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**CITY OF OLIVE BRANCH
OLIVE BRANCH, MISSISSIPPI
FINANCIAL STATEMENTS AND SPECIAL REPORTS
YEAR ENDED SEPTEMBER 30, 2007**

CITY OF OLIVE BRANCH, MISSISSIPPI

ANNUAL FINANCIAL REPORT
Year Ended September 30, 2007

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CITY OF OLIVE BRANCH, MISSISSIPPI

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Mayor and Board of Aldermen
City of Olive Branch
Olive Branch, 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 City of Olive Branch, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Olive Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Olive Branch, Mississippi, as of September 30, 2007, and the respective changes in financial position, and, where applicable, cash flows 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 March 3, 2008, on our consideration of the City of Olive Branch'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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 41, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Olive Branch's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Olive Branch. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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

Certified Public Accountants

March 3, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The discussion and analysis of City of Olive Branch's financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2007. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the City's financial performance.

This discussion and analysis is an element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

The City of Olive Branch is located in northwestern Mississippi along MS Highway 78, in northeastern DeSoto County (which borders the State of Tennessee to the north, the Mississippi River and Tunica County to the west and Tate County to the south). The City's population, during the 2000 census, was 21,054 and estimates indicate a population of approximately 32,002 as of 9/30/07. Source – City of Olive Branch Department of Planning and Building

The local economic base is diverse with a strong contingent of manufacturing and distribution industries. As of 9/30/07 the City had approximately 1333 active businesses, with approximately 52% being commercial service businesses, 16% being commercial retail businesses, and 32% being home businesses (90% of which offer some type of service with 10% offering some type of sales). Source – City of Olive Branch, Business Licenses

FINANCIAL HIGHLIGHTS

The City of Olive Branch is financially stable and committed to sound fiscal management to meet the challenges of the future.

The City of Olive Branch continues to grow economically and in population. The City's office of Planning and Development estimates that more than 500 new families are moving to the city each year. With continuing growth in population, the City continues to experience increases in the cost of public services, public safety, and infrastructure improvements. In 2007 ad valorem tax revenues increased (as a result of population growth), while the demand for services and infrastructure improvements also continued to grow. The City's ad valorem tax rate continued to hold at 31.5 mills (since 2002). Sound financial management and utilization of federal and state grants and low interest capital loans made it possible to cover increased costs associated with population growth without the need for increasing taxes.

The City's financial position is a product of various financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

Total net assets decreased \$854,441, which represents a 3% decrease from the prior fiscal year. The City's ending cash balance increased by \$597,935, which represents a 15% increase from the prior fiscal year. The city had \$53,422,600 in total revenues. Tax revenues account for \$10,925,058 (or 20%) of total revenues. Sales of utilities totaled \$27,636,138 or 52% of total revenues.

The city had \$52,493,150 in total expenses. Expenses in the amount of \$4,647,601 were offset by grants, outside contributions or charges for services. General revenues of \$18,815,018 were adequate to provide for the remainder of the general expenses. Sales of gas and water were sufficient to provide for the operating expenses totaling \$29,030,531.

Among major funds, the General Fund had \$19,765,584 in revenues and \$19,352,140 in expenditures. The General Fund's fund balance increased \$413,444 over the prior year.

Capital assets, net of accumulated depreciation increased by \$1,252,894.

Long-term debt increased by \$11,478,513.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements. *The government-wide financial statements are designed to provide readers with a broad overview of the city finances, in a manner similar to private-sector businesses.*

*The **statement of net assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.*

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; public works (roads and bridges); culture and recreation; economic development; and interest on long-term debt. The business-type activities of the City include City of Olive Branch Natural Gas System and City of Olive Branch Combined Water & Sewer System.

The Government-wide Financial Statements can be found on pages 14 and 15 of this report.

Fund Financial Statements. 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 uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into two categories: governmental funds, and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a city's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively.

The City maintains individual governmental funds in accordance with the Mississippi Municipal Audit and Accounting Guide issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 18 and 20 of this report.

Proprietary funds are maintained two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The City uses enterprise funds to account for the City of Olive Branch Natural Gas System and City of Olive Branch Combined Water & Sewer System.

Fund financial statements for the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of Olive Branch Natural Gas System and the City of Olive Branch Combined Water & Sewer System are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. The proprietary funds financial statements can be found on pages 20 through 23 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 24 through 39 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the City's budget process.

The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on page 41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – Net assets may serve over time as a useful indicator of government’s financial position. In the case of City of Olive Branch, assets exceeded liabilities by \$88,757,772 as of September 30, 2007.

The largest portion of the City’s net assets (63%) reflects its investment in capital assets (eg., land, buildings, machinery and equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding.

The City’s financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the City’s net assets for the fiscal year ended September 30, 2007.

	2007		2006	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Current Assets	\$20,315,269	\$18,657,435	\$10,717,302	\$18,724,717
Capital assets, net	<u>99,455,414</u>	<u>28,701,120</u>	<u>98,974,308</u>	<u>27,929,332</u>
Total assets	119,770,683	47,358,555	109,691,610	46,654,049
Current liabilities	5,393,664	5,369,905	2,827,924	2,489,712
Long-term debt outstanding	<u>36,124,070</u>	<u>31,483,827</u>	<u>28,719,898</u>	<u>32,695,912</u>
Total liabilities	41,517,734	36,853,732	31,547,822	35,185,624
Net assets:				
Invested in capital assets, net of related debt	61,297,473	(5,318,318)	70,701,108	(4,674,740)
Restricted	13,052,030	4,258,638	2,550,302	2,415,443
Unrestricted	<u>3,903,446</u>	<u>11,564,503</u>	<u>4,892,378</u>	<u>13,727,722</u>
Total Net assets	<u>\$ 78,252,949</u>	<u>\$ 10,504,823</u>	<u>\$ 78,143,788</u>	<u>\$11,468,425</u>

Changes in Net Assets – City of Olive Branch total revenues for the fiscal year ended September 30, 2007 was \$53,422,600. The total cost for all services provided was \$52,493,150. The increase in net assets was \$854,441. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2007.

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2007.

	2007			2006		
	General Fund	Business-type Activities	Totals	General Fund	Business-type Activities	Totals
Program Revenue:						
Charges for Services	\$4,007,938	\$27,636,138	\$31,644,076	\$3,732,552	\$33,572,930	\$37,305,482
Operating Grants & Contributions	\$152,261		\$152,261	\$371,664	-	\$371,664
Capital Grants & Contributions	\$487,402	\$875,093	\$1,362,495	\$51,045	-	\$51,045
Transfers from/to other funds	\$833,431	(\$833,431)	\$0	(\$344,847)	\$344,847	\$0
Fee in Lieu of Tax			\$0	-	-	\$0
Intergovernmental	\$7,011,600		\$7,011,600	\$6,799,989	-	\$6,799,989
Taxes	\$10,925,058		\$10,925,058	\$9,645,310	-	\$9,645,310
Contributed Capital			\$0		-	\$0
Other	\$898,754	\$1,428,356	\$2,327,110	\$38,536,383	\$4,748,282	\$43,284,665
	\$24,316,444	\$29,106,156	\$53,422,600	\$58,792,096	\$38,666,059	\$97,458,155
Expenses:						
General Government	\$2,267,331		\$2,267,331	\$2,495,885	-	\$2,495,885
Public Safety	\$9,571,137		\$9,571,137	\$8,904,250	-	\$8,904,250
Public Works	\$3,367,729		\$3,367,729	\$7,055,374	-	\$7,055,374
Culture & Recreation	\$1,387,765		\$1,387,765	\$1,425,241	-	\$1,425,241
Economic Development	\$960,338		\$960,338	\$773,133	-	\$773,133
Capital Outlay			\$0	-	-	\$0
Depreciation	\$4,671,557		\$4,671,557			
Debt Services	\$1,236,762		\$1,236,762	\$1,328,793	-	\$1,328,793
Water System		\$9,885,339	\$9,885,339	-	\$9,196,272	\$9,196,272
Gas System		\$19,145,192	\$19,145,192	-	\$22,238,767	\$22,238,767
	\$23,462,619	\$29,030,531	\$52,493,150	\$21,982,676	\$31,435,039	\$53,417,715
Change in Net Assets	<u>\$853,825</u>	<u>\$75,625</u>	<u>\$929,450</u>	<u>\$36,809,420</u>	<u>\$7,231,020</u>	<u>\$44,040,440</u>

Note: The business-type activities consist of the City of Olive Branch Natural Gas System and the City of Olive Branch Combined Water & Sewer System.

Governmental Activities – The following table presents the cost of the major functional activities of the City. The table also shows each function’s net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on the City’s taxpayers by each of these functions.

	2007		2006	
	Total Costs	Net (Cost)/Revenues	Total Costs	Net (Cost)/Revenues
General Government	\$2,267,331	(\$1,065,638)	\$2,495,885	(\$1,397,281)
Public Safety	\$9,571,137	(\$7,741,754)	\$8,904,250	(\$7,204,419)
Public Works	\$3,367,729	(\$1,961,429)	\$7,055,374	(\$5,885,537)
Culture & Recreation	\$1,387,765	(\$1,177,540)	\$1,425,241	(\$1,238,252)
Economic Development	\$960,338	(\$960,338)	\$773,133	(\$773,133)
Capital Outlay			\$0	
Debt Service	\$1,236,792	(\$1,236,762)	\$1,328,793	(\$1,328,793)
Depreciation	\$4,671,557	(\$4,671,557)		
	\$23,462,649	(\$18,815,018)	\$21,982,676	(\$17,827,415)

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

Governmental funds – At the close of the fiscal year, City of Olive Branch governmental funds reported a combined fund balance of \$17,639,480, an increase of \$9,375,485.

The General Fund is the principal operating fund of the City. The increase in the fund balance of the General Fund for the fiscal year was \$413,444.

Business-type funds – Revenue from the City’s Utility Funds decreased by 15% to \$28,285,061 and expenses decreased by 8% to \$27,685,201.

BUDGETARY HIGHLIGHTS (of General Fund only)

Over the course of the year, City of Olive Branch revised its annual operating budget on several occasions. Significant budget amendments are explained as follows

Revenues:

- Beginning balance in the General fund was understated. Budget amendment adjusted the balance to reflect actual performance in prior year
- Taxes (Ad Valorem, Public Utility and Franchise) were underestimated in the original budget. Amendments were made to more accurately reflect actual performance.
- Intergovernmental revenues were underestimated in the original budget, with budget amendments being made to adjust to actual performance.

- *Charges for services was underestimated in the original budget, with budget amendments being made to adjust to actual performance with the most significant increases being in garbage collection fees, and sports program fees due to greater response than anticipated,*
- *Interest revenues were underestimated in the original budget. Amendments were made to more accurately reflect actual performance.*
- *Grant revenues were underestimated in the original budget. Amendments were made to more accurately reflect actual performance for increases in areas such as State Grants, Homeland Security and Department of Justice.*
- *Miscellaneous Income revenues were underestimated in the original budget. The City made amendments throughout the year to more accurately reflect actual performance and as relates to proceeds for specific projects such as repair of ambulances and for sidewalks in Old Towne.*

Expenses:

- *Expenses in General Government and General Services were underestimated in the original budget, with amendments being made to reflect actual performance. For the most part, increases were attributed to increased expense in professional services, travel & training, exhibitions and promotion and capital outlay.*
- *Expenses in Public Safety (Police, Fire, Ambulance, Court, Dispatch, and Animal Shelter) were underestimated in the original budget, with amendments being made to more accurately reflect actual performance. Increases were attributed to increased expenses in personnel services (salaries, wages, overtime, FICA, employee insurance and workers comp), uniforms, supplies, gasoline, and vehicle repair, and capital outlay for new vehicles.*
- *Expenses in Public Works (Maintenance, Sanitation, and Streets) were underestimated in the original budget, with amendments being made to more accurately reflect actual performance. Increases were attributed to increased expenses in insurance, gasoline, vehicle repair and maintenance, equipment repair and maintenance, and utilities (including an increase in utilities attributed to electricity for additional street lighting in the streets department), repair and maintenance of streets, and approximately \$210,000 in additional BFI pick up fees.*
- *Expenses in Culture & Recreation (Parks & Recreation and Wesson House) were underestimated in the original budget with amendments being made to more accurately reflect actual performance. Increases were mostly attributed to increased expenses in personnel services (salaries, wages, overtime, FICA, employee insurance and workers comp), supplies for the various sports programs, gasoline, vehicle repairs, and insurance.*

A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2007, City of Olive Branch total capital assets were \$128,156,534, net of depreciation. This includes land, buildings, mobile equipment, furniture and equipment, leased property under capital lease, construction in progress, and infrastructure. This amount represents an increase from the previous year of \$1,252,894. Total accumulated depreciation as of September 30, 2007 was \$54,816,589, including \$6,693,424 of deprecation expense for the year.

Additional information on City of Olive Branch capital assets can be found in note D on page 30 of this report.

Debt Administration – At September 30, 2007, City of Olive Branch had \$72,894,323 in long-term debt outstanding. This includes general obligation bonds, revenue bonds, Mississippi Business Investment Act notes and obligations under capital lease. Of this debt, \$5,016,952 is due within one year.

In 2007 the City issued \$2,500,000 Natural Gas System Revenue Bonds, Series 2007 dated June 1, 2007 for the purpose of expanding and improving the natural gas system and constructing a gate station for an alternate source of natural gas, \$2,500,000 Tax Increment Financing Revenue Refunding Bonds, Series 2007, dated July 1, 2007 for the purpose of refunding the Wal-Mart TIF Bonds, and \$12,000,000 General Obligation Public Improvement Bonds, Series 2007, dated September 1, 2007 for the purpose of purchasing land, constructing municipal buildings (including a Senior Citizens Center, a Municipal Court Building, and a Police Building, for improving streets and for various other capital projects.

Additional information on City of Olive Branch long-term debt can be found in note E on page 34 of this report.

CURRENT/FUTURE ITEMS OF IMPACT

General Fund

In late 2005 Mississippi Development Authority (MDA) awarded a \$450,000 community Development Block grant to the City for a Senior citizens Center. A contract was awarded to C&M Builders in the amount of \$1,339,000, with construction slated for completion in early 2008.

In April of 2007, the City acquired the final parcel of real property at Highland & Hwy 178 for future construction of a new court complex. Initially plans were to construct both a court facility and a police facility on this property, but the decision was made to construct the new police complex adjacent to the city's vehicle maintenance facility on property already owned by the City.

As referenced in previous reports, two major industries (FedEx and Trex) began projects in the City in 2004/2005. The FedEx facility (now fully operational) is a "small package" transportation facility originally intended to create 100 full-time jobs. The latest reports indicate that the facility has approximately 300 employees (including part-time employees). The Trex project, a manufacturing facility for fabrication of building materials and decking, was also intended to create 100 full-time jobs. Trex became operational in Olive Branch in April 2005 and shut down in November 2007 citing the downturn in the building industry as the cause. Approximately 115 employees were affected by the shutdown. It is currently unknown whether Trex will reopen the facility.

Water & Sewer Fund

Over the past few years, the extensive growth in population caused the City's Wastewater Treatment facilities to operate at or near maximum capacity; requiring the City to consider costly expansion or alternate means of treating its wastewater. In spring of 2006 the city conveyed the assets of the Ross Road Wastewater Treatment Facility, the Braybourne Wastewater Treatment Facility, and the Nolehoe Interceptor to DeSoto County Regional Utility Authority (DCRUA), which is the County-wide Wastewater Treatment System and DCRUA began treatment of the City's wastewater. The expense for this treatment is being covered by monthly sewer rates charged to the City's utility customers.

The City plans to make improvements to the Metro Wastewater Treatment Facility which is owned and operated by the city of Olive Branch. Said improvements will increase the efficiency of the plant but will not increase the capacity. Plans are currently under review by City management. Upon their approval, the city will seek bids for the work.

The City also has plans to divert wastewater from the Bridgetown Community to DCRUA and close the Bridgetown Wastewater Treatment Facility which is owned and operated by the city. Said plans are currently being reviewed by MS Department of Environmental Quality, and upon receiving approval from MDEQ, the City will seek bids for the work.

Natural Gas Fund

Escalation in the cost of natural gas continues to be the most significant impact in the City's Natural Gas System. Further expansion of the system is being planned to accommodate future growth and to provide another source of gas supply for the City. The City recently entered into agreement with ANR and plans are being finalized for construction of the alternate gate station. The City will seek bids in the next few weeks with a projected completion date of late 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the office of the Director of Administration, the office of the City Clerk, or the office of the Director of Finance at 9200 Pigeon Roost, Olive Branch, Mississippi 38654.

BASIC FINANCIAL STATEMENTS

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets Year Ended September 30, 2007

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in bank and on hand	\$ 2,930,700	\$ 9,323,058	\$ 12,253,758
Accounts receivable	2,325,929	3,168,825	5,494,754
Intergovernmental receivable	670,053	344,671	1,014,724
Prepaid expense	800,608	270,570	1,071,178
Due from other funds	-	527,489	527,489
Restricted assets:			
Cash in bank	13,348,996	2,801,749	16,150,745
Customer deposits	-	1,456,889	1,456,889
Bond issue costs (net)	238,983	764,184	1,003,167
Fixed assets (net, where applicable, of accumulated depreciation)	99,455,414	28,701,120	128,156,534
Total assets and other debits	119,770,683	47,358,555	167,129,238
Liabilities			
Current liabilities			
Accounts payable	723,790	1,175,508	1,899,298
Accrued expenses	639,340	287,694	927,034
Customer deposits	-	1,456,889	1,456,889
Deferred revenue	480,785	-	480,785
Due to other funds	527,489	-	527,489
Warranty bonds	455,122	-	455,122
General obligation bonds payable	2,234,250	437,890	2,672,140
Loans payable	-	440,214	440,214
Leases payable	80,488	126,710	207,198
Revenue bonds payable	252,400	1,445,000	1,697,400
Noncurrent liabilities			
General obligation bonds payable	33,350,850	1,985,988	35,336,838
Loans payable	-	7,065,298	7,065,298
Leases payable	105,253	2,875,176	2,980,429
Revenue bonds payable	2,134,700	19,735,000	21,869,700
Compensated absences	533,267	91,838	625,105
Deferred loss on bond refunding	-	(269,473)	(269,473)
Total liabilities	41,517,734	36,853,732	78,371,466
Net assets			
Invested in capital assets, net of related debt	61,297,473	(5,318,318)	55,979,155
Restricted for:			
Capital projects	12,654,072	4,258,638	16,912,710
Debt service	397,958	-	397,958
Unrestricted	3,903,446	11,564,503	15,467,949
Total net assets	\$ 78,252,949	\$ 10,504,823	\$ 88,757,772

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Activities
Year Ended September 30, 2007

	Program Revenues			Net (Expenses)Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 2,267,331	\$ 865,759	\$ 56,632	\$ 279,302	\$ (1,065,638)	\$ -	\$ (1,065,638)
Public safety	9,571,137	1,737,462	91,921	-	(7,741,754)	-	(7,741,754)
Public works	3,367,729	1,194,492	3,708	208,100	(1,961,429)	-	(1,961,429)
Cultural and recreational	1,387,765	210,225	-	-	(1,177,540)	-	(1,177,540)
Economic development	960,338	-	-	-	(960,338)	-	(960,338)
Interest on long-term debt	1,236,762	-	-	-	(1,236,762)	-	(1,236,762)
Depreciation	4,671,557	-	-	-	(4,671,557)	-	(4,671,557)
Total governmental activities	<u>23,462,619</u>	<u>4,007,938</u>	<u>152,261</u>	<u>487,402</u>	<u>(18,815,018)</u>	<u>-</u>	<u>(18,815,018)</u>
Business-type activities							
Water and sewer	9,885,339	10,490,572	-	-	-	605,233	605,233
Gas system	19,145,192	17,145,566	-	-	-	(1,999,626)	(1,999,626)
Total business-type activities	<u>29,030,531</u>	<u>27,636,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,394,393)</u>	<u>(1,394,393)</u>
General revenues							
Taxes					10,925,058	-	10,925,058
Intergovernmental					7,011,600	-	7,011,600
Rents					14,000	175,261	189,261
Grants and contributions not restricted to specific programs					-	875,093	875,093
Penalty and interest					46,856	-	46,856
Interest					315,246	604,172	919,418
Transfers other funds					833,431	(833,431)	-
Miscellaneous					521,619	648,923	1,170,542
Gain(loss) on sale of capital assets					1,033	-	1,033
Total general revenues					<u>19,668,843</u>	<u>1,470,018</u>	<u>21,138,861</u>
Change in net assets					853,825	75,625	929,450
Net assets-beginning of year					78,143,788	11,468,425	89,612,213
Prior period adjustments					(744,664)	(1,039,227)	(1,783,891)
Net assets-end of year					<u>\$ 78,252,949</u>	<u>\$ 10,504,823</u>	<u>\$ 88,757,772</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Balance Sheet
 Governmental Funds
 September 30, 2007

	General Fund	\$12 M Bond	Other Governmental Funds	Total Governmental Funds
Assets				
Cash in bank and on hand	\$ 2,547,076	\$ -	\$ 383,624	\$ 2,930,700
Accounts receivable	2,055,060	-	270,869	2,325,929
Intergovernmental receivable	670,053	-	-	670,053
Prepaid expenses	604,519	-	196,089	800,608
Cash - restricted	566,847	12,004,604	777,545	13,348,996
	<u>6,443,555</u>	<u>12,004,604</u>	<u>1,628,127</u>	<u>20,076,286</u>
Total assets	<u>\$ 6,443,555</u>	<u>\$ 12,004,604</u>	<u>\$ 1,628,127</u>	<u>\$ 20,076,286</u>
Liabilities				
Accounts payable	\$ 583,707	\$ 140,083	\$ -	\$ 723,790
Accrued expenses	247,395	-	2,225	249,620
Due to other funds	89,096	83,823	354,570	527,489
Deferred revenue	480,785	-	-	480,785
Warranty bonds	455,122	-	-	455,122
	<u>1,856,105</u>	<u>223,906</u>	<u>356,795</u>	<u>2,436,806</u>
Total liabilities	<u>1,856,105</u>	<u>223,906</u>	<u>356,795</u>	<u>2,436,806</u>
Fund balances				
Reserved for:				
Capital projects	-	11,780,698	873,374	12,654,072
Debt service	-	-	397,958	397,958
Unreserved	4,587,450	-	-	4,587,450
	<u>4,587,450</u>	<u>11,780,698</u>	<u>1,271,332</u>	<u>17,639,480</u>
Total fund balances	<u>4,587,450</u>	<u>11,780,698</u>	<u>1,271,332</u>	<u>17,639,480</u>
Total liabilities and fund balances	<u>\$ 6,443,555</u>	<u>\$ 12,004,604</u>	<u>\$ 1,628,127</u>	<u>\$ 20,076,286</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
September 30, 2007

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

Total Fund Balance - Governmental Funds \$ 17,639,480

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	6,925,808	
Buildings and improvements	14,109,710	
Equipment and vehicles	7,917,635	
Infrastructure	99,798,486	
Construction in progress	5,906,568	
Accumulated depreciation	(35,202,793)	
Bond issue cost	238,983	
	<u>99,694,397</u>	99,694,397

Some liabilities are not due and payable in the current period and therefore
are not reported in the funds. Those liabilities consist of:

Leases payable	(185,741)	
General obligation and revenue bonds	(37,972,200)	
Accrued expenses	(389,720)	
Compensated absences	(533,267)	
	<u>(39,080,928)</u>	(39,080,928)

Net Assets of Governmental Activities \$ 78,252,949

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended September 30, 2007

	General Fund	\$12 M Bond	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 8,420,265	\$ -	\$ 2,504,794	\$ 10,925,059
Intergovernmental	6,903,476	-	108,123	7,011,599
Charges for services	4,007,938	-	-	4,007,938
Interest	171,675	-	143,571	315,246
Miscellaneous	424,130	-	144,345	568,475
Total revenues	<u>19,927,484</u>	<u>-</u>	<u>2,900,833</u>	<u>22,828,317</u>
Expenditures				
Administrative	2,255,196	-	362	2,255,558
Capital outlay	1,163,118	73,779	3,915,766	5,152,663
Culture & recreation	1,387,765	-	-	1,387,765
Economic development	960,338	-	-	960,338
Public safety	9,496,341	-	-	9,496,341
Public works	3,367,729	-	-	3,367,729
Debt service				
Principal	477,009	-	3,754,306	4,231,315
Interest	244,644	-	940,959	1,185,603
Total expenditures	<u>19,352,140</u>	<u>73,779</u>	<u>8,611,393</u>	<u>28,037,312</u>
Excess (deficiency) of revenues over (under) expenditures	<u>575,344</u>	<u>(73,779)</u>	<u>(5,710,560)</u>	<u>(5,208,995)</u>
Other financing sources (uses)				
Grant revenue	360,361	-	279,302	639,663
Rents	14,000	-	-	14,000
Sale of assets	1,033	-	-	1,033
Interfund transfers	(537,294)	-	1,370,725	833,431
Bond issue cost	-	(145,523)	(93,460)	(238,983)
Bond proceeds	-	12,000,000	2,080,000	14,080,000
Total other financing sources (uses)	<u>(161,900)</u>	<u>11,854,477</u>	<u>3,636,567</u>	<u>15,329,144</u>
Net change in fund balances	413,444	11,780,698	(2,073,993)	10,120,149
Fund balance - beginning of year	6,790,078	-	1,473,917	8,263,995
Prior period adjustment	(2,616,072)	-	1,871,408	(744,664)
Fund balance - end of year	<u>\$ 4,587,450</u>	<u>\$ 11,780,698</u>	<u>\$ 1,271,332</u>	<u>\$ 17,639,480</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Reconciliation of Revenues, Expenditures, and Changes in Fund Balances of Government Funds to the Statement of Activities For the Year Ended September 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 10,120,149

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

Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$5,152,663) exceeded depreciation (\$4,671,557) in the current period. 481,106

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 (\$14,080,000) exceeded repayments (\$4,195,259) and bond issue cost (\$238,983). (9,645,758)

Accrued interest payable on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources, and therefore accrued interest is not reported as expenditures in governmental funds. (15,103)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increase is compensated absences payable. (86,569)

Change in Net Assets of Governmental Activities \$ 853,825

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets
 Proprietary Funds
 For the Year Ended September 30, 2007

	Water & Sewer	Natural Gas	Total
Assets			
Current assets			
Cash in bank and on hand	\$ 5,705,409	\$ 3,617,649	\$ 9,323,058
Accounts receivable(net of allowance for doubtful accounts)	1,883,027	1,285,799	3,168,826
Intergovernmental receivables	344,671	-	344,671
Prepaid expenses	222,019	48,550	270,569
Due from other funds	388,444	139,046	527,490
Total current assets	<u>8,543,570</u>	<u>5,091,044</u>	<u>13,634,614</u>
Restricted assets:			
Cash	2,059,927	741,822	2,801,749
Customer deposits	500,113	956,776	1,456,889
Total restricted assets	<u>2,560,040</u>	<u>1,698,598</u>	<u>4,258,638</u>
Other assets			
Bond issue cost (net)	647,049	117,135	764,184
Total other assets	<u>647,049</u>	<u>117,135</u>	<u>764,184</u>
Fixed assets			
Land	194,301	81,482	275,783
Buildings	83,225	266,181	349,406
Infrastructure	29,721,143	7,991,608	37,712,751
Machinery and equipment	259,378	167,538	426,916
Vehicles	710,349	858,967	1,569,316
Construction in progress	7,855,113	125,632	7,980,745
Accumulated depreciation	(13,427,263)	(6,186,533)	(19,613,796)
Total fixed assets	<u>25,396,246</u>	<u>3,304,875</u>	<u>28,701,121</u>
Total assets	<u>\$ 37,146,905</u>	<u>\$ 10,211,652</u>	<u>\$ 47,358,557</u>

Continued

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets
 Proprietary Funds
 For the Year Ended September 30, 2007

	Water & Sewer	Natural Gas	Total
Liabilities and net assets			
Current liabilities			
Accounts payable	\$ 257,320	\$ 918,189	\$ 1,175,509
Accrued expenses	159,101	128,593	287,694
Total current liabilities	<u>416,421</u>	<u>1,046,782</u>	<u>1,463,203</u>
Current liabilities payable from restricted assets			
Leases payable	126,710	-	126,710
Notes payable	440,214	-	440,214
Revenue bonds payable	1,030,000	415,000	1,445,000
General obligation bond payable	315,572	122,318	437,890
Compensated absences	35,860	55,978	91,838
Customer deposits	500,113	956,776	1,456,889
Total current liabilities payable from restricted assets	<u>2,448,469</u>	<u>1,550,072</u>	<u>3,998,541</u>
Long-term liabilities			
Leases payable	2,875,176	-	2,875,176
Notes payable	7,065,298	-	7,065,298
Revenue bonds payable	14,460,000	5,275,000	19,735,000
General obligation bond payable	1,369,247	616,741	1,985,988
Deferred loss on bond refunding	(177,575)	(91,898)	(269,473)
Total long-term liabilities	<u>25,592,146</u>	<u>5,799,843</u>	<u>31,391,989</u>
Total liabilities	<u>28,457,036</u>	<u>8,396,697</u>	<u>36,853,733</u>
Net assets			
Invested in capital assets, net of related debt	(2,285,971)	(3,124,184)	(5,410,155)
Restricted net assets	2,560,040	1,698,598	4,258,638
Unrestricted net assets	8,415,800	3,240,541	11,656,341
Total net assets	<u>8,689,869</u>	<u>1,814,955</u>	<u>10,504,824</u>
Total liabilities and net assets	<u>\$ 37,146,905</u>	<u>\$ 10,211,652</u>	<u>\$ 47,358,557</u>

Concluded

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

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

	<u>Water & Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
Operating revenues			
Sales	\$ 9,693,974	\$ 16,833,736	\$ 26,527,710
Tap fees	796,598	311,830	1,108,428
Miscellaneous	280,755	368,168	648,923
	<u>10,771,327</u>	<u>17,513,734</u>	<u>28,285,061</u>
Total operating revenues			
Operating expenses			
Personnel	2,011,867	2,533,323	4,545,190
Supplies	560,716	388,682	949,398
Depreciation and amortization	1,621,899	528,902	2,150,801
Professional services and other	4,638,453	693,969	5,332,422
Gas purchases	-	14,707,390	14,707,390
	<u>8,832,935</u>	<u>18,852,266</u>	<u>27,685,201</u>
Total operating expenses			
Operating income	<u>1,938,392</u>	<u>(1,338,532)</u>	<u>599,860</u>
Non-operating revenues (expenses)			
Rent	175,261	-	175,261
Contributed capital			
Interest revenue	418,097	186,075	604,172
Interest expense	(1,052,403)	(292,926)	(1,345,329)
Interfund transfers	(858,634)	25,203	(833,431)
Grant proceeds	875,093	-	875,093
	<u>(442,586)</u>	<u>(81,648)</u>	<u>(524,234)</u>
Total non-operating revenues (expenses)			
Net income	1,495,806	(1,420,180)	75,626
Net assets - beginning of year	7,817,535	3,650,890	11,468,425
Prior period adjustment	<u>(623,472)</u>	<u>(415,755)</u>	<u>(1,039,227)</u>
Net assets - end of year	<u>\$ 8,689,869</u>	<u>\$ 1,814,955</u>	<u>\$ 10,504,824</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Cash Flows

Proprietary Funds

For the Year Ended September 30, 2007

	Water & Sewer	Natural Gas	Total
Cash flows from operating activities			
Cash received from customers	\$ 10,030,149	\$ 17,822,120	\$ 27,852,269
Cash payments for goods and services	(5,414,459)	(15,473,459)	(20,887,918)
Cash payments to employees	(2,011,867)	(2,533,323)	(4,545,190)
Net cash provided by operating activities	<u>2,603,823</u>	<u>(184,662)</u>	<u>2,419,161</u>
Cash flows from noncapital financing activities			
Transfer (to) from other funds	(462,440)	483,800	(833,431)
Net cash provided by noncapital financing activities	<u>(462,440)</u>	<u>483,800</u>	<u>(833,431)</u>
Cash flows from capital and related financing activities			
Payments for capital acquisitions	(2,546,516)	(243,276)	(2,789,792)
Bonds proceeds	-	2,500,000	2,500,000
Notes proceeds	1,374,103	-	1,374,103
Grant proceeds	1,088,297	-	1,088,297
Principal payments and bond issue cost on debt	(1,934,872)	(469,515)	(2,404,387)
Interest payments on debt	(1,052,344)	(292,926)	(1,345,270)
Net cash provided by capital and related financing activities	<u>(3,071,332)</u>	<u>1,494,283</u>	<u>(1,577,049)</u>
Cash flows from investing activities			
Rent	175,261	-	175,261
Receipts of interest	418,097	186,075	604,172
Net cash provided by investing activities	<u>593,358</u>	<u>186,075</u>	<u>779,433</u>
Net increase in cash and cash equivalents	(336,591)	1,979,496	788,114
Cash and cash equivalents-beginning of year	<u>8,602,040</u>	<u>3,336,751</u>	<u>11,938,791</u>
Cash and cash equivalents-end of year	<u>\$ 8,265,449</u>	<u>\$ 5,316,247</u>	<u>\$ 12,726,905</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	<u>\$ 1,938,392</u>	<u>\$ (1,338,532)</u>	<u>\$ 599,860</u>
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,621,899	528,902	2,150,801
(Increase) decrease in customer receivables	(752,655)	308,386	(444,269)
(Increase) decrease in prepaids	(97)	(9,819)	(9,916)
Increase (decrease) in accounts payable	(202,579)	241,941	39,362
Increase (decrease) in accrued expenses	(1,137)	84,460	83,323
Total adjustments	<u>665,431</u>	<u>1,153,870</u>	<u>1,819,301</u>
Net cash provided by operating activities	<u>\$ 2,603,823</u>	<u>\$ (184,662)</u>	<u>\$ 2,419,161</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

(A) Summary of Significant Accounting Policies

The City of Olive Branch, Mississippi was incorporated May 1, 1874, and chartered March 6, 1888. The City operates under a Board of Aldermen-Mayor form of government and provides the following services; public safety (police and fire), streets, sanitation, culture, recreation, public improvements, planning and zoning, and general administrative services.

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

Reporting Entity:

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

Included within the reporting entity:

Olive Branch Public Improvement Corporation

The aldermen of the City of Olive Branch also serve on the Board of Directors of the Olive Branch Public Improvement Corporation. The purposes of the Corporation are to acquire and hold title to real property; to enter into leases and to lease real property for the purpose of constructing or acquiring public buildings and facilities.

Encumbrance Accounting:

The City of Olive Branch does not use the encumbrance method of accounting.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

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

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

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

Basis of Accounting:

Government-Wide Financial Statements

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

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

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each program of the governmental activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The new assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements

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

Governmental Funds

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

Revenue Recognition

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

Other revenues, including licenses and permits, certain charges for service, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Budgets and Budgetary Accounting

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

- 1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them.*
- 2. A public hearing is conducted at City Hall.*
- 3. Prior to October 1, the budget is legally enacted through passage of ordinance.*

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2007

4. *The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.*
5. *The actual receipts and disbursements are accumulated each month and compared to the budgeted amounts and reviewed by the Mayor and Board of Aldermen. Any revisions on the budget during the year are approved by the Board of Aldermen.*

Expenditure Recognition

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

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end. Proprietary fund types have selected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20 that conflict with other GASB pronouncements. Operating revenues and expenses for proprietary funds are those that result from providing utilities to customers. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Cash and Investments

For the purpose of the Statement of Net Assets, "cash in bank and on hand" 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.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds with governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government-wide statements, receivables consist of all revenue earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon estimates by management.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report utilities and interest earnings as their major receivables.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Property Tax

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

Inventories

The City does not stockpile large quantities of material and supplies, therefore, inventories are not considered in the financial statements.

Capital Assets and Depreciation

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

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Capital Asset Account Group. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Streets built by the county, state or federal government but required to be maintained by the city are added to the city's infrastructure as an increase in general fixed assets and an increase in contributed capital revenue.

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

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, constructions or improvements of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or laws through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets not meeting the definition of “restricted” or “invested” in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved, with unreserved classified as designated and undesignated.

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

Compensated Absences

The City’s policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Net Assets

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

(B) Cash and Investments:

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

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be recovered. As of September 30, 2007, \$14,249,821 of the City's bank balances of \$28,241,361 was exposed to custodial credit risk because it was uninsured and uncollateralized with the State Treasurer of the State of Mississippi.

(C) Intergovernmental Receivables

Intergovernmental receivables consist of the following:

<u>Description</u>	<u>General Fund</u>
<i>Ad valorem</i>	\$ 141,849
<i>Sales tax</i>	<u>528,204</u>
<i>Totals</i>	<u>\$ 670,053</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

(D)Capital Assets

The following is a summary of the changes in capital assets for the fiscal year ended September 30, 2007:

	<i>Balance at</i> <i>9/30/2006</i>	<i>Additions</i>	<i>Deletions</i>	<i>Adjustments</i>	<i>Balance at</i> <i>9/30/2007</i>
<i>Governmental activities:</i>					
<i>Capital assets, not being depreciated:</i>					
<i>Land</i>	\$ 6,241,608	\$ 684,200	\$ -	\$ -	\$ 6,925,808
<i>Construction in progress</i>	5,100,635	3,015,878	2,209,945	-	\$ 5,906,568
<i>Total capital assets, not being depreciated:</i>	<u>11,342,243</u>	<u>3,700,078</u>	<u>2,209,945</u>	<u>-</u>	<u>12,832,376</u>
<i>Capital assets, being depreciated:</i>					
<i>Buildings and improvements</i>	12,949,553	1,160,157	-	-	14,109,710
<i>Equipment and vehicles</i>	7,208,545	705,020	-	4,070	7,917,635
<i>Infrastructure</i>	98,001,339	1,797,147	-	-	99,798,486
<i>Total capital assets, being depreciated:</i>	<u>118,159,437</u>	<u>3,662,324</u>	<u>-</u>	<u>4,070</u>	<u>121,825,831</u>
<i>Less accumulated depreciation for:</i>					
<i>Buildings and improvements</i>	1,710,561	376,656	-	-	2,087,217
<i>Equipment and vehicles</i>	5,017,944	695,374	-	3,864	5,717,182
<i>Infrastructure</i>	23,798,867	3,599,527	-	-	27,398,394
<i>Total accumulated depreciation</i>	<u>30,527,372</u>	<u>4,671,557</u>	<u>-</u>	<u>3,864</u>	<u>35,202,793</u>
<i>Total capital assets, being depreciated, net</i>	<u>87,632,065</u>	<u>(1,009,233)</u>	<u>-</u>	<u>206</u>	<u>86,623,038</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 98,974,308</u>	<u>\$ 2,690,845</u>	<u>\$ 2,209,945</u>	<u>\$ 206</u>	<u>\$ 99,455,414</u>
<i>Business-type activities:</i>					
<i>Capital assets, not being depreciated:</i>					
<i>Land</i>	\$ 275,784	\$ -	\$ -	\$ -	\$ 275,784
<i>Construction in progress</i>	8,510,371	2,331,922	2,861,549	-	\$ 7,980,744
<i>Total capital assets, not being depreciated:</i>	<u>8,786,155</u>	<u>2,331,922</u>	<u>2,861,549</u>	<u>-</u>	<u>8,256,528</u>
<i>Capital assets, being depreciated:</i>					
<i>Buildings and improvements</i>	349,406	-	-	-	349,406
<i>Equipment and vehicles</i>	1,700,783	299,519	-	(4,070)	1,996,232
<i>Infrastructure</i>	34,688,781	3,023,969	-	-	37,712,750
<i>Total capital assets, being depreciated:</i>	<u>36,738,970</u>	<u>3,323,488</u>	<u>-</u>	<u>(4,070)</u>	<u>40,058,388</u>
<i>Less accumulated depreciation for:</i>					
<i>Buildings and improvements</i>	38,376	7,050	-	-	45,426
<i>Equipment and vehicles</i>	995,546	177,245	-	(3,864)	1,168,927
<i>Infrastructure</i>	16,561,871	1,837,572	-	-	18,399,443
<i>Total accumulated depreciation</i>	<u>17,595,793</u>	<u>2,021,867</u>	<u>-</u>	<u>(3,864)</u>	<u>19,613,796</u>
<i>Total capital assets, being depreciated, net</i>	<u>19,143,177</u>	<u>1,301,621</u>	<u>-</u>	<u>(206)</u>	<u>20,444,592</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 27,929,332</u>	<u>\$ 3,633,543</u>	<u>\$ 2,861,549</u>	<u>\$ (206)</u>	<u>\$ 28,701,120</u>

No interest was capitalized on constructed or in - progress fixed assets during the year due to immateriality.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

Depreciation was charged to functions of the City of Olive Branch as follows:

<i>Governmental activities:</i>	
<i>General government</i>	\$ 158,006
<i>Public safety</i>	444,335
<i>Public works</i>	3,828,809
<i>Culture and recreation</i>	219,050
<i>Economic development</i>	<u>21,357</u>
<i>Total depreciation expense, governmental activities</i>	<u>\$ 4,671,557</u>
<i>Business-type activities:</i>	
<i>Water and Sewer</i>	\$ 1,536,115
<i>Natural Gas</i>	<u>485,752</u>
<i>Total depreciation expense, business-type activities</i>	<u>\$ 2,021,867</u>

Adjustments in summary of Changes in Capital Assets

Adjustments are primarily due to infrastructure being valued and recorded by the City, along with the related accumulated depreciation, in accordance with GASB 34. Infrastructure consists of streets, traffic signalization, and the like, for governmental activities; and gas and water distribution lines for the business-type activities. Adjustments also include reclassifications of assets from governmental to business-type and construction in progress to a capital asset once construction is complete.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

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

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
2006/2007 Asphalt Street Overlay	\$ 449,317	\$ 209,662	General
Alexander Road Widening - Design	74,091	21,231	General
Bryant Trent Drainage Pipe Replacement	71,250	71,250	General
Camp Creek Blvd Asphalt Base & Surface	190,667	32,722	General
Camp Creek Blvd Traffic Signal Design	19,500	540	General
Camp Creek Blvd Traffic Signals (2)	200,000	200,000	General
Camp Creek Grade Crossing Signal	281,953	90,615	General
Commercial Drive Roadway - Professional Services	28,300	28,300	General
Craft Rd North of 302 - Design/widening	173,000	(29,896)	General
FedEx Lane / Nail Road Construction	2,796,599	109,784	General
FedEx/Nail Road - Engineering	407,718	42,909	General
Hillsdale Drainage Improvements	138,269	1,383	General
Goodman/Old Goodman - Intersection Reconfiguration	371,962	371,962	General
Pattie Jean Estates - Roadway Improvements	142,398	14,516	General
Court Building - Design	144,261	18,516	General
Police & Court Bldgs - Landscape Design	53,050	(6,952)	General
Police & Court Bldgs - Soil testing	5,148	575	General
Police Building - Design	192,761	25,974	General
Senior Citizens Center	35,000	2,500	General
Senior Citizens' Center - Construction	1,341,107	736,751	General
Senior Citizen's Center - Design & Planning	75,000	6,750	General
US Xpress - Infrastructure DIP	10,000	5,000	General
College Rd Force Main Extension Phase V	33,350	10,136	Enterprise
Gas Management Consulting	42,000	14,533	Enterprise
High Pressure Gas Extension - Southeast	93,530	2,863	Enterprise
High Pressure Natural Gas Main	738,295	496,042	Enterprise
Polk Lane Water Plant - Planning & Design	21,450	20,700	Enterprise
Northcentral Electric Power Assn Bldg - Purchase	1,400,000	1,400,000	Enterprise
Sewer Interceptor (Hampton Inn) - Eng Design	280,000	38,604	Enterprise
Sewer Rehab - Phase 2	970,650	686,926	Enterprise
Totals	\$ 10,780,626	\$ 4,623,896	

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

(E) Long Term Debt

General obligation bonds. General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
<i>General Long Term</i>					
1992	4.40%	10/1/1992	10/1/2007	\$ 1,200,000	\$ 115,000
	6.00%				
1996	5.20%	4/1/1996	4/1/2011	290,000	100,000
	7.25%				
1998	4.30%	6/1/1998	6/1/2013	1,600,000	780,000
	6.00%				
1999	4.38%	8/1/1999	8/1/2019	1,635,000	1,155,000
	6.25%				
2001	5.50%	2/23/2001	2/1/2006	210,000	-
2001	2.50%	12/20/2001	10/1/2009	508,200	155,100
	4.00%				
2001	2.50%	12/20/2001	9/1/2014	930,000	585,000
	4.00%				
2002	4.10%	2/5/2002	3/1/2022	2,500,000	2,080,000
	5.75%				
2003	1.10%	11/1/2003	5/1/2011	2,290,000	1,135,000
	3.00%				
2003	3.00%	6/1/2003	6/1/2023	9,000,000	7,770,000
	4.13%				
2004	4.50%	6/9/2004	6/1/2019	4,800,000	4,080,000
	6.40%				
2004	2.50%	5/12/2004	10/1/2015	1,850,000	1,565,000
	5.20%				
2004	3.50%	12/14/2004	9/30/2020	2,200,000	2,080,000
	4.00%				
2005	3.50%	3/29/2005	9/30/2020	2,200,000	1,985,000
	4.00%				
2007	4.38%	9/1/2007	9/1/2027	12,000,000	12,000,000
				<u>43,213,200</u>	<u>35,585,100</u>
<i>Enterprise Funds</i>					
MBIA - 1995	0.00%	7/5/1995	9/1/2015	750,000	300,000
Gas Project - 1999	4.10%	9/1/1998	9/1/2013	1,200,000	585,000
	5.75%				
MBIA - 1998	2.00%	11/1/1998	11/1/2013	2,000,000	1,223,979
2001	2.50%	12/20/2001	10/1/2009	1,101,100	314,899
	4.00%				
				<u>5,051,100</u>	<u>2,423,878</u>
<i>Total</i>				<u>\$ 48,264,300</u>	<u>\$ 38,008,978</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

Revenue Bonds. 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 end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
2000 General Fund	5.10% 5.80%	4/13/2000	10/1/2014	\$ 3,500,000	\$ 237,000
2001 General Fund	5.68%	8/6/2002	5/1/2017	94,000	70,100
2007 General Fund	3.85%	7/1/2007	10/1/2014	2,080,000	2,080,000
				<u>5,674,000</u>	<u>2,387,100</u>
<i>Enterprise Funds</i>					
Natural Gas System Refunding - 1995	4.00% 5.40%	12/1/1995	3/1/2009	2,995,000	765,000
Natural Gas System 1999	4.90% 6.75%	8/1/1999	9/1/2024	3,000,000	2,425,000
Combined Water & Sewer - 2000	5.25% 7.50%	8/1/2000	9/1/2020	3,750,000	2,995,000
Combined Water & Sewer 2001	4.25% 6.00%	2/1/2001	2/1/2026	2,500,000	2,180,000
2001A Refunding	2.60% 4.40%	12/1/2001	3/1/2012	1,905,000	1,050,000
Combined Water & Sewer 2002A	4.25% 6.00%	2/1/2002	3/1/2022	4,500,000	3,765,000
Combined Water & Sewer - 2003	1.10% 3.45%	7/1/2003	3/1/2014	2,100,000	1,405,000
2004 Refunding	2.35% 4.20%	3/1/2005	3/1/2017	2,410,000	2,110,000
Combined Water & Sewer - 2005	3.75% 5.25%	3/1/2006	3/1/2020	2,200,000	1,985,000
Natural Gas System 2007	5.25% 4.80%	6/1/2007	6/1/2027	2,500,000	2,500,000
				<u>27,860,000</u>	<u>21,180,000</u>
				<u>\$ 33,534,000</u>	<u>\$ 23,567,100</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2007

Loans. The City also uses loans to finance its projects.

Description	Interest Rate	Issue Date	Maturity Date	Amounts Issued	Outstanding
<i>Enterprise funds</i>					
<i>MS Dept. of Environmental</i>					
<i>Quality SRF Loan</i>	4.50%	8/14/1998	11/15/2019	\$ 2,068,909	\$ 1,441,624
<i>MS Dept. of Environmental</i>					
<i>Quality SRF Loan</i>	2.00%	11/1/2006	6/1/2026	1,011,918	973,060
<i>DWSIRLF Loan - DWI-H280007-01</i>	4.50%	4/1/2005	10/1/2016	1,034,433	831,941
<i>DWSIRLF Loan - DWI-H280049-01/02</i>	3.00%	10/1/2001	7/1/2021	1,940,384	1,503,820
<i>DWSIRLF Loan - DWI-H280049-03</i>	4.00%	11/10/2003	9/1/2025	1,350,535	1,315,911
<i>DWSIRLF Loan- DWI-H280049-05</i>	2.00%	6/7/2005	1/1/2026	1,443,899	1,439,156
<i>Less: uncommitted DWSIRLF</i>				-	-
				<u>\$ 8,850,078</u>	<u>\$ 7,505,512</u>

Annual requirements to retire debt:

The aggregate maturities of general obligation, revenue bonds, and loans at September 30, 2007 are as follows:

Year Ending September 30	General Long-Term Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2008	2,486,650	1,664,322	2,323,103	1,237,830
2009	2,446,950	1,465,946	2,339,063	1,143,153
2010	2,545,600	1,366,349	2,439,251	1,047,236
2011	2,481,400	1,263,888	2,182,991	956,857
2012	2,376,700	1,164,318	2,277,749	872,120
2013-2017	11,639,900	4,367,329	9,507,327	3,169,342
2018-2022	9,235,000	2,107,136	7,119,352	1,382,280
2023-2027	4,760,000	601,856	2,920,553	292,283
2028-2032	-	-	-	-
<i>Less: uncommitted</i>	-	-	-	-
Total	<u>\$ 37,972,200</u>	<u>\$ 14,001,144</u>	<u>\$ 31,109,389</u>	<u>\$ 10,101,101</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

Current Refunding – On July 1, the City of Olive Branch, Mississippi, issued \$2,080,000 in 2007 Tax Increment Financing Revenue Refunding Bonds with a rate of 3.85% to currently refund the 2000 Tax Increment Financing Revenue Bonds which had an average rate of 5.71%. The 2000 TIF Bonds had a balance of \$2,089,000 at the time of refunding. The difference of \$144,080 between the new balance and the balance paid off was \$45,055 cash deposited into a bond escrow account for future debt service and \$99,025 for net bond issuance costs.

Changes in long-term debt for the year ended September 30, 2007 were as follows:

	Balance at 9/30/2006	Additions	Deletions	Balance at 9/30/2007	Amounts Due Within One Year
<i>Governmental activities:</i>					
General obligation bonds payable	\$ 25,374,350	\$ 12,000,000	\$ 1,789,250	\$ 35,585,100	\$ 2,234,250
Revenue bonds payable	2,625,200	2,080,000	2,318,100	2,387,100	252,400
Leases payable	273,650	-	87,909	185,741	80,488
Compensated absences	446,698	86,569	-	533,267	-
<i>Governmental activities long-term liabilities</i>	<u>\$ 28,719,898</u>	<u>\$ 14,166,569</u>	<u>\$ 4,195,259</u>	<u>\$ 38,691,208</u>	<u>\$ 2,567,138</u>
<i>Business-type activities:</i>					
General obligation bonds payable	\$ 2,853,540	-	\$ 429,661	\$ 2,423,879	\$ 437,890
Revenue bonds payable	19,980,000	2,500,000	1,300,000	21,180,000	1,445,000
Notes payable	6,608,782	1,374,103	477,373	7,505,512	440,214
Leases payable	3,161,751	-	159,866	3,001,885	126,710
Compensated absences	91,839	-	-	91,839	-
<i>Business-type activities long-term liabilities</i>	<u>\$ 32,695,912</u>	<u>\$ 3,874,103</u>	<u>\$ 2,366,900</u>	<u>\$ 34,203,115</u>	<u>\$ 2,449,814</u>

(F) Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Olive Branch is required to contribute at an actuarially determined rate. The current rate is 11.85% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Olive Branch's contributions to PERS for the year ending September 30, 2007, 2006, and 2005 were \$1,389,635, \$1,196,287, and \$949,648 respectively, equal to the required contributions for each year.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

(G) Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2007:

A.	<i>Due To/From Other Funds:</i>	<u><i>Due To</i></u>	<u><i>Due From</i></u>
	<i>Major funds:</i>		
	<i>General fund</i>	\$ 1,531,755	\$ 1,442,659
	<i>\$12 Million bond fund</i>	83,824	-
	<i>Other Governmental funds</i>	548,097	193,527
	<i>Water and sewer fund</i>	6,533,719	6,922,163
	<i>Natural gas fund</i>	7,070	146,116
		<hr/>	<hr/>
	<i>Total funds</i>	<u>\$ 8,704,465</u>	<u>\$ 8,704,465</u>

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

B.	<i>Transfers In/Out:</i>	<u><i>Transfers In</i></u>	<u><i>Transfer Out</i></u>
	<i>Major funds:</i>		
	<i>General fund</i>	\$ 32,081	\$ 569,375
	<i>\$12 Million bond fund</i>	-	-
	<i>Other Governmental funds</i>	144,080	1,514,805
	<i>Water and sewer fund</i>	262,823	1,121,457
	<i>Natural gas fund</i>	105,944	80,741
		<hr/>	<hr/>
	<i>Total funds</i>	<u>\$ 544,928</u>	<u>\$ 3,286,378</u>

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

(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.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2007

(I) Leases

Capital Leases: There were no assets acquired through capital leases for this period.

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 80,488	\$ 8,984	\$ 126,710	\$ 103,415
2009	51,252	5,642	131,204	98,922
2010	54,001	2,894	135,856	94,269
2011	-	-	140,674	89,451
2012	-	-	145,663	84,462
Thereafter	-	-	2,321,778	554,789
<i>Present Value of Minimum Lease Payments</i>	<u>\$ 185,741</u>	<u>\$ 17,520</u>	<u>\$ 3,001,885</u>	<u>\$ 1,025,308</u>

(J) Prior Period Adjustment

A summary of significant fund equity adjustments is as follows:

<u>Statement of Revenues, Expenditures and Changes in Net Assets-Proprietary Funds</u>	<u>Amount</u>
<i>Governmental activities:</i>	
<i>To correct accounts receivable and deferred revenue</i>	\$ (132,811)
<i>To correct accounts payable and prepaid expenditures</i>	(45,332)
<i>To close out funds</i>	(566,521)
<i>Subtotal</i>	<u>(744,664)</u>
<u>Statement of Revenues, Expenses and Changes in Net Assets-Proprietary Funds</u>	<u>Amount</u>
<i>To correct accounts receivable and deferred revenue</i>	\$ (1,316,262)
<i>To correct accounts payable and prepaid expenditures</i>	118,756
<i>To correct DWI receivable as liability instead of revenue</i>	(408,242)
<i>To close out funds</i>	566,521
<i>Total</i>	<u>\$ (1,039,227)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OLIVE BRANCH, MISSISSIPPI

Budgetary Comparison Schedule
September 30, 2007

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 7,250,289	\$ 6,832,608	\$ 8,278,416	\$ 1,445,808
Intergovernmental	6,635,352	6,888,594	6,378,906	(509,688)
Charges for services	3,128,535	4,208,217	4,007,938	(200,279)
Interest	45,000	159,233	171,675	12,442
Miscellaneous	203,000	615,768	424,130	(191,638)
Total revenues	<u>17,262,176</u>	<u>18,704,420</u>	<u>19,261,065</u>	<u>556,645</u>
Expenditures				
Administrative	2,230,996	2,495,787	2,205,717	290,070
Capital outlay	790,200	1,546,505	1,163,118	383,387
Culture and recreation	1,409,233	1,497,096	1,363,026	134,070
Economic development	1,002,819	1,099,789	935,596	164,193
Public safety	9,608,253	10,199,922	9,397,383	802,539
Public works	2,835,953	3,748,074	3,318,250	429,824
Debt service	720,125	730,762	721,653	9,109
Total expenditures	<u>18,597,579</u>	<u>21,317,935</u>	<u>19,104,743</u>	<u>2,213,192</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,335,403)</u>	<u>(2,613,515)</u>	<u>156,322</u>	<u>(2,769,837)</u>
Other financing sources (uses)				
Balance forward from prior year	750,000	2,069,118	-	2,069,118
Grant revenue	143,394	148,552	317,327	(168,775)
Rents	16,000	14,000	14,000	-
Sale of assets	5,000	1,033	1,033	-
Interfund transfers	16,000	-	(537,294)	537,294
Total other financing sources(uses)	<u>930,394</u>	<u>2,232,703</u>	<u>(204,934)</u>	<u>2,437,637</u>
Net change in fund balances	<u>\$ (405,009)</u>	<u>\$ (380,812)</u>	<u>(48,612)</u>	<u>\$ (332,200)</u>
Fund balance - beginning of year			5,713,709	
Prior period adjustment			<u>(1,539,703)</u>	
Fund balance - end of year			4,125,394	
Adjustments to conform with GAAP:				
Revenues			709,453	
Expenditures			<u>(247,397)</u>	
Fund balance - end of year (GAAP basis)			<u>\$ 4,587,450</u>	

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Schedule of Federal Awards
September 30, 2007

<i>Federal Grantor/ Pass-through Grantor/ Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Number</i>	<i>Federal Expenditures</i>
<u>MAJOR FEDERAL AWARDS</u>			
<i>US Department of the Army</i>			
<i>WRDA Section 592 Funds</i>	12.000	N/A	\$ 875,124
<i>US Department of Transportation</i>			
<i>Passed-through Mississippi Department of Transportation Highway Planning and Construction (Federal-Aid Highway Program)</i>	20.205	101427	240,678
<i>Total Expenditures of Major Federal Awards</i>			<u>1,115,802</u>
<u>OTHER FEDERAL AWARDS</u>			
<i>US Department of Housing and Urban Development</i>			
<i>Passed-through Mississippi Development Authority</i>			
<i>Community Development Block Grant - FEDEX</i>	14.219	1121-04-284-ED-01	116,622
<i>Community Development Block Grant - Sr. Citizen Center</i>	14.219	1121-04-284-PF-01	205,481
<i>Community Development Block Grant - US XPRESS</i>	14.219	1123-06-284-ED-01	11,700
<i>Total US Department of Housing and Urban Development</i>			<u>333,803</u>
<i>US Department of Environmental Protection</i>			
<i>Passed-through the Mississippi Department of Environmental Quality</i>			
<i>Drinking Water State Revolving Loan Funds</i>	66.468	DWI H280049-05	963,490
<i>US Department of Homeland Security</i>			
<i>Passed-through Mississippi Emergency Management</i>			
<i>State Homeland Security Grant Program</i>	97.067	06HS284	37,803
<i>State Homeland Security Grant Program</i>	97.067	S5HS284	60,000
<i>Total US Department of Homeland Security</i>			<u>97,803</u>
<i>Total Expenditures of Other Federal Awards</i>			<u>1,395,096</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 2,510,898</u>

NOTES 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.

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Schedule of Property Tax Rates and Assessments
September 30, 2007

<u>Year</u>	<u>Millage Rate</u>	<u>Assessed Property Value</u>
2007	31.5	\$ 315,715,112
2006	31.5	277,901,043
2005	31.5	265,699,261
2004	31.5	247,388,808
2003	31.5	207,144,048
2002	31.5	192,444,011
2001	25.5	179,286,323
2000	25.5	158,757,629
1999	25.5	141,061,602
1998	25.5	126,748,604
1997	25.5	98,883,822
1996	25.5	81,250,691
1995	25.5	69,391,164
1994	25.5	62,792,717
1993	25.5	56,350,531
1992	25.5	53,880,245
1991	25.5	20,012,893
1990	25.5	17,618,719
1989	30	13,219,511
1988	30	11,244,420
1987	30	8,379,634
1986	30	9,099,051
1985	30	8,370,366
1984	30	13,790,500

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Schedule of Surety Bonds for Municipal Officials
September 30, 2007

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
<i>Samuel Rikard</i>	<i>Mayor</i>	<i>Fidelity & Deposit Co. of Maryland</i>	\$ <i>100,000</i>
<i>Judy Herrington</i>	<i>City Clerk</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>50,000</i>
<i>Tina Griffith</i>	<i>Asst. City Clerk</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>10,000</i>
<i>Arthur Heun</i>	<i>Police Chief</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>50,000</i>
<u><i>Public Employees</i></u>			
<i>Blanket Bond</i>	<i>Employees not required to have individual bonds.</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>250,000</i>
<i>Dishonesty Bond</i>	<i>Police Officers</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>1,250,000</i>
<i>Paula May</i>	<i>City Administrator</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>50,000</i>
<i>Aubrey Coleman</i>	<i>Alderman</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>100,000</i>
<i>George Collins</i>	<i>Alderman</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>100,000</i>
<i>Stephen Benson</i>	<i>Alderman</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>100,000</i>
<i>Randy Cowgill</i>	<i>Alderman</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>100,000</i>
<i>Dale Dickerson</i>	<i>Alderman</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>100,000</i>
<i>Joyce Haslip</i>	<i>Alderman</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>100,000</i>
<i>Maurice Wallace</i>	<i>Alderman</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>100,000</i>
<i>Steve Bigelow</i>	<i>Engineer</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>50,000</i>
<i>Charlotte Johnson</i>	<i>Director of Finance</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>50,000</i>
<i>Johnny Eason</i>	<i>Fire Chief</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>50,000</i>
<i>Bryan Dye</i>	<i>City Attorney</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>50,000</i>
<i>Ron Barry</i>	<i>Public Works Director</i>	<i>Fidelity & Deposit Co. of Maryland</i>	<i>50,000</i>

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 Olive Branch, 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 Olive Branch, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the City of Olive Branch, Mississippi’s basic financial statements and have issued our report thereon dated March 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Continued.....

Continued
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Olive Branch, Mississippi's general purpose 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*.

This report is intended solely for the information and use of management, and the Mississippi State Department of Audit 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
Certified Public Accountants
March 3, 2008

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

Mayor and Board of Aldermen
City of Olive Branch
Olive Branch, Mississippi

Compliance

We have audited the compliance of the City of Olive Branch, Mississippi with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City of Olive Branch, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Olive Branch, Mississippi's management. Our responsibility is to express an opinion on the City of Olive Branch, Mississippi's compliance based on our audit.

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

In our opinion, the City of Olive Branch, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Continued.....

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, 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. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
March 3, 2008

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

Mayor and Board of Aldermen
City of Olive Branch
Olive Branch, Mississippi

We have audited the financial statements of the City of Olive Branch, Mississippi, for the year ended September 30, 2007, and issued our report thereon dated March 3, 2008. Our audit was performed 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 included such tests of the accounting records and such other auditing 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 financial statements disclosed the following material instance of noncompliance with state laws and regulations. Our findings and recommendations are as follows:

Finding

Section 27-105-5, Miss Code Ann (1972) requires a public depositor shall notify the State Treasurer of its official name, address, federal tax identification number, and provide a listing of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year end. As of September 30, 2007, \$14,249,821 of the City's \$28,241,361 bank balance was not reported to the State Treasurer, thus exposing the funds to custodial credit risk.

Recommendation

The City should review the *Collateral Sufficiency Report* provided by the State Treasurer's office to ensure accuracy of the accounts listed.

This report is intended for the use of the City of Olive Branch, Mississippi and the Mississippi State Department of Audit 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
Certified Public Accountants
March 3, 2008

CITY OF OLIVE BRANCH

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | |
|--|--------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | <u>No</u> |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u>No</u> |
| 6. Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? | <u>No</u> |
| 7. Federal programs identified as major programs: | |
| a. Congressionally Mandated Projects | CFDA # 66.202 |
| b. Highway Planning and Construction (Federal Aid Highway Program) | CFDA # 20.205 |

Federal Awards (Continued):

8. The dollar threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as a low-risk auditee? Yes
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

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs.

The results of our tests did not disclose any findings and questioned costs related to the federal awards.