

**City of Southaven, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2012**



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Audited Financial Statements
For the Year Ended September 30, 2012

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	i-ix
Financial Statements	3
Statement of Net Assets	4
Statement of Activities.....	5
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	8
Reconciliation of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Net Assets – Proprietary Fund	10
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund.....	11
Statement of Cash Flows – Proprietary Fund	12
Notes to Financial Statements	13
Required Supplementary Information	27
Budgetary Comparison Schedule – General Fund	28
Supplementary Information	29
Schedule of Expenditures of Federal Awards.....	31
Surety Bond Coverage	32
Special Reports	33
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 <i>Government Auditing Standards</i>	34
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	36
Independent Auditors' Report on Compliance with State Laws and Regulations.....	38
Schedule of Findings and Questioned Costs	39



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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, each major fund, and the aggregate remaining fund information of the City of Southaven, Mississippi ("the City") as of and for the year ended September 30, 2012, 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'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Southaven, Mississippi as of September 30, 2012, 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 July 31, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and corresponding notes on pages i through ix and 28 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial

reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying supplemental information on surety bond coverage is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards and information on surety bond coverage are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
July 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS



**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

As management of the City of Southaven (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$75,869,365 (net assets).
- The government's total net assets increased by \$3,218,211 primarily due to increases in the business type activities net assets.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$50,621,143 an increase of \$247,015 in comparison with the prior year. Approximately 5.5 percent of this total amount, or \$2,789,532, is available for spending at the government's discretion (**unrestricted fund balance**).
- At the end of the current fiscal year, **unassigned fund balance** for the General Fund was \$2,418,834, or 5.9 percent of total general fund expenditures for the fiscal year.
- The City's total debt decreased by \$6,063,857 (6.2%) during the current fiscal year. The key factor in this decrease was the only new debt issued in the current year was the annual finance of a small group of police vehicles.

Overview of the Financial Statements

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

Basic Financial Statements

The first two statements (Pages 4 and 5) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Pages 6 through 12) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012

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

Government-wide Financial Statements

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

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

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

The government-wide financial statements are on pages 4 and 5 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Mississippi, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements. All of the funds of City can be divided into two categories: governmental funds and proprietary funds.

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

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

City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 13 through 25 of this report.

Government-Wide Financial Analysis

The City of Southaven's Net Assets

Figure 1

ASSETS	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 27,716,254	\$ 30,426,388	\$ 23,481,635	\$ 20,838,008	\$ 51,197,889	\$ 51,264,396
Capital assets, net	102,701,556	105,231,115	41,451,010	41,384,855	144,152,566	146,615,970
Total assets	130,417,810	135,657,503	64,934,657	62,222,863	195,352,467	197,880,366
LIABILITIES						
Long-term liabilities:						
Due within one year	5,359,623	5,530,400	1,589,208	1,977,918	6,948,831	7,508,318
Payable after one year	51,614,384	56,227,982	33,277,446	33,441,944	84,891,830	89,669,926
Deferred revenues	20,070,346	19,567,692	3,191,680	3,111,745	23,262,026	22,679,437
Other liabilities	2,752,314	3,957,301	1,626,089	1,414,230	4,378,403	5,371,531
Total liabilities	79,796,667	85,283,375	39,684,423	39,945,837	119,481,090	125,229,212
NET ASSETS						
Invested in capital asset	46,347,370	44,265,704	6,619,179	5,964,993	52,966,549	50,230,697
Restricted	1,484,241	1,644,790	1,739,868	1,380,956	3,224,109	3,025,746
Unrestricted	2,789,532	4,463,634	16,889,175	14,931,077	19,678,707	19,394,711
Total net assets	\$ 50,621,143	\$ 50,374,128	\$ 25,248,222	\$ 22,277,026	\$ 75,869,365	\$ 72,651,154

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Southaven exceeded liabilities by \$75,869,365 as of September 30, 2012.

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

An additional portion of the City's net assets (4.25%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$19,678,707 is unrestricted.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

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

- Increased property tax collections of approximately \$158,500
- Increased sales tax revenues of approximately \$702,800 due to economic growth in the City.
- Continued low cost of debt due to the City's high bond rating.
- All bond issue costs related to prior year bond issuances were written off in the current year as a cumulative effect of a change in accounting principle. This was the ultimate factor in the decrease in unrestricted governmental net assets.

City of Southaven's Changes in Net Assets

Figure 2

REVENUES	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for services	\$ 4,289,256	\$ 3,586,738	\$ 12,474,185	\$ 10,447,424	\$ 16,763,441	\$ 14,034,162
Capital grants	2,877,974	1,247,811	-	-	-	1,247,811
General Revenues						
Property taxes	20,197,404	20,372,157	3,005,658	2,672,406	23,203,062	23,044,563
Sales tax	12,438,105	11,735,308	-	-	12,438,105	11,735,308
Other general revenues	8,169,070	8,240,774	35,040	82,252	8,204,110	8,323,026
Total Revenues	\$ 47,971,809	\$ 45,182,788	\$ 15,514,883	\$ 13,202,082	\$ 63,486,692	\$ 58,384,870
PROGRAM EXPENSES						
General government	10,978,549	10,436,692	-	-	10,978,549	10,436,692
Public safety	20,605,372	19,414,775	-	-	20,605,372	19,414,775
Public works	5,710,930	5,928,955	-	-	5,710,930	5,928,955
Culture and recreation	6,063,410	6,151,226	-	-	6,063,410	6,151,226
Economic development	828,449	602,828	-	-	828,449	602,828
Health and welfare	313,035	302,934	-	-	313,035	302,934
Interest on long term debt	2,300,091	2,562,392	1,313,265	1,595,352	3,613,356	4,157,744
Water and Sewer	-	-	7,422,653	6,419,682	7,422,653	6,419,682
Sanitation	-	-	2,982,624	3,053,597	2,982,624	3,053,597
Total program expenses	46,799,836	45,399,802	11,718,542	11,068,631	58,518,378	56,468,433
Change in net assets	1,171,973	(217,014)	3,796,341	2,133,451	4,968,314	1,916,437
Transfers	-	(471,797)	-	471,797	-	-
Net Assets-Beginning of Year	50,374,128	50,083,556	22,277,026	21,639,783	72,651,154	71,723,339
Prior Period Adjustment	-	979,383	-	(1,968,005)	-	(988,622)
Change in Accounting Principle	(924,958)	-	(825,145)	-	(1,750,103)	-
Net Assets-End of Year	\$ 50,621,143	\$ 50,374,128	\$ 25,248,222	\$ 22,277,026	\$ 75,869,365	\$ 72,651,154

City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Governmental activities. Governmental activities increased the City's net assets by \$1,171,793. Key elements of this decrease are as follows:

- General government and public safety expenditures increased which includes expenses related to a capital overlay program and approximately \$425,000 increase in wages and salaries.
- The Utility Fund transferred \$50,000 cash to the general fund to assist with operating expenses.
- Franchise taxes decreased by approximately \$129,000
- Property and sales taxes were up by approximately \$528,000 (1.6%).

Business-type activities: Business-type activities increased the City's net assets by \$3,796,341. Key elements of this increase are as follows:

- Charges for services increased by approximately \$2,000,000. This includes revenues from a full year of the new recycle program as well as increased rates.
- Taxes and other miscellaneous income decreased by approximately \$185,700.
- Although revenues increased significantly, expenses also increased approximately \$700,000. Despite the increase in expenses, the change in net assets increased from prior year by approximately \$1,100,000.

Financial Analysis of the City of Southaven's Funds

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

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

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,418,834, while total fund balance reached \$3,835,401. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.9 percent of total General Fund expenditures.

At September 30, 2012, the governmental funds of the City reported a combined fund balance of \$5,877,606, a 20.8 percent decrease over last year. Included in this change in fund balance are increases in fund balance in both the Debt Service Funds and Other Governmental Funds, but a significant decrease in the General Fund due to an extensive capital overlay project in the current year.

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

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

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$14,528,205, and those for the Sanitation Fund amounted to \$2,360,970. The total growth in net assets for both funds was \$1,199,806 and \$758,292 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, totals \$144,152,566 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

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

- Vehicles of \$226,306 in governmental-type activities for new police cars (including leased vehicles).]
- Fully integrated safety software for \$1,381,494
- Construction in progress of \$1,559,911 in business-type activities for sewer infrastructure being put in place.
- 10.51 acres of land purchased at the corner of Getwell and Nail Road for \$1,943,924.

The City of Southaven's Capital Assets

Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 9,376,445	\$ 7,432,521	\$ 579,036	\$ 579,036	\$ 9,955,481	\$ 8,011,557
Construction in progress	1,260,567	589,489	8,041,844	9,970,697	9,302,411	10,560,186
Infrastructure	88,859,335	88,740,803	45,896,773	42,594,003	134,756,108	131,334,806
Buildings and improvements	50,099,357	50,071,351	381,573	381,573	50,480,930	50,452,924
Leased equipment	1,582,803	1,647,006	744,057	744,057	2,326,860	2,391,063
Equipment and vehicles	16,612,679	14,679,933	2,116,758	1,975,996	18,729,437	16,655,929
	<u>\$ 167,791,186</u>	<u>\$ 163,161,103</u>	<u>\$ 57,760,041</u>	<u>\$ 56,245,362</u>	<u>\$225,551,227</u>	<u>\$219,406,465</u>

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

Long-term Debt. As of September 30, 2012, the City had total bonded debt outstanding of \$52,160,000. All of this debt is backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds), notes payable, and leases payable.

**City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

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

Figure 4

	<u>2012</u>	<u>2011</u>
Governmental activities debt		
General obligation bonds	\$ 43,545,000	\$ 47,355,000
Tax increment bonds	\$ 6,855,000	\$ 6,940,000
Notes payable	\$ 5,281,897	\$ 6,921,865
Leases payable	\$ 444,715	\$ 421,864
Governmental activities liabilities	<u>\$ 56,126,612</u>	<u>\$ 61,638,729</u>
Business -type activities debt		
General obligation bonds	\$ 8,615,000	\$ 8,950,000
Revenue bonds payable	\$ 15,385,000	\$ 16,470,000
Notes payable	\$ 10,412,837	\$ 9,602,012
Leases payable	\$ 478,146	\$ 527,294
Business-type liabilities	<u>\$ 34,890,983</u>	<u>\$ 35,549,306</u>
Total Long-Term Obligations	<u>\$ 91,017,595</u>	<u>\$ 97,188,035</u>

The City's total debt decreased by \$6,063,857 (6.2%) during the past fiscal year. There were no new bonds issued in the current fiscal year. New debt includes \$271,229 for new police vehicles and \$1,320,292 for infrastructure.

Mississippi general statutes limit the amount of general obligation debt that a unit of government can issue to 15 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City is \$33,441,993.

During the past two fiscal years, the City refinanced some of its existing debt to take advantage of historically low interest rates. On November 1, 2010, the City refunded \$3,092,042 of a refunded note payable with a \$3,225,000 general obligation bond issue. On November 1, 2011, the City refunded \$3,300,000 of general obligation bonds with a \$3,505,000 general obligation bond issue. There were no new bond issuances in fiscal year 2012.

Additional information regarding the City's long-term debt can be found in note F beginning on page 21 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- Low unemployment. The City's unemployment rate of 6.3%, as of September 30, 2012, is well below the State average of 9% and 7.8%.
- For 2012, Southaven's population was calculated, according to the United States Census most recent numbers, to be 50,374. This equates to roughly 30% of the total DeSoto County population and makes Southaven the 3rd largest city in Mississippi.

City of Southaven, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012

- Leading employers in Southaven include the DeSoto County School system, Baptist Memorial Hospital, Future Electronics and Associated Wholesale Grocers. Southaven has seen rapid growth in the retail sales job market and tourism related jobs are continuing to come on line with the growth of Southaven's competitive baseball and softball tournaments held annually.

Budget Highlights for the Fiscal Year Ending September 30, 2013

Governmental Activities: Property taxes (benefiting from the economic growth) and revenues Sales Taxes are expected to lead the increase in budgeted revenue by 1-2 percent. The City will use these increases in revenues to finance programs currently in place.

The City will receive a Hazard Mitigation grant that increases both revenues and expenses. The City will be reimbursed for expenses incurred related to this project.

Budgeted expenditures in the General Fund are expected to rise 3%. The increase in budgeted expenditures is mainly due to salary increases as well as an increased cost of maintenance and material.

Business – type Activities: The water and sewer rates in the City will increase primarily to cover increased costs of operations. General operating expenses will increase due to the budgeting for the purchase of vehicles for both the Utility and the Sanitation funds as well as increased debt payments related to drainage projects.

Requests for Information

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

FINANCIAL STATEMENTS

City of Southaven, Mississippi
Statement of Net Assets
September 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 3,297,992	\$ 8,879,833	\$ 12,177,825
Accounts receivable, net of allowance for doubtful accounts of \$460,417	529,146	1,702,934	2,232,080
Intergovernmental receivable	1,845,757	-	1,845,757
Franchise tax receivable	410,874	-	410,874
Property tax receivable	20,070,346	3,191,680	23,262,026
Other receivable	-	4,521	4,521
Prepaid expense	524,945	-	524,945
Restricted assets:			
Cash in bank	1,037,194	717,556	1,754,750
Bean patch receivable	-	8,985,111	8,985,111
Capital assets, net of accumulated depreciation	<u>102,701,556</u>	<u>41,451,010</u>	<u>144,152,566</u>
Total Assets	<u>130,417,810</u>	<u>64,932,645</u>	<u>195,350,455</u>
Liabilities			
Accounts payable	1,194,232	875,641	2,069,873
Accrued expenses	574,070	15,311	589,381
Customer deposits	-	584,477	584,477
Accrued interest	984,012	150,660	1,134,672
Unearned revenue	20,070,346	3,191,680	23,262,026
Long-term liabilities			
Due within one year:			
Capital debt	5,359,623	1,589,208	6,948,831
Due in more than one year:			
Capital debt	50,994,563	33,242,623	84,237,186
Non-capital debt	<u>619,821</u>	<u>34,823</u>	<u>654,644</u>
Total Liabilities	<u>79,796,667</u>	<u>39,684,423</u>	<u>119,481,090</u>
Net Assets			
Invested in capital assets, net of related debt	46,347,370	6,619,179	52,966,549
Restricted for:			
Debt service	644,093	1,739,868	2,383,961
Tourism	375,707	-	375,707
Library	38,393	-	38,393
Public Safety	426,048	-	426,048
Unrestricted	<u>2,789,532</u>	<u>16,889,175</u>	<u>19,678,707</u>
Total Net Assets	<u>\$ 50,621,143</u>	<u>\$ 25,248,222</u>	<u>\$ 75,869,365</u>

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

City of Southaven, Mississippi
Statement of Activities
For the Year Ended September 30, 2012

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 10,978,549	\$ 439,389	\$ -	\$ -	\$ (10,539,160)	\$ -	\$ (10,539,160)
Public safety	20,605,372	1,224,827	-	1,414,546	(17,965,999)	-	(17,965,999)
Public works	5,710,930	-	-	1,463,428	(4,247,502)	-	(4,247,502)
Culture and recreation	6,063,410	2,422,049	-	-	(3,641,361)	-	(3,641,361)
Tourism and convention	828,449	182,289	-	-	(646,160)	-	(646,160)
Health and welfare	313,035	20,702	-	-	(292,333)	-	(292,333)
Interest on long-term debt	2,300,091	-	-	-	(2,300,091)	-	(2,300,091)
Total Governmental Activities	<u>46,799,836</u>	<u>4,289,256</u>	<u>-</u>	<u>2,877,974</u>	<u>(39,632,606)</u>	<u>-</u>	<u>(39,632,606)</u>
Business-Type Activities							
Water and sewer	7,422,653	11,863,422	-	-	-	4,440,769	4,440,769
Sanitation	2,982,624	610,763	-	-	-	(2,371,861)	(2,371,861)
Interest on long-term debt	1,313,265	-	-	-	-	(1,313,265)	(1,313,265)
Total Business-Type Activities	<u>11,718,542</u>	<u>12,474,185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>755,643</u>	<u>755,643</u>
Total Government	<u>\$ 58,518,378</u>	<u>\$ 16,763,441</u>	<u>\$ -</u>	<u>\$ 2,877,974</u>	<u>(39,632,606)</u>	<u>755,643</u>	<u>(38,876,963)</u>
General Revenues							
					20,197,404	3,005,658	23,203,062
					1,685,781	-	1,685,781
					12,438,105	-	12,438,105
					3,280,771	-	3,280,771
					1,715,137	-	1,715,137
					565,585	-	565,585
					372,607	13,440	386,047
					548,689	21,600	570,289
					500	-	500
					<u>40,804,579</u>	<u>3,040,698</u>	<u>43,845,277</u>
					<u>1,171,973</u>	<u>3,796,341</u>	<u>4,968,314</u>
					50,374,128	22,277,026	72,651,154
					(924,958)	(825,145)	(1,750,103)
					<u>\$ 50,621,143</u>	<u>\$ 25,248,222</u>	<u>\$ 75,869,365</u>

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

City of Southaven, Mississippi
Balance Sheet - Governmental Funds
September 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,306,909	\$ 1,654,159	\$ 336,924	\$ 3,297,992
Accounts receivable, net of allowance for doubtful accounts of \$181,742	529,146	-	-	529,146
Intergovernmental receivable	1,759,431	-	86,326	1,845,757
Franchise tax receivable	410,874	-	-	410,874
Property tax receivable	10,841,072	8,830,314	398,960	20,070,346
Prepaid expenses	524,945	-	-	524,945
Due from other funds	2,961	-	-	2,961
Restricted cash	1,034,233	-	2,961	1,037,194
Total Assets	<u>\$ 16,409,571</u>	<u>\$ 10,484,473</u>	<u>\$ 825,171</u>	<u>\$ 27,719,215</u>
Liabilities				
Accounts payable	\$ 1,159,028	\$ 26,054	\$ 9,150	\$ 1,194,232
Accrued expenses	574,070	-	-	574,070
Due to other funds	-	-	2,961	2,961
Unearned revenue	10,841,072	8,830,314	398,960	20,070,346
Total Liabilities	<u>12,574,170</u>	<u>8,856,368</u>	<u>411,071</u>	<u>21,841,609</u>
Fund Balances				
Nonspendable for prepaid	\$ 524,945	\$ -	\$ -	\$ 524,945
Restricted for:				
Debt Service	-	1,628,105	-	1,628,105
Tourism	-	-	375,707	375,707
Library	-	-	38,393	38,393
Public safety	426,048	-	-	426,048
Committed for:				
Public works	465,574	-	-	465,574
Unassigned	2,418,834	-	-	2,418,834
Total Fund Balances	<u>3,835,401</u>	<u>1,628,105</u>	<u>414,100</u>	<u>5,877,606</u>
Total Liabilities and Fund Balances	<u>\$ 16,409,571</u>	<u>\$ 10,484,473</u>	<u>\$ 825,171</u>	<u>\$ 27,719,215</u>

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

City of Southaven, Mississippi
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2012

Total Fund Balance - Governmental Funds \$ 5,877,606

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	9,376,445	
Buildings and improvements	50,099,357	
Equipment and vehicles	16,612,679	
Infrastructure	88,859,335	
Construction in progress	1,260,567	
Leased equipment	1,582,803	
Accumulated depreciation	<u>(65,089,630)</u>	
		102,701,556

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	(5,281,897)	
Leases payable	(444,715)	
General obligation and revenue bonds	(50,400,000)	
Accrued expenses	(984,012)	
Bond discount	6,526	
Bond premium	(234,100)	
Compensated absences	<u>(619,821)</u>	
		<u>(57,958,019)</u>

Net Assets of Governmental Activities \$ 50,621,143

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

City of Southaven, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
General property taxes	\$ 11,499,093	\$ 8,322,604	\$ 375,707	\$ 20,197,404
Licenses and permits	439,389	-	-	439,389
Intergovernmental	13,360,726	-	763,159	14,123,885
Charges for services	3,667,578	-	182,289	3,849,867
Fines	3,280,771	-	-	3,280,771
Franchise taxes	1,715,137	-	-	1,715,137
Interest	372,607	-	-	372,607
Miscellaneous	445,959	-	52,730	498,689
Total Revenues	<u>34,781,260</u>	<u>8,322,604</u>	<u>1,373,885</u>	<u>44,477,749</u>
Expenditures				
General government	7,650,605	-	-	7,650,605
Public safety	20,295,589	-	-	20,295,589
Public works	1,418,054	-	-	1,418,054
Culture and recreation	4,587,061	-	349,164	4,936,225
Health and welfare	313,441	-	-	313,441
Tourism and convention	-	-	828,449	828,449
Capital outlay	6,597,349	-	-	6,597,349
Debt service:				
Principal	-	5,783,346	-	5,783,346
Interest	-	1,952,024	-	1,952,024
Agent Fees	-	14,363	-	14,363
Total Expenditures	<u>40,862,099</u>	<u>7,749,733</u>	<u>1,177,613</u>	<u>49,789,445</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,080,839)</u>	<u>572,871</u>	<u>196,272</u>	<u>(5,311,696)</u>
Other Financial Sources (Uses)				
Rents	475,585	90,000	-	565,585
Sale of assets	500	-	-	500
Interfund transfers	321,229	(271,229)	-	50,000
Grant proceeds	2,877,974	-	-	2,877,974
Lease proceeds	-	271,229	-	271,229
Total Other Financing Sources	<u>3,675,288</u>	<u>90,000</u>	<u>-</u>	<u>3,765,288</u>
Net Change in Fund Balances	(2,405,551)	662,871	196,272	(1,546,408)
Fund Balance - Beginning of Year	6,240,952	965,234	217,828	7,424,014
Fund Balance - End of Year	<u>\$ 3,835,401</u>	<u>\$ 1,628,105</u>	<u>\$ 414,100</u>	<u>\$ 5,877,606</u>

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

City of Southaven, Mississippi
Reconciliation of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$	(1,546,408)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$4,948,752 exceeded depreciation of \$7,454,633 in the current period.</p>		(2,505,881)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds of \$271,229 and amortization expense of \$24,066 in the current period exceeded repayments of \$5,783,346.</p>		5,536,183
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increase/(decrease) is</p>		
Compensated absences payable		69,527
Sale and adjustment of capital assets		(23,678)
Accrued interest payable		(357,770)
		(357,770)
Change in Net Assets of Governmental Activities	\$	<u>1,171,973</u>

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

City of Southaven, Mississippi
Statement of Net Assets – Proprietary Fund
September 30, 2012

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 6,916,638	\$ 1,963,195	\$ 8,879,833
Accounts receivable, net of allowance for doubtful accounts \$278,675	1,613,638	89,296	1,702,934
Property tax receivable	-	3,191,680	3,191,680
Other receivable	4,521	-	4,521
Due from other funds	-	609,586	609,586
Total Current Assets	<u>8,534,797</u>	<u>5,853,757</u>	<u>14,388,554</u>
Noncurrent Assets			
Restricted assets:			
Cash	717,556	-	717,556
Bean Patch receivable	8,985,111	-	8,985,111
Fixed assets, net of accumulated depreciation	41,317,514	133,496	41,451,010
Total Noncurrent Assets	<u>51,020,181</u>	<u>133,496</u>	<u>51,153,677</u>
Total Assets	<u>\$ 59,554,978</u>	<u>\$ 5,987,253</u>	<u>\$ 65,542,231</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 574,534	\$ 301,107	\$ 875,641
Accrued expense	15,311	-	15,311
Accrued interest	150,660	-	150,660
Deferred revenue	-	3,191,680	3,191,680
Due to other funds	609,586	-	609,586
Total Current Liabilities	<u>1,350,091</u>	<u>3,492,787</u>	<u>4,842,878</u>
Current Liabilities Payable from Restricted Assets			
Customer deposits	584,477	-	584,477
Long-term liabilities due within one year:			
Capital debt	1,589,208	-	1,589,208
Total Current Liabilities Payable from restricted assets	<u>2,173,685</u>	<u>-</u>	<u>2,173,685</u>
Long-term liabilities due in more than one year:			
Capital debt	33,242,623	-	33,242,623
Non-capital debt	34,823	-	34,823
Total Long-Term Liabilities	<u>33,277,446</u>	<u>-</u>	<u>33,277,446</u>
Total Liabilities	<u>36,801,222</u>	<u>3,492,787</u>	<u>40,294,009</u>
Net Assets			
Invested in capital assets, net of related debt	6,485,683	133,496	6,619,179
Restricted for:			
Debt service	1,739,868	-	1,739,868
Unrestricted	14,528,205	2,360,970	16,889,175
Total Net Assets	<u>22,753,756</u>	<u>2,494,466</u>	<u>25,248,222</u>
Total Liabilities and Net Assets	<u>\$ 59,554,978</u>	<u>\$ 5,987,253</u>	<u>\$ 65,542,231</u>

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

City of Southaven, Mississippi
Statement of Revenues, Expenses and
Changes in Net Assets – Proprietary Fund
For the Year Ended September 30, 2012

	<u>Utility</u>	<u>Sanitation</u>	<u>Total</u>
Operating Revenues			
Property taxes	\$ -	\$ 3,005,658	\$ 3,005,658
Sales	11,863,422	610,763	12,474,185
Miscellaneous	6,683	14,917	21,600
Total Operating Revenues	<u>11,870,105</u>	<u>3,631,338</u>	<u>15,501,443</u>
Operating Expenses			
Personnel	1,160,323	-	1,160,323
Supplies	427,802	21,050	448,852
Depreciation and amortization	1,473,932	108,429	1,582,361
Maintenance and other	3,707,265	32,968	3,740,233
Professional services	603,331	2,820,177	3,423,508
Total Operating Expenses	<u>7,372,653</u>	<u>2,982,624</u>	<u>10,355,277</u>
Operating Income	<u>4,497,452</u>	<u>648,714</u>	<u>5,146,166</u>
Non-operating revenues (Expenses)			
Interest income	12,291	1,149	13,440
Interest expense	(1,313,265)	-	(1,313,265)
Interfund transfers	(50,000)	-	(50,000)
Total Non-operating Revenues (Expenses)	<u>(1,350,974)</u>	<u>1,149</u>	<u>(1,349,825)</u>
Net Income	<u>3,146,478</u>	<u>649,863</u>	<u>3,796,341</u>
Net Assets - Beginning of Year	20,437,844	1,839,182	22,277,026
Prior Period Adjustment	(830,566)	5,421	(825,145)
Net Assets - End of Year	<u>\$ 22,753,756</u>	<u>\$ 2,494,466</u>	<u>\$ 25,248,222</u>

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

City of Southaven, Mississippi
Statement of Cash Flows – Proprietary Fund
For the Year Ended September 30, 2012

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Cash Flows From Operating Activities			
Cash received from customers	\$ 10,899,382	\$ 3,628,671	\$ 14,528,053
Cash payments for goods and services	(4,491,934)	(2,880,297)	(7,372,231)
Cash payments to employees	(1,162,426)	-	(1,162,426)
Net Cash Provided By (Used In) Operating Activities	<u>5,245,022</u>	<u>748,374</u>	<u>5,993,396</u>
Cash Flows From Non-Capital Financing Activities			
Interfund activity	(35,564)	(14,436)	(50,000)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(35,564)</u>	<u>(14,436)</u>	<u>(50,000)</u>
Cash Flows From Capital and Relating Financing Activities			
Payments for capital acquisitions	(1,628,126)	-	(1,628,126)
Customer deposits	8,423	-	8,423
Loan proceeds	1,320,292	-	1,320,292
Principal payments on debt	(1,978,615)	-	(1,978,615)
Interest payments on debt	(1,313,265)	-	(1,313,265)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(3,591,291)</u>	<u>-</u>	<u>(3,591,291)</u>
Cash Flows From Investing Activities			
Payments received on notes, net	123,969	-	123,969
Receipts of interest	12,291	1,149	13,440
Net Cash Provided By (Used In) Investing Activities	<u>136,260</u>	<u>1,149</u>	<u>137,409</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,754,427	735,087	2,489,514
Cash and Cash Equivalents-Beginning of Year	<u>5,879,767</u>	<u>1,228,108</u>	<u>7,107,875</u>
Cash and Cash Equivalents-End of Year	<u>\$ 7,634,194</u>	<u>\$ 1,963,195</u>	<u>\$ 9,597,389</u>
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities			
Operating Income	<u>\$ 4,497,452</u>	<u>\$ 648,714</u>	<u>\$ 5,146,166</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,473,932	108,429	1,582,361
(Increase) decrease in customer receivables	(969,069)	(2,667)	(971,736)
(Increase) decrease in other receivables	(1,654)	-	(1,654)
(Increase) decrease in property tax receivables	-	(79,935)	(79,935)
Increase (decrease) in accounts payable	251,267	(6,102)	245,165
Increase (decrease) in accrued expenses	(4,803)	-	(4,803)
Increase (decrease) in compensated absences	(2,103)	-	(2,103)
Increase (decrease) in deferred revenue	-	79,935	79,935
Total adjustments	<u>747,570</u>	<u>99,660</u>	<u>847,230</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 5,245,022</u>	<u>\$ 748,374</u>	<u>\$ 5,993,396</u>

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

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Southaven (“the City”) was incorporated in 1980. The City operates under the Board of Aldermen-Mayor form of government and provides the following services; public safety, public works, culture and recreation, tourism and convention, planning and zoning, and general administrative services.

The financial statements of the City 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 following is a summary of the more significant polices.

Financial Reporting Entity

These financial statements present all the accounts of the City. There are no component units as defined by GASB Statement 14, *The Financial Reporting Entity*.

Basis of Presentation

The government-wide financial statements (Statement of Net Assets and the Statement of Activities) report information on all the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are allocated to general government.

Fund Financial Statements

The City segregated transactions related to certain functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

General Fund:

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

Debt Service Fund:

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs. The primary revenue source is local property taxes levied specifically for Debt Service.

Proprietary Funds

All proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets. FASB pronouncements issued subsequent to November 30, 1989 that conflict with GASB pronouncements have not been followed, as permitted under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. The City has presented the following major proprietary fund:

Utility Fund:

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

Sanitation Fund:

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

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

Measurement Focus/Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water, sewer and sanitation services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they both become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recognized when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

Budgets and Budgetary Accounting

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

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

Upon receipt of the budget estimates, the Board of Aldermen holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.

At the September board meeting, the budget is legally enacted through passage of ordinance. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.

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

Cash and Cash Equivalents

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

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Prepaid Expenses

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

Interfund Transactions and Balances

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

Restricted Assets

Proprietary fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are capitalized at estimated fair market value on the date donated.

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:

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

Compensated Absences

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

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** – Amounts that can be used only for specific purposes determined by a formal action by the Board of Aldermen ordinance or resolution. The same formal action must be taken to remove or change the limitation placed on the funds.
- **Assigned** – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Aldermen.
- **Unassigned** – All amounts not included in other spendable classifications.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Net Assets

Net assets are 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 imposed on their use by City legislation or external restrictions by other governments, creditors or grantors.

Property Tax Revenues

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

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

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

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Estimates

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

NOTE B – CASH AND CASH EQUIVALENTS

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

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City’s deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2012, the City’s was not exposed to custodial credit risk.

As of September 30, 2012, the carrying amount of the City’s deposits was \$13,932,575 and the bank balances totaled \$14,262,371.

NOTE C - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of sales tax and franchise tax.

<u>Description</u>	<u>Fund</u>
Sales tax	\$ 1,003,462
Tourism tax	86,326
Grant Receivables	<u>755,969</u>
Totals	<u>\$ 1,845,757</u>

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE D – CAPITAL ASSETS

	Balance at 9/30/2011	Additions	Deletions	Adjustments/ Transfers	Balance at 9/30/2012
GOVERNMENTAL ACTIVITIES					
Capital assets, not being depreciated:					
Land	\$ 7,432,521	\$ 1,943,924	\$ -	\$ -	\$ 9,376,445
Construction in progress	589,489	809,524	-	(138,446)	1,260,567
Total capital assets, not being depreciated	<u>8,022,010</u>	<u>2,753,448</u>	<u>-</u>	<u>(138,446)</u>	<u>10,637,012</u>
Capital assets, being depreciated:					
Buildings and improvements	50,071,351	28,006	-	-	50,099,357
Equipment and vehicles	14,679,933	2,153,277	(238,031)	17,500	16,612,679
Infrastructure	88,740,803	14,021	(33,935)	138,446	88,859,335
Leased equipment	1,647,006	-	(64,203)	-	1,582,803
Total capital assets, being depreciated	<u>155,139,093</u>	<u>2,195,304</u>	<u>(336,169)</u>	<u>155,946</u>	<u>157,154,174</u>
Less accumulated depreciation for:					
Buildings and improvements	(9,953,241)	(1,356,835)	-	384	(11,309,692)
Equipment and vehicles	(8,515,252)	(1,502,003)	211,543	852	(9,804,860)
Infrastructure	(38,379,050)	(4,389,420)	33,935	5,749	(42,728,786)
Leased equipment	(1,082,445)	(206,375)	22,849	19,679	(1,246,292)
Total accumulated depreciation	<u>(57,929,988)</u>	<u>(7,454,633)</u>	<u>268,327</u>	<u>26,664</u>	<u>(65,089,630)</u>
Total capital assets, being depreciated, net	<u>97,209,105</u>	<u>(5,259,329)</u>	<u>(67,842)</u>	<u>182,610</u>	<u>92,064,544</u>
Governmental activities capital assets, net	<u>\$ 105,231,115</u>	<u>\$ (2,505,881)</u>	<u>\$ (67,842)</u>	<u>\$ 44,164</u>	<u>\$ 102,701,556</u>
BUSINESS-TYPE ACTIVITIES					
Capital assets, not being depreciated:					
Land	\$ 579,036	\$ -	\$ -	\$ -	\$ 579,036
Construction in progress	9,970,697	1,559,811	-	(3,488,664)	8,041,844
Total capital assets, not being depreciated	<u>10,549,733</u>	<u>1,559,811</u>	<u>-</u>	<u>(3,488,664)</u>	<u>8,620,880</u>
Capital assets, being depreciated:					
Buildings	381,573	-	-	-	381,573
Infrastructure	42,408,109	-	-	3,488,664	45,896,773
Equipment and vehicles	2,129,998	68,325	(64,065)	(17,500)	2,116,758
Leased equipment	744,057	-	-	-	744,057
Total capital assets, being depreciated	<u>45,663,737</u>	<u>68,325</u>	<u>(64,065)</u>	<u>3,471,164</u>	<u>49,139,161</u>
Less accumulated depreciation for:					
Buildings	(337,767)	(49,829)	-	-	(387,596)
Infrastructure	(12,764,692)	(1,321,107)	-	-	(14,085,799)
Equipment and vehicles	(1,577,344)	(177,966)	64,065	34,183	(1,657,062)
Leased equipment	(148,812)	(29,762)	-	-	(178,574)
Total accumulated depreciation	<u>(14,828,615)</u>	<u>(1,578,664)</u>	<u>64,065</u>	<u>34,183</u>	<u>(16,309,031)</u>
Total capital assets, being depreciated, net	<u>30,835,122</u>	<u>(1,510,339)</u>	<u>-</u>	<u>3,505,347</u>	<u>32,830,130</u>
Business-type activities capital assets, net	<u>\$ 41,384,855</u>	<u>\$ 49,472</u>	<u>\$ -</u>	<u>\$ 16,683</u>	<u>\$ 41,451,010</u>

No interest was capitalized during the year due to immateriality.

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

A summary of depreciation expense by function is as follows:

Governmental activities:	
General government	\$ 847,342
Public safety	1,250,949
Public works	4,292,874
Culture and recreation	1,063,468
Total depreciation expense, governmental activities	<u>\$ 7,454,633</u>
Business-type activities:	
Water and sewer	<u>\$ 1,578,664</u>
Total depreciation expense, business-type activities	<u>\$ 1,578,664</u>

Commitments under construction at September 30, 2012 are summarized as follows:

Project	Contract Amount	Remaining Balance
Hurricane Creek	\$ 7,098,700	\$ 7,092,836
Getwell Road Project	4,975,651	3,332,998
Autumn Woods Project	1,970,315	756,111

NOTE E - INTERFUND TRANSACTIONS

Interfund transactions are for the payment of monthly claims, and to provide funds for debt service and capital outlay. All transfers were routine and consistent with the activities of the fund, and all interfund balances are expected to be repaid within a year. The following is a summary of interfund transactions and balances as of September 30, 2012:

Due to/from other funds:	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 2,961	\$ -
Other governmental funds	-	2,961
Utility fund	-	609,586
Sanitation fund	609,586	-
Total	<u>\$ 612,547</u>	<u>\$ 612,547</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, 2012

NOTE F - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2012 was as follows:

	Balance at 9/30/2011	Additions	Deletions	Balance at 9/30/2012	Amounts Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 47,355,000	\$ -	\$ 3,810,000	\$ 43,545,000	\$ 3,905,000
Tax increment financing bonds payable	6,940,000	-	85,000	6,855,000	680,000
Notes payable	6,921,865	-	1,639,968	5,281,897	540,824
Leases payable	421,864	271,229	248,378	444,715	233,799
Compensated absences	689,348	-	69,527	619,821	-
Bond premium	259,099	-	24,999	234,100	-
Bond discounts	(7,459)	-	(933)	(6,526)	-
Loss on bond refunding	(131,987)	-	(131,987)	-	-
Governmental activities long-term liabilities	<u>\$ 62,447,730</u>	<u>\$ 271,229</u>	<u>\$ 5,744,952</u>	<u>\$ 56,974,007</u>	<u>\$ 5,359,623</u>
Business-type activities:					
General obligation bonds payable	\$ 8,950,000	\$ -	\$ 335,000	\$ 8,615,000	\$ 350,000
Revenue bonds payable	16,470,000	-	1,085,000	15,385,000	665,000
Notes payable	9,602,012	1,320,292	509,467	10,412,837	522,930
Leases payable	527,294	-	49,148	478,146	51,278
Compensated absences	36,926	-	2,103	34,823	-
Bond discounts	(62,851)	-	(3,699)	(59,152)	-
Loss on bond refunding	(66,593)	-	(66,593)	-	-
Business-type activities long-term liabilities	<u>\$ 35,456,788</u>	<u>\$ 1,320,292</u>	<u>\$ 1,910,426</u>	<u>\$ 34,866,654</u>	<u>\$ 1,589,208</u>

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding as of September 30, 2012 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
Long Term					
1998	4.00-5.88%	9/1/1998	9/1/2008	1,700,000	155,000
2003	3.64%	7/1/2003	7/1/2023	4,000,000	2,645,000
2004	4.24%	3/11/2004	3/11/2024	4,500,000	3,175,000
2004	4.02%	12/1/2004	12/1/2024	4,500,000	3,365,000
2005	3.97%	12/1/2005	12/1/2025	4,500,000	3,550,000
2006	3.70-4.25%	3/1/2007	9/1/2020	4,185,000	3,210,000
2007	4.37-5.50%	7/1/2007	7/1/2027	6,000,000	4,950,000
2008	3.63-5.00%	7/1/2008	7/1/2028	4,000,000	3,465,000
2008	3.38%	2/1/2009	2/1/2013	3,300,000	1,410,000
2008	3.00-5.00%	4/16/2009	11/1/2020	6,665,000	5,675,000
2010 Water/Sewer and General	3.125 - 4.00%	2/1/2010	2/1/2020	6,000,000	5,610,000
2010	2.00 - 3.25%	3/23/2010	10/1/2019	3,595,000	2,925,000
2010	2.00 - 3.30%	11/4/2010	11/1/2024	3,225,000	3,020,000
2011	2.00 - 3.50%	1/25/2011	10/1/2021	3,505,000	3,195,000
2009 Water/Sewer	3.00-5.00%	2/1/2009	2/1/2029	6,500,000	5,810,000
Total general obligation bonds				<u>\$ 66,175,000</u>	<u>\$ 52,160,000</u>

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
1999 S Lake Phase I	4.95%	3/2/1999	3/1/2019	560,000	250,000
2001 Sam's Club	4.93-5.30%	4/1/2001	4/1/2013	500,000	50,000
2005A Towne Cener	4.07-4.63%	9/30/2006	9/30/2020	5,000,000	3,510,000
2005B Towne Center	5.94-6.64%	9/30/2006	9/30/2020	4,200,000	3,045,000
Total TIF Bonds				<u>\$ 10,260,000</u>	<u>\$ 6,855,000</u>

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
2003 Water/Sewer	4.00-4.65%	12/23/2003	12/23/2023	4,500,000	3,200,000
2006 Water/Sewer	4.00-5.50%	3/1/2006	3/1/2031	9,000,000	7,710,000
2007 Water/Sewer	4.12-5.00%	8/1/2007	8/1/2027	5,400,000	4,475,000
Total Revenue Bonds				<u>\$ 18,900,000</u>	<u>\$ 15,385,000</u>

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Notes payable as of September 30, 2012 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
Bancorpsouth - 2005	4.08%	2/1/2006	2/1/2016	4,000,000	2,943,201
Merchants & Farmers - 2005	4.10%	8/1/2006	8/1/2016	1,900,000	853,873
MS Dept of Health DWSLRF	3.00%	12/1/2002	9/1/2022	1,400,961	832,006
MS Dept of Health DWSLRF	3.00%	1/1/2003	10/1/2022	1,361,525	805,472
MS Dept of Health DWSLRF	3.00%	7/1/2003	4/1/2023	1,250,436	773,328
MS Dept of Health DWSLRF	4.00%	9/20/2004	7/1/2024	1,425,168	983,761
MS Dept of Health DWSLRF	1.95%	11/2/2007	1/1/2029	807,693	743,631
MS Dept of Health DWSLRF	1.95%	11/2/2007	10/1/2029	2,096,881	1,910,851
MS Dept of Health DWSLRF	1.95%	10/1/2008	6/1/2030	1,082,138	997,429
MS Dept of Health DWSLRF	1.95%	10/1/2008	9/30/2030	1,821,006	1,717,842
MS Development Authority	2.00%	8/1/2010	7/1/2020	531,753	409,569
MS Development Authority	3.00%	9/1/2010	9/1/2020	683,373	564,267
MS Dept of Environmental Quality WPCRLF	1.75%	9/1/2011	12/31/2033	328,225	1,642,653
MS Dept of Environmental Quality WPCRLF	1.75%	1/1/2010	8/31/2035	5,864	5,864
Bancorpsouth - 2011	2.87%	3/1/2011	3/1/2021	560,000	510,987
Total Notes				<u>\$ 19,255,023</u>	<u>\$ 15,694,734</u>

The aggregate maturities of general obligation bonds and notes for the years subsequent to September 30, 2012 are as follows:

Year Ending September 30	General Long-Term Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2013	\$ 5,125,824	\$ 2,106,338	\$ 1,537,930	\$ 1,225,522
2014	5,116,169	1,921,868	1,591,777	1,172,501
2015	4,541,960	1,740,618	1,656,018	1,114,842
2016	6,918,800	1,573,542	1,725,666	1,052,477
2017	4,473,048	1,306,649	1,790,725	986,481
2018-2022	20,405,559	3,871,641	10,100,489	3,874,053
2023-2027	8,167,500	942,285	9,562,659	1,937,901
2028-2032	933,037	48,851	6,447,573	561,963
Total	<u>\$ 55,681,897</u>	<u>\$ 13,511,792</u>	<u>\$ 34,412,837</u>	<u>\$ 11,925,740</u>

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2012 were as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 231,120	\$ 6,427	51,278	20,722
2014	144,470	2,446	53,501	18,499
2015	69,125	496	55,819	16,181
2016	-	-	58,238	13,762
2017	-	-	259,310	28,691
Present Value of Minimum Lease Payments	<u>\$ 444,715</u>	<u>\$ 9,369</u>	<u>\$ 478,146</u>	<u>\$ 97,855</u>

Legal debt margin. The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$334,441,993 (the smaller of the two computed margins) as of September 30, 2012.

	15% Test	20% Test
Assessed value as of September 30, 2012:		
\$531,946,618 times applicable percentage	\$ 79,791,993	\$ 106,389,324
Less present debt subject to debt limits as of September 30, 2012:		
Total bonds outstanding (exclude proprietary)	(46,350,000)	(46,350,000)
Margin for additional debt	<u>\$ 33,441,993</u>	<u>\$ 60,039,324</u>

In December 2007, the City entered into an agreement with the City of Hernando, Mississippi whereby the City of Southaven will design and construct a sewer system ("the Hurricane Creek Project") by which it will collect and transport wastewater through the City of Hernando to the DeSoto County Regional Utility Authority's sewer system for treatment and disposal. Upon completion, the City of Hernando will operate and maintain the sewer line. Further, the City of Hernando has agreed to pay the City of Southaven \$1,000,000 over seven years to reimburse the City of Southaven for its portion of the construction costs. The City of Hernando will make the first annual payment to the City of Southaven within sixty days of completion of the project, and then annually on October 1. The project has not substantially begun as of September 30, 2012.

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan Description. The City contributes to the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that

City of Southaven, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

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. At September 30, 2012, PERS members were required to contribute 9% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The rate at September 30, 2012 was 14.26% 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's contributions (employer share only) to PERS for the years ending September 30, 2012, 2011 and 2010 were \$2,270,533, \$2,048,092, and \$1,913,228 respectively, equal to the required contributions for each year.

NOTE H – 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.

NOTE I – LITIGATION

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

NOTE J – CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE (Prior Period Adjustment)

In the fiscal year ending September 30, 2012, the City implemented the GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This resulted in a prior year understatement of the Statement of Net Assets in the governmental funds of \$924,958 and in proprietary funds in the amount of \$841,836.

NOTE K – SUBSEQUENT EVENTS

Management has evaluated the activity of the City through July 31, 2013, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

- In October 2012, the City issued General Obligation Bonds, Series 2012 in the amount of \$2,875,000 for the purchase of buildings and equipment.
- Also in October 2012, the City issued General Obligation Refunding Bonds 2012A in the amount of \$3,015,000 for the advance refunding of the City's General Obligation Bonds, Series 2004, and issued \$2,735,000 General Obligation Water and Sewer Refunding Bonds, Series 2012, for the current refunding of Water and Sewer System Revenue Bonds, Series 2003.
- In April 2013, the Board passed a resolution to apply for a Water Pollution Control Revolving Loan of \$1,376,200 from Mississippi Department of Environmental Quality.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Southaven, Mississippi
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
General property taxes	\$ 11,558,500	\$ 12,130,400	\$ 11,499,092	\$ (631,308)
Licenses and permits	269,500	382,500	439,390	56,890
Intergovernmental	12,102,000	12,911,750	13,360,726	448,976
Charges for services	2,996,500	3,266,235	3,667,578	401,343
Fines	3,375,000	3,375,000	3,280,771	(94,229)
Franchise taxes	1,728,000	1,728,000	1,715,137	(12,863)
Interest	200,000	300,000	360,156	60,156
Miscellaneous	332,000	497,000	429,034	(67,966)
Total Revenues	<u>32,561,500</u>	<u>34,590,885</u>	<u>34,751,884</u>	<u>160,999</u>
<u>EXPENDITURES</u>				
General government	7,758,705	8,425,125	7,812,158	612,967
Public safety	18,087,357	20,905,989	20,670,817	235,172
Public works	1,413,470	1,391,989	1,418,054	(26,065)
Culture and recreation	4,156,135	4,506,383	4,459,326	47,057
Health and welfare	268,065	325,684	334,829	(9,145)
Capital outlay	1,392,768	5,696,890	6,163,893	(467,003)
Total Expenditures	33,076,500	41,252,060	40,859,077	392,983
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(515,000)</u>	<u>(6,661,175)</u>	<u>(6,107,193)</u>	<u>553,982</u>
Other Financing Sources (Uses)				
Rents	440,000	490,000	475,586	(14,414)
Grant proceeds	-	1,934,175	2,877,974	943,799
Sale of assets	25,000	25,000	500	(24,500)
Interfund transfers	50,000	50,000	321,229	271,229
Total Other Financing Sources (Uses)	<u>515,000</u>	<u>2,499,175</u>	<u>3,675,289</u>	<u>1,176,114</u>
Net Changes in Fund Balances	-	(4,162,000)	(2,431,904)	1,730,096
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>6,240,952</u>	<u>6,240,952</u>
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ (4,162,000)</u>	3,825,973	<u>\$ 7,971,048</u>
Adjustments to conform with GAAP:				
Revenues			29,375	
Expenditures			<u>(3,022)</u>	
Fund Balance - End of Year (GAAP basis)			<u>\$ 3,835,401</u>	

SUPPLEMENTARY INFORMATION

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City of Southaven, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Environmental Protection Agency			
Passed-through Mississippi Department of Environmental Quality <i>Capitalization Grants for Clean Water State Revolving Funds</i>	66.458	SRF-C280910-02-0	\$ 92,839
Total U.S. Environmental Protection Agency			<u>92,839</u>
U.S. Department of Justice			
Direct Award <i>Public Safety Partnership and Community Policing Grants</i>	16.710		<u>1,307,892</u>
Total U.S. Department of Justice			<u>1,307,892</u>
U.S. Department of Homeland Security			
Direct Award <i>Hazard Mitigation Grant</i>	97.039		<u>760,980</u>
Total U.S. Department of Homeland Security			<u>760,980</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,161,711</u></u>

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

City of Southaven, Mississippi
Surety Bond Coverage
September 30, 2012

Surety bonds in force at September 30, 2012 were as follows:

<u>Name</u>	<u>Position</u>	<u>Insurance Company</u>	<u>Amount</u>	<u>Expiration</u>
Charles G. Davis	Mayor	Travelers Casualty & Surety Co. of America	100,000	7/6/2013
Greg Guy	Alderman	Travelers Casualty & Surety Co. of America	100,000	7/6/2013
Lorine Cady	Alderman	Travelers Casualty & Surety Co. of America	100,000	7/6/2013
Ronnie Hale	Alderman	Travelers Casualty & Surety Co. of America	100,000	7/6/2013
George Payne	Alderman	Travelers Casualty & Surety Co. of America	100,000	7/6/2013
Williams Brooks	Alderman	Travelers Casualty & Surety Co. of America	100,000	7/6/2013
Ricky Jobs	Alderman	Travelers Casualty & Surety Co. of America	100,000	7/6/2013
Dr. Randy Huling	Alderman	Travelers Casualty & Surety Co. of America	100,000	7/6/2013
Sheila Heath	City Clerk	Western Surety Company	50,000	11/1/2012
Police Officers Bond	Per Officer	Western Surety Company	50,000	11/1/2012
Thomas Long	Police Chief	Western Surety Company	50,000	11/1/2012
Ron White	Fire Chief	Western Surety Company	50,000	11/1/2012
Dispatchers Bond	Per Dispatcher	Western Surety Company	50,000	11/1/2012
Clerks Bond	Per Clerk	Holland Insurance, Inc.	50,000	11/1/2012

SPECIAL REPORTS



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**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 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 ("the City") as of and for the year ended, September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 31, 2013. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated July 31, 2013.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Aldermen, others within the entity, and federal awarding agencies and pass-through entities 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

Hernando, Mississippi

July 31, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and Board of Alderman
City of Southaven, Mississippi

Compliance

We have audited the compliance of the City of Southaven, Mississippi ("the City"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in a city's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Alderman, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Hernando, Mississippi

July 31, 2013



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen
City of 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 ("the City") as of and for the year ended September 30, 2012, and have issued our report thereon dated July 31, 2013. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

We have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed the following material instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

1. **Finding-** Section 21-35-17, Miss. Code Ann. (1972) requires that the governing authorities shall not approve any claim and the city clerk shall not issue any warrant for any expenditure in excess of said detailed budget appropriations as finally adopted, or as revised under the provisions of this chapter, except upon an order of a court of competent jurisdiction or for an emergency, as provided in this chapter. See the budgetary comparison schedule on page 28 for expenditures in excess of budgeted appropriations.

Recommendation- The governing authorities and City Clerk should ensure no expenditures exceed the final adopted budget as required in Section 21-35-17, Miss. Code Ann. (1972).

Response- In fiscal year 2013, the City of Southaven will ensure that there are no expenditures in excess of appropriations.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the finding in this report to ensure that corrective action has been taken.

The City's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

This report is intended for the information of the City's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
July 31, 2013

City of Southaven, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2012

Section 1: Summary of Auditor's Results

Financial Statements:

1.	Type of auditor's report issued on the financial statements	Unqualified
2.	Material noncompliance relating to the financial statements	No
3.	Internal control over financial reporting:	
	a. Material weakness(es) identified?	No
	b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes

Federal Awards:

4.	Internal control over major programs:		
	a. Material weakness identified?	No	
	b. Significant deficiency identified that is not considered to be a material weakness?	None Reported	
5.	Type of auditors' report issued on compliance for major federal programs:	Unqualified	
6.	Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No	
7.	Federal programs identified as major:		
	a. Public Safety Partnership and Community Policing Grants 16.710		
	b. Hazard Mitigation Grant 97.039		
8.	The dollar threshold used to distinguish between type A and type B programs:	\$300,000	
9.	Auditee qualified as a low-risk auditee?	No	
10.	Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133?	No	

City of Southaven, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2012

Section 2: Financial Statements Findings

Significant Deficiency:

2012-1 Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect payment requests that are not legitimate obligations of the City, therefore preventing overstatement of expenses in the financial records.

Condition: The external auditors examined twenty travel reimbursement requests. Of those twenty requests, five of them had inconsistencies; such as credit card statement used for reimbursement rather than original receipts, payee signed as the department head to authorize payment, and no explanation for business purpose.

Cause: At that time, the City had policies regarding travel, but were not ensuring that the policies were being followed before payments were made.

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

Recommendation: Proper internal controls should be enforced to ensure that sufficient documentation and authorization for all expenses is provided.

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