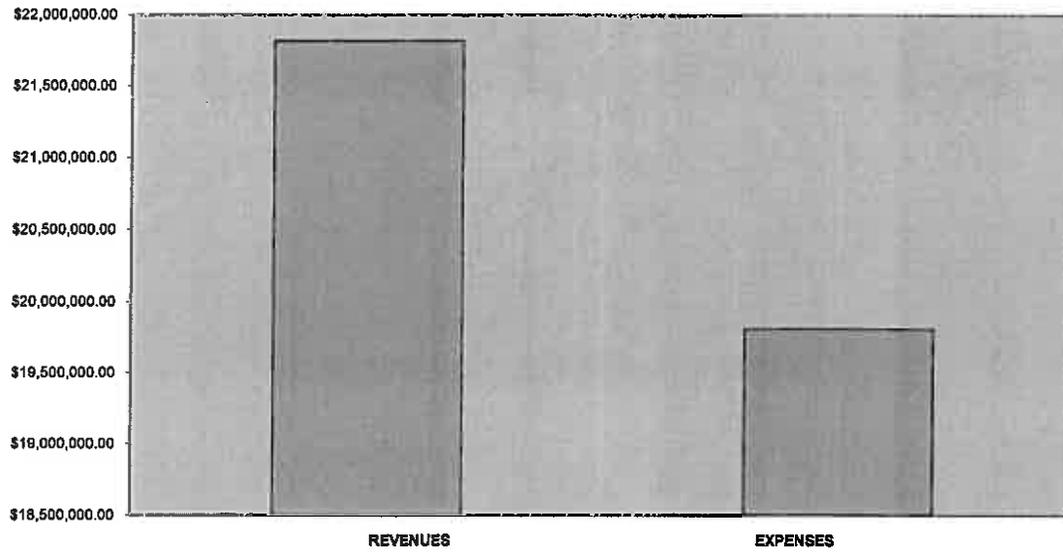
The Southaven **Police Department** continues to serve the community with pride and professionalism unmatched by any police force in the area. For FY 2004 the Southaven Police department will have an operating budget of over \$5.57M.

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

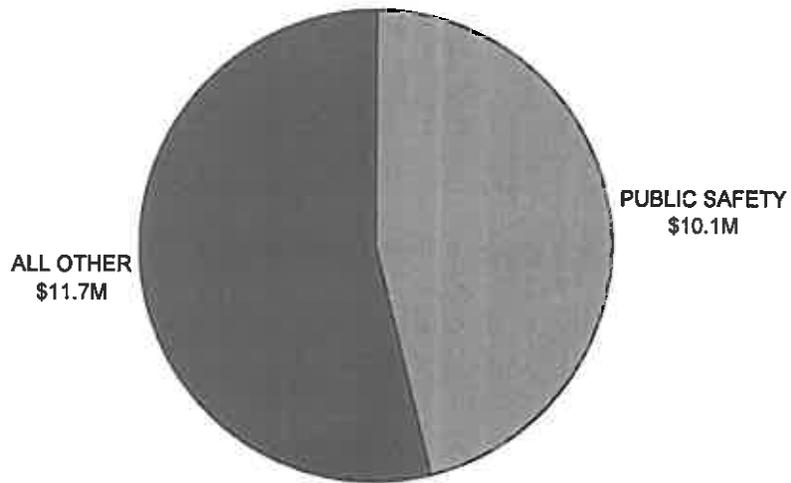
GENERAL FUND REVENUE COMPARISON



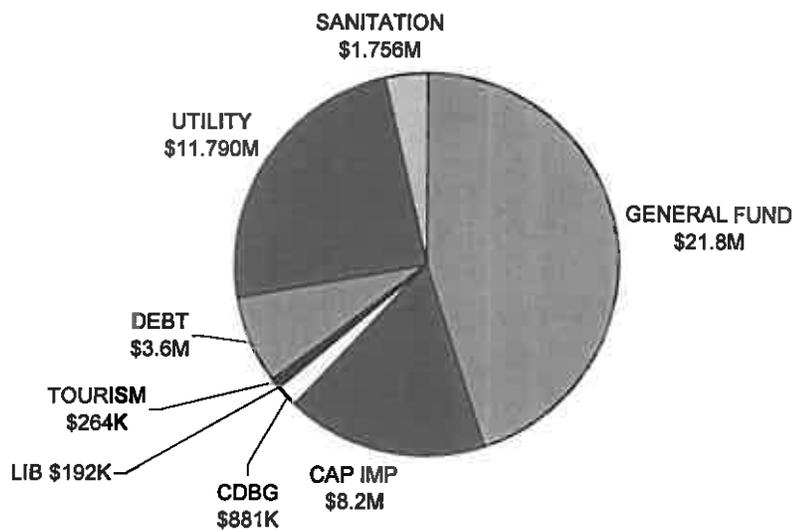
FY 2004 GENERAL FUND REVENUE AND EXPENSES



FY 2004 GENERAL FUND EXPENSES



FY 2004 BUDGET



BASIC FINANCIAL STATEMENTS

CITY OF SOUTHAVEN, MISSISSIPPI
Statement of Net Assets
September 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in bank and on hand	\$ 1,264,317	\$ 2,584,020	\$ 3,848,337
Accounts receivable	227,176	382,175	609,351
Intergovernmental receivable	995,483	-	995,483
Franchise tax receivable	321,220	-	321,220
Prepaid expense	28,939	47,126	76,065
Due from other funds	9,865,553	1,139,911	11,005,464
Restricted assets:			
Cash in bank	-	424,141	424,141
Bond issue costs (net)	-	59,338	59,338
Deferred loss on bond refunding	-	344,390	344,390
Fixed assets (net, where applicable, of accumulated depreciation)	<u>66,627,068</u>	<u>23,317,369</u>	<u>89,944,437</u>
Total assets and other debits	<u>79,329,756</u>	<u>28,298,470</u>	<u>107,628,226</u>
Liabilities			
Accounts payable	539,112	138,417	677,529
Customer deposits	-	424,141	424,141
Due to other funds	8,436,353	2,569,112	11,005,465
Current liabilities			
General obligation bonds payable	1,665,000	125,000	1,790,000
Loans payable	422,240	460,230	882,470
Leases payable	96,381	-	96,381
Revenue bonds payable	315,000	450,000	765,000
Compensated absences	317,408	21,456	338,864
Noncurrent liabilities			
General obligation bonds payable	32,940,000	935,000	33,875,000
Loans payable	6,918,259	5,863,971	12,782,230
Leases payable	360,965	-	360,965
Revenue bonds payable	<u>2,000,000</u>	<u>7,080,000</u>	<u>9,080,000</u>
Total liabilities	<u>54,010,718</u>	<u>18,067,327</u>	<u>72,078,045</u>
Net assets			
Invested in capital assets, net of related debt	21,591,815	8,381,712	29,973,527
Restricted for:			
Capital projects	(1,176,689)	-	(1,176,689)
Debt service	(2,974,441)	-	(2,974,441)
Unrestricted	<u>7,878,353</u>	<u>1,849,431</u>	<u>9,727,784</u>
Total net assets	<u>\$ 25,319,038</u>	<u>\$ 10,231,143</u>	<u>\$ 35,550,181</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, 2004

	General Fund	Bond Funded Capital Project	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in bank and on hand	\$ 1,672,898	\$ 147,740	\$ -	\$ (556,321)	\$ 1,264,317
Due from other funds	6,308,418	920,091	1,122,940	1,514,104	9,865,553
Accounts receivable	227,177	-	-	-	227,177
Intergovernmental receivable	993,729	-	-	1,754	995,483
Franchise tax receivable	321,220	-	-	-	321,220
Prepaid expenses	450	28,489	-	-	28,939
	<u>9,523,892</u>	<u>1,096,320</u>	<u>1,122,940</u>	<u>959,537</u>	<u>12,702,689</u>
Total assets	\$ 9,523,892	\$ 1,096,320	\$ 1,122,940	\$ 959,537	\$ 12,702,689
Liabilities					
Accounts payable	\$ 393,296	\$ 2,456	\$ -	\$ 143,361	\$ 539,113
Due to other funds	1,501,745	2,270,553	4,097,381	566,674	8,436,353
	<u>1,895,041</u>	<u>2,273,009</u>	<u>4,097,381</u>	<u>710,035</u>	<u>8,975,466</u>
Total liabilities	1,895,041	2,273,009	4,097,381	710,035	8,975,466
Fund balances					
Reserved for:					
Capital projects	-	(1,176,689)	-	-	(1,176,689)
Debt service	-	-	(2,974,441)	-	(2,974,441)
Unreserved	7,628,851	-	-	249,502	7,878,353
	<u>7,628,851</u>	<u>(1,176,689)</u>	<u>(2,974,441)</u>	<u>249,502</u>	<u>3,727,223</u>
Total fund balances	7,628,851	(1,176,689)	(2,974,441)	249,502	3,727,223
Total liabilities and fund balances	\$ 9,523,892	\$ 1,096,320	\$ 1,122,940	\$ 959,537	\$ 12,702,689

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

CITY OF SOUTHAVEN, MISSISSIPPI
 Reconciliation of the Governmental Funds Balance Sheet
 September 30, 2004

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

Total Fund Balance - Governmental Funds **\$ 3,727,223**

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	1,089,600	
Buildings and improvements	23,638,157	
Equipment and vehicles	5,639,281	
Infrastructure	55,656,190	
Accumulated depreciation	<u>(19,396,160)</u>	
		66,627,068

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	(7,340,499)	
Leases payable	(457,346)	
General obligation and revenue bonds	(36,920,000)	
Compensated absences	<u>(317,408)</u>	
		<u>(45,035,253)</u>

Net Assets of Governmental Activities **\$ 25,319,038**

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, 2004

	General Fund	Bond Funded Capital Project	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 6,090,138	\$ -	\$ 3,483,776	\$ 192,069	\$ 9,765,983
Licenses and permits	2,422,904	-	-	-	2,422,904
Intergovernmental	9,261,143	-	-	89,018	9,350,161
Charges for services	1,030,919	-	-	162,970	1,193,889
Fines	1,739,959	-	-	-	1,739,959
Interest	125,655	-	-	3,509	129,164
Miscellaneous	186,203	35,956	-	21,949	244,108
Total revenues	20,856,921	35,956	3,483,776	469,515	24,846,168
Expenditures					
Administrative	2,860,478	-	-	-	2,860,478
Capital outlay	1,481,349	8,202,547	-	657,400	10,341,296
Culture & recreation	1,966,391	-	-	-	1,966,391
Facilities management	579,446	-	-	-	579,446
Fire	5,083,218	-	-	-	5,083,218
Health & welfare	226,332	-	-	-	226,332
Insurance	519,653	-	-	-	519,653
Library	-	-	-	192,000	192,000
Miscellaneous	1,859,400	-	-	58	1,859,458
Police	5,393,083	-	-	-	5,393,083
Public works	1,122,152	-	-	-	1,122,152
Tourism & convention	-	-	-	258,636	258,636
Debt service					
Principal	390,693	-	2,849,020	-	3,239,713
Interest	44,975	-	1,879,245	-	1,924,220
Bond issue cost	-	137,702	23,990	-	161,692
Total expenditures	21,527,170	8,340,249	4,752,255	1,108,094	35,727,768
Excess (deficiency) of revenues over (under) expenditures	(670,249)	(8,304,293)	(1,268,479)	(638,579)	(10,881,600)
Other financing sources (uses)					
Grant revenue	-	-	-	1,607,148	1,607,148
Rents	280,276	-	-	-	280,276
Sale of assets	449,114	-	-	-	449,114
Interfund transfers	(968,479)	949,253	1,268,479	(1,138,183)	111,070
Loan proceeds	1,225,000	1,188,287	-	-	2,413,287
Lease proceeds	435,397	-	-	-	435,397
Bond proceeds	-	4,500,000	-	-	4,500,000
Total other financing sources (uses)	1,421,308	6,637,540	1,268,479	468,965	9,796,292
Net change in fund balances	751,059	(1,666,753)	-	(169,614)	(1,085,308)
Fund balance - beginning of year	6,877,792	490,064	(2,974,441)	419,116	4,812,531
Fund balance - end of year	\$ 7,628,851	\$ (1,176,689)	\$ (2,974,441)	\$ 249,502	\$ 3,727,223

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

CITY OF SOUTHAVEN, MISSISSIPPI
 Reconciliation of Revenues, Expenditures, and Changes in Fund
 Balances of Government Funds to the Statement of Activities
 For The Year Ended September 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (1,085,308)

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 (\$11,615,770) exceeded depreciation (\$4,120,603)
 in the current period. 7,495,167

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 (\$7,348,684) exceeded repayments
 (\$3,239,713). (4,108,971)

Some expenses reported in the statement of activities do not require the use
 of current financial resources and therefore are not reported as expenditures
 in the governmental funds. This is the amount by which the increase is
 compensated absences payable. (13,474)

Change in Net Assets of Governmental Activities \$ 2,287,414

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, 2004

	Utility Fund	Sanitation Fund	Total
Assets			
Current assets			
Cash in bank and on hand	\$ 1,510,606	\$ 1,073,414	\$ 2,584,020
Accounts receivable(net of allowance for doubtful accounts)	379,510	2,665	382,175
Due from other funds	-	1,139,911	1,139,911
Total current assets	1,890,116	2,215,990	4,106,106
Restricted assets:			
Cash	424,141	-	424,141
Other assets			
Prepaid expenses	47,126	-	47,126
Deferred loss on bond refunding	344,390	-	344,390
Bond issue cost (net)	59,338	-	59,338
Total other assets	450,854	-	450,854
Fixed assets			
Land	300,580	-	300,580
Buildings	193,552	-	193,552
Improvements	5,696	-	5,696
Machinery and equipment	29,149,511	578,494	29,728,005
Vehicles	161,131	1,979,450	2,140,581
Accumulated depreciation	(7,455,620)	(1,595,425)	(9,051,045)
Total fixed assets	22,354,850	962,519	23,317,369
Total assets	\$ 25,119,961	\$ 3,178,509	\$ 28,298,470
Liabilities and fund equity			
Current liabilities			
Accounts payable	\$ 120,267	\$ 18,150	\$ 138,417
Due to other funds	1,857,295	711,817	2,569,112
Total current liabilities	1,977,562	729,967	2,707,530
Current liabilities payable from restricted assets			
Leases payable	-	-	-
Notes payable	460,230	-	460,230
Revenue bonds payable	450,000	-	450,000
General obligation bond payable	125,000	-	125,000
Compensated absences	15,939	5,517	21,456
Customer deposits	424,141	-	424,141
Total current liabilities payable from restricted assets	1,475,310	5,517	1,480,827
Long-term liabilities			
Notes payable	5,863,971	-	5,863,971
Revenue bonds payable	7,080,000	-	7,080,000
General obligation bond payable	935,000	-	935,000
Total long-term liabilities	13,878,971	-	13,878,971
Total liabilities	17,331,843	735,484	18,067,327
Fund equity			
Net assets	7,788,118	2,443,025	10,231,143
Total fund equity	7,788,118	2,443,025	10,231,143
Total liabilities and fund equity	\$ 25,119,961	\$ 3,178,509	\$ 28,298,470

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, 2004

	<u>Utility</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues			
Taxes	\$ -	\$ 1,537,743	\$ 1,537,743
Water and sewer sales	5,013,634	13,343	5,026,977
Miscellaneous	5,155	10,781	15,936
	<u>5,018,789</u>	<u>1,561,867</u>	<u>6,580,656</u>
Total operating revenues			
Operating expenses			
Personnel	623,175	356,140	979,315
Supplies	333,544	33,804	367,348
Depreciation	737,957	207,327	945,284
Maintenance and other	1,597,738	128,425	1,726,163
Professional services	179,826	619,796	799,622
	<u>3,472,240</u>	<u>1,345,492</u>	<u>4,817,732</u>
Total operating expenses			
Operating income	<u>1,546,549</u>	<u>216,375</u>	<u>1,762,924</u>
Non-operating revenues (expenses)			
Interest revenue	4,379	1,201	5,580
Interfund transfers	188,930	(300,000)	(111,070)
Interest expense	(931,848)	-	(931,848)
	<u>(738,539)</u>	<u>(298,799)</u>	<u>(1,037,338)</u>
Total non-operating revenues (expenses)			
Net income	808,010	(82,424)	725,586
Net assets - beginning of year	<u>6,980,108</u>	<u>2,525,448</u>	<u>9,505,556</u>
Net assets - end of year	<u>\$ 7,788,118</u>	<u>\$ 2,443,024</u>	<u>\$ 10,231,142</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, 2004

	Utility Fund	Sanitation Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 5,313,883	\$ 1,560,766	\$ 6,874,649
Cash payments for goods and services	(2,089,701)	(859,557)	(2,949,258)
Cash payments to employees	(607,236)	(350,623)	(957,859)
Net cash provided by operating activities	<u>2,616,946</u>	<u>350,586</u>	<u>2,967,532</u>
Cash flows from noncapital financing activities			
Payment of due to		77,677	77,677
Receipt of due from		(256)	(256)
Transfers to other funds	776,106	34,576	810,682
Net cash provided by noncapital financing activities	<u>776,106</u>	<u>111,997</u>	<u>888,103</u>
Cash flows from capital and related financing activities			
Payments for capital acquisitions	(5,033,275)	(330,150)	(5,363,425)
Customer deposits	34,796	-	34,796
Loan proceeds	6,940,056	-	6,940,056
Principal payments on debt	(1,951,613)	-	(1,951,613)
Interest payments on debt	(931,848)	-	(931,848)
Net cash provided by capital and related financing activities	<u>(941,884)</u>	<u>(330,150)</u>	<u>(1,272,034)</u>
Cash flows from investing activities			
Receipts of interest	4,379	1,201	5,580
Net increase in cash and cash equivalents	2,455,547	133,634	2,589,181
Cash and cash equivalents-beginning of year	(520,800)	939,780	418,980
Cash and cash equivalents-end of year	<u>\$ 1,934,747</u>	<u>\$ 1,073,414</u>	<u>\$ 3,008,161</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 1,546,549	\$ 216,375	\$ 1,762,924
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	737,957	207,327	945,284
(Increase) decrease in customer receivables	295,094	(1,101)	293,993
Increase (decrease) in accounts payable	65,308	(77,532)	(12,224)
Increase (decrease) in accrued expenses	(27,962)	5,517	(22,445)
Total adjustments	<u>1,070,397</u>	<u>134,211</u>	<u>1,204,608</u>
Net cash provided by operating activities	<u>\$ 2,616,946</u>	<u>\$ 350,586</u>	<u>\$ 2,967,532</u>

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

(1) Summary of Significant Accounting Policies

A. General Statement

The City of Southaven was incorporated in 1866. 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 policies 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, 2004

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

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

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

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

E. Basis of Accounting:

Government-Wide Financial Statements

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

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

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

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2004

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

Fund Financial Statements

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

Governmental Funds

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

F. Capital Assets and Depreciation

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

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

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

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

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 depreciation, are recorded in proprietary funds. Proprietary fund types have selected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20.

J. Compensated Absences:

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

K. Net Assets

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations 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, 2004

(4) Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance at</u> <u>9/30/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>9/30/2004</u>
<i>Governmental activities:</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 639,600	\$ 450,000	\$ -	\$ 1,089,600
Construction in progress	2,116,178		2,116,178	-
Total capital assets, not being depreciated:	<u>2,755,778</u>	<u>450,000</u>	<u>2,116,178</u>	<u>1,089,600</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	17,245,665	6,392,492	-	23,638,157
Equipment and vehicles	4,238,771	1,400,511	-	5,639,282
Infrastructure	50,167,244	5,488,945	-	55,656,189
Total capital assets, being depreciated:	<u>71,651,680</u>	<u>13,281,948</u>	<u>-</u>	<u>84,933,628</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(2,352,450)	(613,258)	-	(2,965,708)
Equipment and vehicles	(1,385,660)	(861,759)	-	(2,247,419)
Infrastructure	(11,537,447)	(2,645,586)	-	(14,183,033)
Total accumulated depreciation	<u>(15,275,557)</u>	<u>(4,120,603)</u>	<u>-</u>	<u>(19,396,160)</u>
Total capital assets, being depreciated, net	<u>56,376,123</u>	<u>9,161,345</u>	<u>-</u>	<u>65,537,468</u>
Governmental activities capital assets, net	<u>\$ 59,131,901</u>	<u>\$ 9,611,345</u>	<u>\$ 2,116,178</u>	<u>\$ 66,627,068</u>
<i>Business-type activities:</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 300,580	\$ -	\$ -	\$ 300,580
Total capital assets, not being depreciated:	<u>300,580</u>	<u>-</u>	<u>-</u>	<u>300,580</u>
<i>Capital assets, being depreciated:</i>				
Buildings	193,552	-	-	193,552
Improvements	5,696	-	-	5,696
Equipment	24,694,729	5,033,276	-	29,728,005
Vehicles	1,810,430	330,151	-	2,140,581
Total capital assets, being depreciated:	<u>26,704,407</u>	<u>5,363,427</u>	<u>-</u>	<u>32,067,834</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(191,356)	-	-	(191,356)
Improvements	(5,696)	-	-	(5,696)
Equipment	(6,883,963)	(872,130)	-	(7,756,093)
Vehicles	(1,066,756)	(31,144)	-	(1,097,900)
Total accumulated depreciation	<u>(8,147,711)</u>	<u>(903,274)</u>	<u>-</u>	<u>(9,051,045)</u>
Total capital assets, being depreciated, net	<u>18,556,636</u>	<u>4,460,153</u>	<u>-</u>	<u>23,016,789</u>
Business-type activities capital assets, net	<u>\$ 18,857,216</u>	<u>\$ 4,460,153</u>	<u>\$ -</u>	<u>\$ 23,317,369</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2004

(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:*

<i>Description</i>	<i>Interest Rate</i>	<i>Issue Date</i>	<i>Maturity Date</i>	<i>Amounts Issued</i>	<i>Outstanding</i>
1990	6.50%	1-Mar-90	1-Mar-10	\$ 650,000	\$ -
	9.25%				
1993	3.90%	1-Dec-93	1-Mar-08	1,775,000	780,000
	5.90%				
1996	4.60%	1-Oct-96	1-Oct-01	650,000	-
	4.90%				
1998	3.65%	1-Oct-98	1-Oct-18	3,500,000	2,780,000
	4.20%				
1998	5.00%	1-Mar-99	1-Sep-08	1,045,000	470,000
1998	6.00%	1-Mar-99	1-Sep-08	285,000	130,000
1998	4.00%	1-Sep-98	1-Sep-13	1,700,000	1,155,000
	5.88%				
1999	4.30%	1-Jun-99	1-Jun-19	2,500,000	2,070,000
	6.13%				
1999	4.13%	1-Sep-99	1-Sep-19	5,000,000	4,190,000
	5.75%				
2001	5.50%	1-Mar-00	1-Mar-20	6,000,000	5,600,000
2000	4.75%	1-Oct-00	1-Nov-20	5,000,000	4,545,000
	6.75%				
2000	4.50%	1-Oct-01	1-Oct-21	5,000,000	4,510,000
	5.25%				
2003	3.64%	1-Jul-03	1-Jul-23	4,000,000	3,875,000
2004	4.24%	11-Mar-04	1-Mar-24	4,500,000	4,500,000
<i>Total general obligation bonds</i>				<u>\$ 41,605,000</u>	<u>\$ 34,605,000</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2004

Notes

<i>Description</i>	<i>Interest Rate</i>	<i>Issue Date</i>	<i>Maturity Date</i>	<i>Amounts Issued</i>	<i>Outstanding</i>
<i>MS Dept of Natural Resources</i>	0.00%	1-Jan-84	1-Jan-04	\$ 31,045	\$ -
<i>MS DECD</i>	3.00%	15-Apr-98	1-Aug-08	629,802	269,359
<i>Bancorpsouth - 2003</i>	3.98%	29-Apr-03	3-May-08	100,000	-
<i>Whitten Family Trust</i>	6.00%	27-Jun-03	21-Jun-13	575,640	511,680
<i>Bancorpsouth - 2001</i>	4.25%	4-Oct-02	4-Oct-07	890,000	726,087
<i>MS Development Bank - 2001</i>	3.00%	7-Jun-02	7-Jun-22	453,831	404,666
<i>MS Development Bank - 2001</i>	3.00%	11-Dec-02	11-Dec-22	3,357,883	3,050,077
<i>MS Dept of Health DWSLRF</i>	3.00%	1-Dec-02	1-Sep-22	1,400,961	1,325,279
<i>MS Dept of Health DWSLRF</i>	3.00%	1-Jan-03	1-Oct-22	1,361,525	1,287,559
<i>MS Dept of Health DWSLRF</i>	3.00%	1-Jul-03	1-Apr-23	1,250,436	1,207,055
<i>Bancorpsouth</i>	4.25%	4-Oct-02	5-Oct-07	1,321,500	1,079,139
<i>MS Dept of Health DWSLRF</i>	4.00%	1-Jan-99	1-Jun-04	205,343	-
<i>MS Development Bank - 2004</i>	3.00%	11-Mar-04	1-Feb-24	1,188,287	1,153,629
<i>MS Dept of Health DWSLRF</i>	4.00%	20-Sep-04	1-Jul-24	1,425,168	1,425,168
<i>Bancorpsouth - 2004</i>	3.98%	29-Apr-04	3-May-08	1,000,000	-
<i>Bancorpsouth -2004</i>	4.24%	30-Jan-04	30-Jan-14	775,000	775,000
<i>Bancorpsouth - 2004</i>	4.24%	24-Feb-04	5-Mar-14	450,000	450,000
<i>Total notes</i>				<u>\$ 16,416,421</u>	<u>\$ 13,664,698</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2004

Revenue 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	\$ 155,000
1999 S Lake Phase I	4.95%	2-Mar-99	1-Mar-19	\$560,000	\$ 460,000
1999 S Lake Phase II		1-Mar-01	1-Mar-09	1,900,000	1,270,000
2001 Sam's Club		1-Apr-01	1-Apr-13	500,000	430,000
<i>Total TIF Bonds</i>				<u>\$3,280,000</u>	<u>\$ 2,315,000</u>

Revenue Bonds

<i>Description</i>	<i>Interest Rate</i>	<i>Issue Date</i>	<i>Maturity Date</i>	<i>Amounts Issued</i>	<i>Outstanding</i>
1996 Water/Sewer	4.10%	1-Mar-96	1-Mar-11	\$1,850,000	\$ 1,060,000
	5.25%				
1998 Water/Sewer	4.05%	1-Jun-98	1-Sep-12	4,185,000	3,030,000
	4.65%				
2003 Water/Sewer		23-Dec-03	1-Dec-23	4,500,000	4,500,000
<i>Total Revenue Bonds</i>				<u>\$10,535,000</u>	<u>\$ 8,590,000</u>

Annual requirements to retire debt obligations.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2004

The aggregate maturities of general obligation bonds and loans for the years subsequent to September 30, 2004 are as follows:

<i>Year Ending September 30</i>	<i>General Long-Term Debt</i>	<i>Enterprise Fund Debt</i>
2005	4,704,265	\$ 1,602,852
2006	4,635,995	1,611,244
2007	4,593,582	1,591,254
2008	4,548,550	1,615,983
2009	4,109,162	1,321,754
2010-2014	17,783,443	5,222,068
2015-2019	15,636,678	3,547,228
2020-2024	5,939,241	3,143,224
<i>Total</i>	<u>61,950,916</u>	<u>19,655,607</u>
<i>Less: Interest</i>	<u>17,690,417</u>	<u>4,741,407</u>
<i>Principal</i>	<u>\$ 44,260,499</u>	<u>\$ 14,914,200</u>

Long-term activity for the year ended September 30, 2004 was as follows:

	<i>Balance at 9/30/2003</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance at 9/30/2004</i>	<i>Amounts Due Within One Year</i>
<i>Governmental activities:</i>					
General obligation bonds payable	\$ 32,100,000	\$ 4,500,000	\$ 1,995,000	\$ 34,605,000	\$ 1,665,000
Revenue bonds payable	2,615,000	-	300,000	2,315,000	315,000
Notes payable	5,545,084	2,413,287	617,872	7,340,499	422,240
Leases payable	348,789	435,397	326,840	457,346	96,381
<i>Governmental activities long-term liabilities</i>	<u>\$ 40,608,873</u>	<u>\$ 7,348,684</u>	<u>\$ 3,239,712</u>	<u>\$ 44,717,845</u>	<u>\$ 2,498,621</u>
<i>Business-type activities:</i>					
General obligation bonds payable	\$ 1,180,000	\$ -	\$ 120,000	\$ 1,060,000	\$ 125,000
Revenue bonds payable	3,330,000	4,500,000	300,000	7,530,000	450,000
Notes payable	5,311,245	2,440,056	1,427,099	6,324,202	460,230
Leases payable	104,514	-	104,514	-	-
<i>Business-type activities long-term liabilities</i>	<u>\$ 9,925,759</u>	<u>\$ 6,940,056</u>	<u>\$ 1,951,613</u>	<u>\$ 14,914,202</u>	<u>\$ 1,035,230</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2004

(6) Capital Leases

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2004 were as follows:

<i>Year Ending September 30</i>	<i>General Long-Term Debt</i>	<i>Enterprise Fund Debt</i>
2005	\$ 112,115	\$ -
2006	53,288	-
2007	53,288	-
2008	291,500	-
2009	-	-
2010-2014	-	-
2015-2019	-	-
2020-2024	-	-
<i>Total Minimum Lease Payments</i>	<u>510,191</u>	<u>-</u>
<i>Less: Interest</i>	<u>(52,845)</u>	<u>-</u>
<i>Present Value of Minimum Lease Payments</i>	<u>\$ 457,346</u>	<u>\$ -</u>

Assets acquired through capital leases are recorded at the present value of the future minimum lease payments and are as follows:

	<u><i>General Fixed Assets</i></u>
<i>Vehicles and Equipment</i>	\$ 735,767
<i>Less: Accumulated Depreciation</i>	<u>104,148</u>
<i>Total</i>	<u>\$ 631,619</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, MS39201-1005 or by calling (601) 359-3589 or 1-800-444 PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Southaven is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Southaven's contributions to PERS for the year ending September 30, 2004, and 2003, were \$915,464, and \$806,422 respectively, equal to the required contributions for each year.

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2004

(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>	222,510	-
<i>Debt service fund</i>	2,441,596	-
<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>	32,818	-
<i>Total general fund</i>	<u>5,185,478</u>	<u>378,805</u>
<i>Capital project fund</i>		
<i>TIF fund</i>	309,192	-
<i>Tourism fund</i>	6,779	-
<i>General fund</i>	-	2,270,553
<i>Debt service fund</i>	211,465	-
<i>Utility fund</i>	392,655	-
<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>	-	2,441,596
<i>Park bond fund</i>	-	211,465
<i>Total debt service fund</i>	<u>-</u>	<u>2,974,441</u>
<i>Other governmental funds</i>		
<i>General fund</i>	139,552	250,818
<i>Utility fund</i>	17,000	-
<i>Capital project</i>	-	309,192
<i>TIF fund</i>	772	6,664
<i>Utility fund</i>	652,000	-
<i>Sanitation fund</i>	705,037	-
<i>Total other governmental funds</i>	<u>1,514,361</u>	<u>566,674</u>
<i>Utility fund</i>		
<i>Sanitation fund</i>	-	572,358
<i>Payroll fund</i>	-	652,772
<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>1,857,296</u>
<i>Sanitation fund</i>		
<i>Utility fund</i>	572,358	-
<i>Payroll fund</i>	-	705,037
<i>Debt service fund</i>	321,380	-
<i>General fund</i>	245,917	-
<i>Tourism fund</i>	-	6,779
<i>Total sanitation fund</i>	<u>1,139,655</u>	<u>711,816</u>
<i>Total</i>	<u>\$ 8,759,585</u>	<u>\$ 8,759,585</u>

CITY OF SOUTHAVEN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2004

(9) Intergovernmental Receivables

Intergovernmental Receivables consist of the following:

	<u>General Fund</u>
<i>County pro rata</i>	
<i>Ad valorem</i>	\$ 214,774
<i>Franchise and Sales tax</i>	700,475
<i>Miscellaneous</i>	<u>78,480</u>
 <i>Totals</i>	 <u>\$ 993,729</u>

(10) Risk Management

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

(11) Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

<i>Governmental Activities Explanations</i>	<u>Amount</u>
 <i>(1) Accounts receivable was incorrectly recorded in the previous year, resulting in an overstatement. A prior period adjustment is required to correct fund balance.</i>	 \$ (101,790)
 <i>Business-type Activities Explanations</i>	
 <i>(1) Accounts receivable was incorrectly recorded in the previous year, resulting in an understatement. A prior period adjustment is required to correct fund balance.</i>	 \$ 77,677

CITY OF SOUTHAVEN, MISSISSIPPI
 Budgetary Comparison Schedule
 September 30, 2004

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,929,600	\$ 5,996,900	\$ 6,090,138	\$ 93,238
Licenses and permits	1,482,035	1,987,035	2,422,904	435,869
Intergovernmental	7,832,128	8,568,844	9,261,143	692,299
Charges for services	824,500	969,200	1,030,919	61,719
Fines	1,007,500	1,417,930	1,739,959	322,029
Interest	7,000	17,000	125,655	108,655
Miscellaneous	39,500	81,001	186,203	105,202
Total revenues	17,122,263	19,037,910	20,856,921	1,819,011
Expenditures				
Administrative	2,406,609	2,821,068	2,860,478	(39,410)
Capital outlay	-	-	1,481,349	(1,481,349)
Culture & recreation	1,720,888	1,900,888	1,966,391	(65,503)
Facilities management	773,000	823,000	579,446	243,554
Fire	4,720,740	4,815,143	5,209,482	(394,339)
Health & welfare	204,294	219,669	226,332	(6,663)
Insurance	425,000	425,000	519,653	(94,653)
Miscellaneous	1,022,315	2,223,559	2,063,803	159,756
Police	5,502,425	5,574,933	5,498,084	76,849
Public works	1,507,992	1,498,975	1,122,152	376,823
Total expenditures	18,283,263	20,302,235	21,527,170	(1,224,935)
Excess (deficiency) of revenues over (under) expenditures	(1,161,000)	(1,264,325)	(670,249)	3,043,946
Other financing sources (uses)				
Lease proceeds	176,000	176,000	-	(176,000)
Rents	270,000	339,000	280,276	(58,724)
Sale of assets	415,000	449,325	449,114	(211)
Interfund transfers	300,000	300,000	(968,479)	(1,268,479)
Lease proceeds	-	-	435,397	435,397
Loan proceeds	-	-	1,225,000	1,225,000
Total other financing sources(uses)	1,161,000	1,264,325	1,421,308	156,983
Net changes in fund balances	\$ -	\$ -	751,059	\$ 3,200,929
Fund balance - beginning of year			6,877,792	
Fund balance - end of year(GAAP basis)			\$ 7,628,851	

CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Surety Bonds for Municipal Officials
 Year Ended September 30, 2004

Fidelity Bonds

Fidelity bonds in force at September 30, 2004 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
Vernon McCammon	Fire Chief	\$ 25,000
Ronnie White	Fire Marshall	\$ 10,000
Dispatchers Bond	Dispatchers per Dispatcher	\$ 2,000

CITY OF SOUTHAVEN, MISSISSIPPI
 Schedule of Expenditures of Federal Awards
 Year Ended September 30, 2004

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u> CDBG - MDA Community Service Division	14.228	
Contract # 01-346-ED-IF01		\$ 21,642
Contract # 02-346-ED-02		197,762
Contract # 02-346-ED-01		5,312
Contract # 99-346-ED-IF01		139,859
Contract # 97-346-ED-IF01		4,000
Contract # 98-346-ED-IF01		33,002
Contract # 00-346-ED-IF01		<u>2,500</u>
		<u>404,077</u>
<u>Environmental Protection Agency</u>		
Drinking Water Revolving Loan Fund	66.468	14,888
Drinking Water Revolving Loan Fund	66.468	<u>1,425,168</u>
		<u>1,440,056</u>
Total for all Federal Awards		<u>\$ 1,844,133</u>