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**CITY OF OLIVE BRANCH
OLIVE BRANCH, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009**

CITY OF OLIVE BRANCH, MISSISSIPPI

ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2009

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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 (the "City"), as of and for the year ended September 30, 2009, 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, 2009, 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 June 30, 2010, 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 11 and 38, 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. The Schedule of Property Tax Rates and Schedule of Surety Bonds have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
June 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF OLIVE BRANCH, MISSISSIPPI
Management Discussion and Analysis
Year Ended September 30, 2009

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, 2009. 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 32,635 as of 9/30/09. 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. In 2009 the City again experienced a slight decrease in the number of businesses. While new businesses opened, others failed. As of 9/30/09 the City had approximately 1223 active businesses (down from 1333 in '07 and 1275 in '08. Approximately 820 were commercial/industrial businesses and 403 were home businesses. 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.

Over the past few years the City of Olive Branch experienced dramatic growth in economy and in population, but the City is sensitive to national economic trends. In '08 the national recession resulted in a tightening of credit which caused residential building to slow significantly. Reports from the Planning and Building Department indicate 108 residential building permits were issued in Olive Branch in '09 (down from 378 in '07 and 126 in '08), with estimated growth being down approximately 15% from the previous year. The cost of providing quality services, public safety and infrastructure continued to increase. The City's ad valorem tax rate was increased to 34.5 mills in September '07 and remains at that rate.

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.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management Discussion and Analysis
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Total net assets increased \$1,338,252, which represents a .1% increase from the prior fiscal year. The City's ending cash balance decreased by \$8,996,390, which represents a 6 ½% decrease from the prior fiscal year. The City had \$57,503,941 in total revenues. Tax revenues account for \$11,944,198 (or 21%) of total revenues. Sales of utilities totaled \$28,490,188 or 50% of total revenues.

The City had \$55,390,398 in total expenses. Expenses in the amount of \$4,148,016 were offset by grants, outside contributions or charges for services. General revenues of \$22,940,819 were inadequate to cover the remaining general expenses. It was necessary to utilize \$265,170 in proceeds from the General Fund Balance to help cover the remaining general expenses which totaled \$23,205,989. Revenues from gas and water were sufficient to cover the operating expenses of the utility funds totaling \$28,036,393.

Among major funds, the General Fund had \$22,940,819 in revenues and \$23,604,905 in expenditures. As a result, the General Fund's fund balance decreased \$664,086 over the prior year.

Capital assets, net of accumulated depreciation increased by \$3,889,876. Long-term debt decreased by \$4,482,270.

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 12 and 13 of this report.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management Discussion and Analysis
Year Ended September 30, 2009

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 City 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 15 and 17, 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 14 and 16 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 18 through 21 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 22 through 37 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.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management Discussion and Analysis
Year Ended September 30, 2009

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 38 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 \$89,552,702 as of September 30, 2009.

The largest portion of the City’s net assets (86%) 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, 2009.

	2009		2008	
	Government Activities	Business- type Activities	Government Activities	Business-type Activities
Current Assets	\$21,644,205	\$12,953,923	\$10,939,428	\$15,772,834
Capital Assets, Net	<u>107,916,246</u>	<u>31,716,931</u>	<u>106,768,771</u>	<u>28,974,530</u>
Total Assets	<u>129,560,451</u>	<u>44,670,854</u>	<u>117,708,199</u>	<u>44,747,364</u>
Current Liabilities	18,664,706	2,630,461	3,300,757	3,789,178
Long-term debt outstanding	<u>34,102,201</u>	<u>29,281,229</u>	<u>35,590,803</u>	<u>31,560,375</u>
Total Liabilities	<u>52,766,907</u>	<u>31,911,690</u>	<u>38,891,560</u>	<u>35,349,553</u>
Net Assets:				
Invested in capital assets, net of related debt	74,468,561	2,581,250	71,177,968	(2,585,845)
Restricted	4,515,475	10,354,029	3,153,071	3,960,342
Unrestricted	<u>(2,190,495)</u>	<u>(176,118)</u>	<u>4,485,600</u>	<u>8,023,314</u>
Total Net Assets	<u>\$76,793,541</u>	<u>\$ 12,759,161</u>	<u>\$ 78,816,639</u>	<u>\$ 9,397,811</u>

Changes in Net Assets – City of Olive Branch total revenues for the fiscal year ended September 30, 2009 was \$57,503,941. The total cost for all services provided was \$55,390,398. The increase in net assets was \$1,338,252. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2009.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management Discussion and Analysis
Year Ended September 30, 2009

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2009.

	General Fund	2009 Business- type Activities	Totals	General Fund	2008 Business- type Activities	Totals
Program Revenue:						
Charges for Services	\$3,915,571	\$28,490,188	\$32,405,459	\$4,345,152	\$28,002,903	\$32,348,055
Operating Grants & Contributions	196,396	-	196,396	136,093	131,160	267,253
Capital Grants & Contributions	36,349	1,553,441	1,589,790	911,278	-	911,278
Transfers from/to other funds	(168,105)	168,105	-	(189,119)	189,119	-
Intergovernmental	622,953	-	622,953	7,155,171	-	7,155,171
Taxes	19,817,439	-	19,817,439	12,789,483	-	12,789,483
Other	1,224,878	1,647,026	2,871,904	2,069,446	1,216,419	3,285,865
Total Program Revenue	<u>25,645,181</u>	<u>31,858,760</u>	<u>57,503,941</u>	<u>27,226,504</u>	<u>29,539,601</u>	<u>56,766,105</u>
Expenses:						
General Government	2,583,972	-	2,583,972	2,303,347	-	2,303,347
Public Safety	12,409,094	-	12,409,094	11,233,033	-	11,233,033
Public Works	7,721,093	-	7,721,093	4,011,317	-	4,011,317
Culture & Recreation	1,999,400	-	1,999,400	1,646,521	-	1,646,521
Economic Development	1,173,865	-	1,173,865	1,111,403	-	1,111,403
Capital Outlay	-	-	-	-	-	-
Depreciation	-	-	-	4,738,669	-	4,738,669
Debt Services	1,466,581	1,100,341	2,566,922	1,551,338	-	1,551,338
Water System	-	10,357,298	10,357,298	-	10,616,960	10,616,960
Gas System	-	16,578,754	16,578,754	-	20,199,329	20,199,329
	<u>27,354,005</u>	<u>28,036,393</u>	<u>55,390,398</u>	<u>26,595,628</u>	<u>30,816,289</u>	<u>57,411,917</u>
Change in Net Assets	<u>(\$1,708,824)</u>	<u>\$3,822,367</u>	<u>\$2,113,543</u>	<u>\$630,876</u>	<u>(\$1,276,688)</u>	<u>(\$645,812)</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.

CITY OF OLIVE BRANCH, MISSISSIPPI

Management Discussion and Analysis

Year Ended September 30, 2009

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.

	2009		2008	
	Total Costs	Net (Cost)/Revenues	Total Costs	Net (Cost)/Revenues
General Government	\$2,583,972	(\$2,159,131)	\$2,303,347	(\$751,808)
Public Safety	12,409,094	(10,182,031)	11,233,033	(8,954,330)
Public Works	7,721,093	(6,449,987)	4,011,317	(2,744,202)
Culture & Recreation	1,999,400	(1,744,394)	1,646,521	(1,351,355)
Economic Development	1,173,865	(1,173,865)	1,111,403	(1,111,403)
Capital Outlay	-	-	-	-
Debt Service	1,466,581	(1,466,581)	1,551,338	(1,551,338)
Depreciation	-	-	4,738,669	(4,738,669)
	<u>\$27,354,005</u>	<u>(\$23,175,989)</u>	<u>\$26,595,628</u>	<u>(\$21,203,105)</u>

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 \$3,098,286, a decrease of \$5,262,377.

The General Fund is the principal operating fund of the City. The decrease in the fund balance of the General Fund for the fiscal year was \$664,086.

Business-type funds – Revenue from the City’s Utility Funds increased by 3% to \$29,635,027 and expenses decreased by 9% to \$26,574,151.

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:

- Loan revenues was increased by \$449,658 due to receipt of loan proceeds for purchase of Fire Truck (1/6/09)
- Licenses and Permits was decreased \$100,000 due to building permits being lower than budgeted (2/17/09) and decreased \$250,000 due to building permits being lower than budgeted.(3/3/09)
- State Shared Revenues was increased \$331,093 to correct underestimated sales tax revenues (3/3/09)
- Grants Revenues was increased \$326,500 due to receipt of ACE Grant Proceeds and DeSoto County Proceeds for Signalization Improvements to the intersection of Hacks Cross Road and Stateline Road (4/7/09)

CITY OF OLIVE BRANCH, MISSISSIPPI

Management Discussion and Analysis

Year Ended September 30, 2009

- Fines and Forfeits was increased by \$150,000 due to Court Activity being higher than anticipated (5/5/09)
- License and Permits was increased by \$34,480 due to adjustment to actual year to date receipts plus anticipated receipts for remainder of the year (6/30/09)

Expenses:

- In each department Other Services was decreased varying amounts totaling in excess of \$250,000 to offset expenses related to the 6/12/09 Tornado damage (7/7/09)
- Fire Department Capital outlay was increased \$449,658 for purchase of fire truck (1/6/09)
- Street Department Other services was increased \$33,205 for culvert repairs at New Craft, Crumpler Blvd and Hwy 178 and to cover cost of cutting weedy lots (2/17/09)
- Street Department Capital Outlay was increased \$84,383 to cover drainage repairs to Stone Street (2/17/09)
- Street Department Capital Outlay was increased \$13,327 to cover drainage repairs to Park at Pigeon Roost (2/17/09)
- Street Department Capital Outlay was increased \$55,700 to cover drainage repairs to Nellwood and South Hamilton (2/17/09)
- Street Department Capital Outlay was increased \$130,000 to cover drainage repairs to Victor Drive (3/3/09)
- Street Department Capital Outlay was increased \$124,349 to cover payment to Tetra Tech (2/17/09)
- Street Department Capital Outlay was decreased \$300,000 due to other projects being funded instead of paving. (2/17/09)
- Street Department Other Services if increased \$31,377 to cover expense of Florence & Hutchison agreement for design of traffic signal at Pigeon Roost & 305 (4/7/09)
- Street Department Capital Outlay was increased \$353,534 to cover expense of purchasing on cutter (\$7,220), Masters Drive Drainage project (\$14,814) US Xpress Project (\$5,000) and signalization project at Stateline and Hacks Cross Road (\$326,500 in grant proceeds)(4/7/09)
- Street Department Capital Outlay was increased \$173,175 to cover expense of slurry seal of certain streets and additional expense on Victor Drive Drainage Project (5/5/09)
- Sanitation Department Other Services was increased \$120,000 to cover increase in garbage rates charged to the City by Allied Waste. (1/6/09)
- Sanitation Department Other Services was increased \$301,075 to cover expense of outside vendors to help clear debris related to the 6/12/09 Tornado damage (7/7/09)

CITY OF OLIVE BRANCH, MISSISSIPPI

Management Discussion and Analysis

Year Ended September 30, 2009

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, 2009, City of Olive Branch total capital assets were \$139,633,177, 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 \$3,889,876. Total accumulated depreciation as of September 30, 2009 was \$68,910,760, including \$7,286,405 of depreciation expense for the year.

Additional information on City of Olive Branch capital assets can be found in note 4 on page 28 of this report.

Debt Administration – At September 30, 2009, City of Olive Branch had \$63,383,430 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, \$5,290,360 is due within one year.

In '09 the City issued a notice of intent to issue \$4,000,000 in General Obligation Public Improvement Bonds for the purpose of paying Desoto County \$2,336,804 for the City's remaining share of expense associated with extending Craft Road and improving Stateline Road, for finalizing the purchase of furniture fixtures and equipment for the Police and Court Buildings, and to cover the expense of various storm-water drainage projects. Those Bonds were issued in November of '09 (in the next fiscal year).

Additional information on City of Olive Branch long-term debt can be found in note 6 on page 31 of this report.

CURRENT/FUTURE ITEMS OF IMPACT

General Fund

In August of '07 a contract in the amount of \$5,329,600 was awarded to Murphy & Son, Inc. for the construction of a new police facility and a new municipal court facility. Both buildings were complete as of 9/30/09 with furniture, fixtures and equipment still being installed. Occupancy was achieved in spring of 2010.

In June of 2009 tornados touched down in the City on 2 separate occasions (about a week or so apart). The first on June 12th caused extensive damage to the Library, the Senior Citizen's Center, and the City's Fleet Maintenance Shop and caused extensive damage to trees and personal property for City residents. Much of the damage to the City's public buildings was covered by the City's liability insurance while the library (which is actually a county building had damages that, by previous agreement, the City was responsible for covering). Expenses resulting from tornado damages exceeded \$600,000 in FY '09 and into FY'10. The second tornado was centered in residential areas doing extensive damage to real and personal property of City residents. Fortunately most of the damage was covered by home-owner's insurance. The City's sanitation department's '09 budget was increased by \$301,075 to cover expense associated with outside vendors that were necessary to help clear away the debris from streets and City property. Each other departmental

CITY OF OLIVE BRANCH, MISSISSIPPI

Management Discussion and Analysis

Year Ended September 30, 2009

budget within the City was decreased to help cover the unexpected emergency expenses of the Sanitation Department.

Water & Sewer Fund

The City continued to receive financial assistance from the US Department of the Army (Corps of Engineers) in the form of WRDA Section 592 funding for improvements to the City's wastewater system. In '09 the City received \$1,361,418 in federal reimbursement on construction of Phase 1 of the Camp Creek Sewer Interceptor which when complete will transport the City's wastewater to the treatment facility of the DeSoto County Regional Utility Authority for treatment. Said proceeds were awarded on a 75/25 % match basis with the City being responsible for 25% of the project expenses. Phase 1 was completed in calendar year '09 while plans were in progress on Phase II which will begin construction in late '10 (to complete the interceptor). It is anticipated that the City will receive approximately \$4 Million in additional funding for improvements to the City's wastewater system in '10.

In October '08 the City awarded a contract to Encor, LLC to divert wastewater from the Bridgetown Community to DCRUA. Said project was completed in May '09. The City has closed the Bridgetown Wastewater Treatment Facility with plans now in progress for demolition and rehabilitation of said property.

Natural Gas Fund

In December of '07 the City entered into agreement with ANR Pipeline (TransCanada) for construction of tap facilities at a proposed point of interconnection for a new point of delivery and alternate supply of natural gas east of the City). Said project spanned 3 years and was completed in July of '09 at a cost of \$800,000.

In June'08 the City also awarded a contract in the amount of \$765,589 to Classic City Utility for construction of a gate-station/interconnect through which the new natural gas supply will flow. The project was complete in January of '10 at a total of \$807,064.

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

September 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,660,076	\$ 3,049,506	\$ 4,709,582
Accounts receivable, net of allowance for doubtful accounts of \$991,597	2,450,968	2,264,019	4,714,987
Intergovernmental receivable	714,409	-	714,409
Property tax receivable	13,824,332	-	13,824,332
Prepaid expense	840,950	156,576	997,526
Internal balances	(195,934)	195,934	-
Restricted assets:			
Cash in bank	2,148,336	4,830,099	6,978,435
Customer deposits	-	1,728,741	1,728,741
Bond issue costs, net	201,065	729,048	930,113
Capital assets, net of accumulated depreciation	<u>107,916,246</u>	<u>31,716,931</u>	<u>139,633,177</u>
Total Assets	<u>129,560,448</u>	<u>44,670,854</u>	<u>174,231,302</u>
<u>LIABILITIES</u>			
Accounts payable	3,029,974	698,299	3,728,273
Accrued expenses	702,143	203,424	905,567
Customer deposits	-	1,728,741	1,728,741
Deferred revenue	13,839,449	-	13,839,449
Warranty bonds	1,093,140	-	1,093,140
Long-term liabilities			
Due within one year:			
Capital debt	2,685,309	2,605,051	5,290,360
Due in more than one year:			
Capital debt	30,762,376	26,530,630	57,293,006
Non-capital debt	<u>654,516</u>	<u>145,548</u>	<u>800,064</u>
Total Liabilities	<u>52,766,907</u>	<u>31,911,693</u>	<u>84,678,600</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	74,468,561	2,581,250	77,049,811
Restricted for:			
Capital projects	627,046	-	627,046
Debt service	3,047,479	10,197,453	13,244,932
Prepaid expense	840,950	156,576	997,526
Unrestricted	<u>(2,190,495)</u>	<u>(176,118)</u>	<u>(2,366,613)</u>
Total Net Assets	<u>\$ 76,793,541</u>	<u>\$ 12,759,161</u>	<u>\$ 89,552,702</u>

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Activities

Year Ended September 30, 2009

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental Activities							
General government	\$ 2,583,972	\$ 321,543	\$ 66,949	\$ 36,349	\$ (2,159,131)	\$ -	\$ (2,159,131)
Public safety	12,409,094	2,118,150	108,913	-	(10,182,031)	-	(10,182,031)
Public works	7,721,093	1,250,572	20,534	-	(6,449,987)	-	(6,449,987)
Cultural and recreational	1,999,400	225,006	-	-	(1,774,394)	-	(1,774,394)
Economic development	1,173,865	-	-	-	(1,173,865)	-	(1,173,865)
Interest on long-term debt	1,466,581	-	-	-	(1,466,581)	-	(1,466,581)
Total governmental activities	<u>27,354,005</u>	<u>3,915,271</u>	<u>196,396</u>	<u>36,349</u>	<u>(23,205,989)</u>	<u>-</u>	<u>(23,205,989)</u>
Business-Type Activities							
Water & sewer	10,357,298	9,601,341	-	1,553,441	-	797,484	797,484
Gas system	16,578,754	18,888,847	-	-	-	2,310,093	2,310,093
Interest on long-term debt	1,100,341	-	-	-	-	(1,100,341)	(1,100,341)
Total business-type activities	<u>28,036,393</u>	<u>28,490,188</u>	<u>-</u>	<u>1,553,441</u>	<u>-</u>	<u>2,007,236</u>	<u>2,007,236</u>
Total government	<u>\$ 55,390,398</u>	<u>\$ 32,405,459</u>	<u>\$ 196,396</u>	<u>\$ 1,589,790</u>	<u>(23,205,989)</u>	<u>2,007,236</u>	<u>(21,198,753)</u>
General Revenue							
Property taxes					11,944,198	-	11,944,198
Intergovernmental					622,953	-	622,953
Sales tax					6,680,512	-	6,680,512
Franchise tax					1,192,729	-	1,192,729
Rents					51,025	225,628	276,653
Interest					140,036	276,559	416,595
Miscellaneous					1,033,817	1,144,839	2,178,656
Transfers other funds					(168,105)	168,105	-
Total General Revenues					<u>21,497,165</u>	<u>1,815,131</u>	<u>23,312,296</u>
Change in Net Assets					(1,708,824)	3,822,367	2,113,543
Net Assets-Beginning of Year					78,816,639	9,397,811	88,214,450
Equity Transfers					(151,554)	151,554	-
Prior Period Adjustment					(162,720)	(612,571)	(775,291)
Net Assets-End of Year					<u>\$ 76,793,541</u>	<u>\$ 12,759,161</u>	<u>\$ 89,552,702</u>

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Balance Sheet
Governmental Funds
September 30, 2009

	<u>General Fund</u>	<u>Debt Service</u>	<u>\$4M G/O Bond Issue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,660,076	\$ -	\$ -	\$ -	\$ 1,660,076
Due from other funds	40,823	86,266	-	34,535	161,624
Accounts receivable	2,450,968	-	-	-	2,450,968
Intergovernmental receivable	714,409	-	-	-	714,409
Property tax receivable	13,824,332	-	-	-	13,824,332
Prepaid expenses	800,417	40,533	-	-	840,950
Restricted cash	1,323,267	228,135	-	596,934	2,148,336
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 20,814,292</u>	<u>\$ 354,934</u>	<u>\$ -</u>	<u>\$ 631,469</u>	<u>\$ 21,800,695</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 398,495	\$ 10,232	\$ 2,347,496	\$ 273,750	\$ 3,029,973
Accrued expenses	382,289	-	-	-	382,289
Due to other funds	357,558	-	-	-	357,558
Deferred revenue	13,839,449	-	-	-	13,839,449
Warranty bonds	1,093,140	-	-	-	1,093,140
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>16,070,931</u>	<u>10,232</u>	<u>2,347,496</u>	<u>273,750</u>	<u>18,702,409</u>
<u>FUND BALANCES</u>					
Reserved for:					
Capital projects	30,112	-	-	596,934	627,046
Debt service	2,512,403	535,076	-	-	3,047,479
Prepaid expenses	800,417	40,533	-	-	840,950
Unreserved	1,400,429	(230,907)	(2,347,496)	(239,215)	(1,417,189)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>4,743,361</u>	<u>344,702</u>	<u>(2,347,496)</u>	<u>357,719</u>	<u>3,098,286</u>
Total Liabilities and Fund Balances	<u>\$ 20,814,292</u>	<u>\$ 354,934</u>	<u>\$ -</u>	<u>\$ 631,469</u>	<u>\$ 21,800,695</u>

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

CITY OF OLIVE BRANCH, MISSISSIPPI
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Assets
 September 30, 2009

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

Total Fund Balance - Governmental Funds	\$	3,098,286
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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	7,690,675	
Buildings and improvements	16,579,113	
Equipment and vehicles	9,428,280	
Infrastructure	108,195,071	
Construction in progress	10,617,170	
Accumulated depreciation	(44,594,063)	
Bond issue cost	<u>201,065</u>	
		108,117,311

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	(409,085)	
General obligation and revenue bonds	(33,038,600)	
Compensated absences	(654,516)	
Accrued interest	<u>(319,855)</u>	
		<u>(34,422,056)</u>

Net Assets of Governmental Activities	\$	<u><u>76,793,541</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Government Funds
Year Ended September 30, 2009

	<u>General Fund</u>	<u>Debt Service</u>	<u>\$4M G/O Bond Issue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>					
General property taxes	\$ 8,831,776	\$ 3,112,422	\$ -	\$ -	\$ 11,944,198
Intergovernmental	7,303,465	-	-	-	7,303,465
Charges for services	3,915,271	-	-	-	3,915,271
Franchise taxes	1,192,729	-	-	-	1,192,729
Interest	98,438	14,297	-	27,301	140,036
Miscellaneous	1,033,817	-	-	-	1,033,817
Total Revenues	<u>22,375,496</u>	<u>3,126,719</u>	<u>-</u>	<u>27,301</u>	<u>25,529,516</u>
<u>EXPENDITURES</u>					
General government	2,339,751	153	-	-	2,339,904
Public safety	11,578,410	-	-	-	11,578,410
Public works	3,809,080	-	-	-	3,809,080
Culture & recreation	1,789,556	-	-	-	1,789,556
Economic development	1,158,223	-	-	-	1,158,223
Capital outlay	2,182,345	-	2,347,496	1,750,573	6,280,414
Debt service:					
Principal	586,527	2,006,250	-	-	2,592,777
Interest	161,013	1,333,565	-	-	1,494,578
Total Expenditures	<u>23,604,905</u>	<u>3,339,968</u>	<u>2,347,496</u>	<u>1,750,573</u>	<u>31,042,942</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,229,409)</u>	<u>(213,249)</u>	<u>(2,347,496)</u>	<u>(1,723,272)</u>	<u>(5,513,426)</u>
<u>OTHER FINANCIAL SOURCES</u>					
Rents	51,025	-	-	-	51,025
Grant revenue	232,745	-	-	-	232,745
Interfund transfers	(168,105)	-	-	-	(168,105)
Lease proceeds	449,658	-	-	-	449,658
Total Other Financing Sources	<u>565,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>565,323</u>
Net Change in Fund Balances	(664,086)	(213,249)	(2,347,496)	(1,723,272)	(4,948,103)
Fund Balance - Beginning of Year	5,206,332	478,616	-	2,675,715	8,360,663
Equity Transfers	363,835	79,335	-	(594,724)	(151,554)
Prior Period Adjustment	(162,720)	-	-	-	(162,720)
Fund Balance - End of Year	<u>\$ 4,743,361</u>	<u>\$ 344,702</u>	<u>\$ (2,347,496)</u>	<u>\$ 357,719</u>	<u>\$ 3,098,286</u>

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

CITY OF OLIVE BRANCH, MISSISSIPPI
 Reconciliation of Revenues, Expenditures and Changes in
 Fund Balances of Government Funds to the Statement of Activities
 Year Ended September 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (4,948,103)

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 of \$5,920,675 and adjustments of \$21,014 exceed depreciation of \$4,783,586 in the current period. 1,158,103

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 repayments of \$2,592,776 in the current period exceeded proceeds of \$449,658 and amortization of \$18,959. 2,124,159

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:

Compensated absences payable	(60,352)
Sale of capital assets	(10,628)

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. 27,997

Change in Net Assets of Governmental Activities \$ (1,708,824)

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets

Proprietary Funds

September 30, 2009

<u>ASSETS</u>	<u>Water & Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 1,335,565	\$ 1,713,941	\$ 3,049,506
Accounts receivable, net of allowance for doubtful accounts \$769,921	1,600,370	663,649	2,264,019
Prepaid expenses	136,387	20,189	156,576
Due from other funds	113,816	93,061	206,877
Total Current Assets	<u>3,186,138</u>	<u>2,490,840</u>	<u>5,676,978</u>
Noncurrent Assets			
Restricted assets:			
Cash	4,070,732	759,367	4,830,099
Customer deposits	595,081	1,133,660	1,728,741
Bond issue cost, net	642,125	86,923	729,048
Capital assets, net of accumulated depreciation	26,698,747	5,018,184	31,716,931
Total Noncurrent Assets	<u>32,006,685</u>	<u>6,998,134</u>	<u>39,004,819</u>
Total Assets	<u>\$ 35,192,823</u>	<u>\$ 9,488,974</u>	<u>\$ 44,681,797</u>

Continued

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets

Proprietary Funds

September 30, 2009

	<u>Water & Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities			
Accounts payable	\$ 396,946	\$ 301,353	\$ 698,299
Accrued expenses	143,464	59,960	203,424
Due to other funds	<u>9,218</u>	<u>1,725</u>	<u>10,943</u>
Total Current Liabilities	<u>549,628</u>	<u>363,038</u>	<u>912,666</u>
Current Liabilities Payable from Restricted Assets			
Customer deposits	595,081	1,133,660	1,728,741
Long-term liabilities due within one year:			
Capital debt	<u>2,032,635</u>	<u>572,416</u>	<u>2,605,051</u>
Total current liabilities payable from restricted assets	<u>2,627,716</u>	<u>1,706,076</u>	<u>4,333,792</u>
Long-term liabilities due in more than one year:			
Capital debt	21,790,091	4,740,539	26,530,630
Non-capital debt	<u>79,895</u>	<u>65,653</u>	<u>145,548</u>
Total Long-Term Liabilities	<u>21,869,986</u>	<u>4,806,192</u>	<u>26,676,178</u>
Total Liabilities	<u>25,047,330</u>	<u>6,875,306</u>	<u>31,922,636</u>
Net Assets			
Invested in capital assets, net of related debt	2,876,021	(294,771)	2,581,250
Restricted for:			
Debt service	6,646,539	3,550,914	10,197,453
Prepaid expenses	136,387	20,189	156,576
Unrestricted	<u>486,546</u>	<u>(662,664)</u>	<u>(176,118)</u>
Total Net Assets	<u>10,145,493</u>	<u>2,613,668</u>	<u>12,759,161</u>
Total Liabilities and Net Assets	<u>\$ 35,192,823</u>	<u>\$ 9,488,974</u>	<u>\$ 44,681,797</u>

Concluded

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2009

	Water & Sewer	Natural Gas	Total
<u>OPERATING REVENUES</u>			
Sales	\$ 9,419,140	\$ 18,780,898	\$ 28,200,038
Tap fees	182,201	107,949	290,150
Miscellaneous	592,578	552,261	1,144,839
 Total Operating Revenues	 10,193,919	 19,441,108	 29,635,027
<u>OPERATING EXPENSES</u>			
Cost of sales	-	12,892,750	12,892,750
Personnel	2,838,968	2,314,697	5,153,665
Depreciation and amortization	2,101,082	552,102	2,653,184
Material and supplies	576,577	318,119	894,696
Professional services	2,891,464	-	2,891,464
Other	1,589,393	498,999	2,088,392
 Total Operating Expenses	 9,997,484	 16,576,667	 26,574,151
Operating Income	196,435	2,864,441	3,060,876
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Interest income	171,487	105,073	276,560
Interest expense	(938,428)	(161,913)	(1,100,341)
Rent	225,628	-	225,628
Gain (loss) of sale of capital asset	(359,814)	(2,088)	(361,902)
Interfund transfers	198,286	(30,181)	168,105
Grant proceeds	1,553,441	-	1,553,441
 Total Non-Operating Revenues (Expenses)	 850,600	 (89,109)	 761,491
 Change in Net Assets	 1,047,035	 2,775,332	 3,822,367
Net Assets - Beginning of Year	9,179,734	218,077	9,397,811
Equity Transfers	170,807	(19,253)	151,554
Prior Period Adjustment	(252,083)	(360,488)	(612,571)
Net Assets - End of Year	\$ 10,145,493	\$ 2,613,668	\$ 12,759,161

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Cash Flows

Proprietary Funds

Year Ended September 30, 2009

	<u>Water & Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash received from customers	\$ 10,051,123	\$ 19,896,229	\$ 29,947,352
Cash payments for goods and services	(5,171,329)	(14,690,958)	(19,862,287)
Cash payments to employees	(2,808,226)	(2,320,249)	(5,128,475)
Net Cash Provided By (Used In) Operating Activities	<u>2,071,568</u>	<u>2,885,022</u>	<u>4,956,590</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Interfund activity	<u>165,478</u>	<u>(499,270)</u>	<u>(333,792)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>165,478</u>	<u>(499,270)</u>	<u>(333,792)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Payments for capital acquisitions	(4,291,630)	(1,315,502)	(5,607,132)
Grant proceeds	1,553,451	-	1,553,451
Principal payments and bond issue cost	(1,930,673)	(547,406)	(2,478,079)
Interest payments	<u>(938,428)</u>	<u>(161,913)</u>	<u>(1,100,341)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(5,607,280)</u>	<u>(2,024,821)</u>	<u>(7,632,101)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Rent	225,628	-	225,628
Interest on investments	<u>171,487</u>	<u>105,073</u>	<u>276,560</u>
Net Cash Provided By (Used In) Investing Activities	<u>397,115</u>	<u>105,073</u>	<u>502,188</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,973,119)	466,004	(2,507,115)
Cash and Cash Equivalents-Beginning of Year	<u>8,974,497</u>	<u>3,140,964</u>	<u>12,115,461</u>
Cash and Cash Equivalents-End of Year	<u>\$ 6,001,378</u>	<u>\$ 3,606,968</u>	<u>\$ 9,608,346</u>
Reconciliation of Operating Income to Net Cash Provided By (Used In)			
Operating Activities			
Operating Income	<u>\$ 196,435</u>	<u>\$ 2,864,441</u>	<u>\$ 3,060,876</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	2,101,082	552,102	2,653,184
(Increase) decrease in customer receivables	(142,796)	455,121	312,325
(Increase) decrease in prepaids	35,170	22,229	57,399
Increase (decrease) in accounts payable	(150,957)	(871,867)	(1,022,824)
Increase (decrease) in accrued expenses	1,892	(131,452)	(129,560)
Increase (decrease) in compensated absences	<u>30,742</u>	<u>(5,552)</u>	<u>25,190</u>
Total adjustments	<u>1,875,133</u>	<u>20,581</u>	<u>1,895,714</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 2,071,568</u>	<u>\$ 2,885,022</u>	<u>\$ 4,956,590</u>

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Olive Branch (“the City”) 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), public works (streets and sanitation), culture, recreation, public improvements, planning and zoning, economic development, 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 following is a summary of the more significant policies.

B. Financial Reporting Entity

These financial statements present all the accounts of the City. 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 GASB Statement 14, *The Financial Reporting Entity*. Based on this criterion the Olive Branch Public Improvement Corporation is considered a component unit, since its Board of Directors is made up of the City’s aldermen. The purpose of the Corporation is to acquire and hold title to real property, enter into leases, and lease real property for the purpose of constructing or acquiring public buildings and facilities. The Corporation had no activity in the current year and assets are excluded from the financial statements.

C. Basis of Presentation

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

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

Fund Financial Statements

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

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement Year Ended September 30, 2009

General Fund:

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

Debt Service Funds:

These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

\$4 Million General Obligation Bond Issue Fund:

This fund is a capital projects fund used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

Proprietary Funds

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

Water and Sewer Fund:

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

Natural Gas Fund:

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

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

D. Measurement Focus/Basis of Accounting

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement Year Ended September 30, 2009

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

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

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

E. Budgets and Budgetary Accounting

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

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

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

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

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

F. Cash and Cash Equivalents

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

G. Prepaid Expenses

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

H. Interfund Transactions and Balances

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

I. Restricted Assets

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

J. Capital Assets and Depreciation

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

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

K. Compensated Absences

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

L. Net Assets

Net assets are the difference between assets and liabilities. Net assets “Invested in capital assets, net of related debt” is 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.

M. Nature and Purpose of Reservations and Designations of Fund Equity

The financial statements report reservations of fund balance for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose. Following are descriptions of fund reserves used by the City:

Reserved for capital projects – An account that represents a portion of the fund balance which is legally restricted and not available for spending for any other purpose than for the capital projects for which it is restricted.

Reserved for debt service – An account that represents a portion of the fund balance which is legally restricted and not available for spending for any other purpose than that for the debt service for which it is restricted.

Reserved for prepaid items – An account that represents a portion of the fund balance indicated as prepaid expenses do not represent available spendable resources even though they are a component of net current assets.

N. Property Tax Revenues

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

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

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

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS

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

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2009, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2009, the carrying amount of the City's deposits was \$13,416,758 and the bank balances totaled \$13,367,063. Of the bank balances, \$750,000 was insured by the FDIC and \$12,617,063 was covered by pooled and/or pledged collateral.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following:

Description	General Fund
Ad valorem	\$ 146,825
Court fines assessment	11,448
Sales tax	556,136
Totals	\$ 714,409

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

NOTE 4 – CAPITAL ASSETS

	<u>Balance at 9/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers/ Adjustments</u>	<u>Balance at 9/30/2009</u>
GOVERNMENTAL ACTIVITIES					
Capital assets, not being depreciated:					
Land	\$ 7,690,675	\$ -	\$ -	\$ -	\$ 7,690,675
Construction in progress	8,268,572	2,348,598	-	-	10,617,170
Total capital assets, not being depreciated	<u>15,959,247</u>	<u>2,348,598</u>	<u>-</u>	<u>-</u>	<u>18,307,845</u>
Capital assets, being depreciated:					
Buildings and improvements	16,344,319	234,794	-	-	16,579,113
Infrastructure	105,381,580	2,813,491	-	-	108,195,071
Equipment and vehicles	8,996,261	523,792	137,081	45,308	9,428,280
Total capital assets, being depreciated	<u>130,722,160</u>	<u>3,572,077</u>	<u>137,081</u>	<u>45,308</u>	<u>134,202,464</u>
Less accumulated depreciation for:					
Buildings and improvements	2,480,824	417,467	-	-	2,898,291
Infrastructure	31,028,516	3,711,236	-	-	34,739,752
Equipment and vehicles	6,403,296	654,883	126,453	24,294	6,956,020
Total accumulated depreciation	<u>39,912,636</u>	<u>4,783,586</u>	<u>126,453</u>	<u>24,294</u>	<u>44,594,063</u>
Total capital assets, being depreciated, net	<u>90,809,524</u>	<u>(1,211,509)</u>	<u>10,628</u>	<u>21,014</u>	<u>89,608,401</u>
Governmental activities capital assets, net	<u>\$ 106,768,771</u>	<u>\$ 1,137,089</u>	<u>\$ 10,628</u>	<u>\$ 21,014</u>	<u>\$ 107,916,246</u>
BUSINESS-TYPE ACTIVITIES					
Capital assets, not being depreciated:					
Land	\$ 275,784	\$ -	\$ -	\$ -	\$ 275,784
Construction in progress	1,288,727	3,338,185	427,029	-	4,199,883
Total capital assets, not being depreciated	<u>1,564,511</u>	<u>3,338,185</u>	<u>427,029</u>	<u>-</u>	<u>4,475,667</u>
Capital assets, being depreciated:					
Buildings and improvements	297,288	27,241	-	-	324,529
Infrastructure	46,694,796	2,344,323	528,175	-	48,510,944
Equipment and vehicles	2,443,264	345,416	20,884	(45,308)	2,722,488
Total capital assets, being depreciated	<u>49,435,348</u>	<u>2,716,980</u>	<u>549,059</u>	<u>(45,308)</u>	<u>51,557,961</u>
Less accumulated depreciation for:					
Buildings and improvements	52,629	7,562	-	-	60,191
Infrastructure	20,619,873	2,283,839	168,361	-	22,735,351
Equipment and vehicles	1,352,827	211,418	18,796	(24,294)	1,521,155
Total accumulated depreciation	<u>22,025,329</u>	<u>2,502,819</u>	<u>187,157</u>	<u>(24,294)</u>	<u>24,316,697</u>
Total capital assets, being depreciated, net	<u>27,410,019</u>	<u>214,161</u>	<u>361,902</u>	<u>(21,014)</u>	<u>27,241,264</u>
Business-type activities capital assets, net	<u>\$ 28,974,530</u>	<u>\$ 3,552,346</u>	<u>\$ 788,931</u>	<u>\$ (21,014)</u>	<u>\$ 31,716,931</u>

No interest was capitalized during the year due to immateriality.

A transfer was made to move an asset from the Governmental Fund to the Business-type Fund.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

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

Governmental activities:	
General government	\$ 207,107
Public safety	438,980
Public works	3,912,013
Culture and recreation	209,844
Economic development	<u>15,642</u>
Total depreciation expense, governmental activities	<u>\$ 4,783,586</u>
Water and Sewer	\$ 1,996,082
Natural Gas	<u>506,737</u>
Total depreciation expense, business-type activities	<u>\$ 2,502,819</u>

Commitments under construction contracts at September 30, 2009 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Alexander Road Widening	\$ 90,656	\$ 11,742	General
Cherokee Meadows & Olive Ridge Drainage Analysis	42,200	31,690	General
Craft Road Widening	3,844,075	2,099,200	General
FEMA Flood Maps	61,600	34,797	General
Nonconnah Creek Drainage	40,500	4,620	General
Olive Branch Spray & Skate Park	33,330	10,528	General
Pleasant Hill Water Modeling Update	3,500	32	General
Police & Court Building	5,978,980	358,171	General
Signalization & Intersection Imp - Hacks/Stateline	329,454	40,814	General
Software for Court Department	60,731	5,021	General
Stateline Road Improvements	45,000	22,681	General
US Xpress	35,000	7,700	General
Utility Relocation for I-269	24,390	12,050	General
ANR Gate Station	807,065	51,670	Enterprise
Bridgetown Sewer Outfall	8,300	19	Enterprise
Camp Creek Interceptor	1,507,303	108,480	Enterprise
Metro Wastewater Treatment Plant	16,000	2,704	Enterprise
Polk Lane Water Plant	412,455	31,682	Enterprise
Total	<u>\$ 13,340,539</u>	<u>\$ 2,833,601</u>	

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

NOTE 5 – INTERFUND TRANSFERS AND BALANCES

The following is a summary of interfund transactions and balances:

Due to/from other funds:	<u>Due To</u>	<u>Due From</u>
Major funds:		
General fund	\$ 357,558	\$ 40,823
Debt service	-	86,266
Other Governmental funds	-	34,535
Water and sewer fund	9,218	113,816
Natural gas fund	1,725	93,061
Total funds	<u>\$ 368,501</u>	<u>\$ 368,501</u>

These are for payment of monthly claims. All interfund balances are expected to be repaid within a year.

Transfers In/Out:	<u>Transfers In</u>	<u>Transfer Out</u>
Major funds:		
General fund	\$ -	\$ 168,105
Water and sewer fund	198,286	-
Natural gas fund	-	30,181
Total funds	<u>\$ 198,286</u>	<u>\$ 198,286</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 routine and consistent with the activities of the fund making the transfer.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

NOTE 6 - LONG-TERM DEBT

Long-term activity for the year ended September 30, 2009 was as follows:

	Balance at 9/30/2008	Additions	Deletions	Balance at 9/30/2009	Amounts Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 33,350,850	\$ -	\$ 2,181,250	\$ 31,169,600	\$ 2,264,600
Revenue bonds payable	2,134,700	-	265,700	1,869,000	281,000
Leases payable	105,253	449,658	145,826	409,085	139,709
Compensated absences	594,164	60,352	-	654,516	-
Governmental activities long-term liabilities	\$ 36,184,967	\$ 510,010	\$ 2,592,776	\$ 34,102,201	\$ 2,685,309
Business-type activities:					
General obligation bonds payable	\$ 1,985,989	\$ -	\$ 378,975	\$ 1,607,014	\$ 384,398
Revenue bonds payable	19,850,000	-	1,525,000	18,325,000	1,615,000
Notes payable	7,065,298	-	442,899	6,622,399	469,797
Leases payable	2,875,175	-	131,204	2,743,971	135,856
Deferred loss on bond refunding	(216,088)	-	(53,385)	(162,703)	-
Compensated absences payable	120,359	30,741	5,552	145,548	-
Business-type activities long-term liabilities	\$ 31,680,733	\$ 30,741	\$ 2,430,245	\$ 29,281,229	\$ 2,605,051

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

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	
General Long Term						
	1996	5.20%	4/1/1996	4/1/2011	\$ 290,000	\$ 50,000
		7.25%				
	1998	4.30%	6/1/1998	6/1/2013	1,600,000	545,000
		6.00%				
	1999	4.38%	8/1/1999	8/1/2019	1,635,000	1,010,000
		6.25%				
	2001	2.50%	12/20/2001	10/1/2009	508,200	39,600
		4.00%				
	2001	2.50%	12/20/2001	9/1/2014	930,000	430,000
		4.00%				
	2002	4.10%	2/5/2002	3/1/2022	2,500,000	1,880,000
		5.75%				
	2003	1.10%	11/1/2003	5/1/2011	2,290,000	515,000
		3.00%				
	2003	3.00%	6/1/2003	6/1/2023	9,000,000	7,070,000
		4.13%				
	2004	4.50%	6/9/2004	6/1/2019	4,800,000	3,540,000
		6.40%				
	2004	2.50%	5/12/2004	10/1/2015	1,850,000	1,275,000
		5.20%				
	2004	3.50%	12/14/2004	9/30/2020	2,200,000	1,825,000
		4.00%				
	2005	3.50%	3/29/2005	9/30/2020	2,200,000	1,750,000
		4.00%				
	2007	4.38%	9/1/2007	9/1/2027	12,000,000	11,240,000
					<u>41,803,200</u>	<u>31,169,600</u>
Enterprise Funds						
	MBIA - 1995	0.00%	7/5/1995	9/1/2015	750,000	225,000
	Gas Project - 1999	4.10%	9/1/1998	9/1/2013	1,200,000	410,000
		5.75%				
	MBIA - 1998	2.00%	11/1/1998	11/1/2013	2,000,000	891,406
	2001	2.50%	12/20/2001	10/1/2009	1,101,100	80,608
		4.00%				
					<u>5,051,100</u>	<u>1,607,014</u>
Total					<u>\$ 46,854,300</u>	<u>\$ 32,776,614</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

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
2001 General Fund	5.68%	8/6/2002	5/1/2017	\$ 94,000	\$ 59,000
2007 General Fund	3.85%	7/1/2007	10/1/2014	2,080,000	1,810,000
				<u>2,174,000</u>	<u>1,869,000</u>
Enterprise Funds					
Natural Gas System Refunding - 1995	4.00% 5.40%	12/1/1995	3/1/2009	2,995,000	265,000
Natural Gas System 1999	4.90% 6.75%	8/1/1999	9/1/2024	3,000,000	2,240,000
Combined Water & Sewer - 2000	5.25% 7.50%	8/1/2000	9/1/2020	3,750,000	170,000
Combined Water & Sewer 2001	4.25% 6.00%	2/1/2001	2/1/2026	2,500,000	2,050,000
2001A Refunding	2.60% 4.40%	12/1/2001	3/1/2012	1,905,000	660,000
Combined Water & Sewer 2002A	4.25% 6.00%	2/1/2002	3/1/2022	4,500,000	3,415,000
Combined Water & Sewer - 2003	1.10% 3.45%	7/1/2003	3/1/2014	2,100,000	1,040,000
2004 Refunding	2.35% 4.20%	3/1/2005	3/1/2017	2,410,000	1,790,000
Combined Water & Sewer - 2005	3.75% 5.25%	3/1/2006	3/1/2020	2,200,000	1,750,000
Natural Gas System 2007	4.80% 5.25%	6/1/2007	6/1/2027	2,500,000	2,340,000
Combined Water & Sewer - 2008	3.76% 4.36%	9/23/2008	3/1/2020	2,625,000	2,605,000
				<u>30,485,000</u>	<u>18,325,000</u>
Total				<u>\$ 32,659,000</u>	<u>\$ 20,194,000</u>

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statement
Year Ended September 30, 2009

Loans. The City also uses loans to finance its projects. Loans outstanding at year end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts Issued	Outstanding
Enterprise funds					
MS Dept. of Environmental Quality SRF Loan	4.50%	8/14/1998	11/15/2019	\$ 2,068,909	\$ 1,244,664
MS Dept. of Environmental Quality SRF Loan	2.00%	11/1/2006	6/1/2026	1,011,918	885,768
DWSIRLF Loan - DWI-H280007-01	4.50%	4/1/2005	10/1/2016	1,034,433	612,964
DWSIRLF Loan - DWI-H280049-01/02	3.00%	10/1/2001	7/1/2021	1,940,384	1,338,349
DWSIRLF Loan - DWI-H280049-03	4.00%	11/10/2003	9/1/2025	1,350,535	1,218,347
DWSIRLF Loan- DWI-H280049-05	2.00%	6/7/2005	1/1/2026	1,443,899	1,322,307
				<u>\$ 8,850,078</u>	<u>\$ 6,622,399</u>

The aggregate maturities of general obligation bonds, revenue bonds, and loans for the years subsequent to September 30, 2009 are as follows:

Year Ending September 30	General Long-Term Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2010	\$ 2,545,600	\$ 1,366,349	\$ 2,469,459	\$ 1,140,463
2011	2,481,400	1,263,888	2,212,991	919,490
2012	2,376,700	1,164,318	2,302,749	838,204
2013	2,477,100	1,068,587	2,172,820	757,517
2014	2,422,500	970,731	2,084,052	679,543
2015-2019	11,175,300	3,419,366	8,621,310	2,348,179
2020-2024	6,990,000	1,383,350	5,280,825	833,036
2025-2029	2,570,000	234,287	1,410,207	87,551
Total	<u>\$ 33,038,600</u>	<u>\$ 10,870,876</u>	<u>\$ 26,554,413</u>	<u>\$ 7,603,983</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

Leases. Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2009 are as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 139,709	\$ 12,305	\$ 135,856	\$ 94,269
2011	87,197	7,922	140,674	89,451
2012	89,777	5,342	145,663	84,463
2013	92,402	2,718	150,828	79,297
2014	-	-	156,177	73,948
2015-2019	-	-	867,994	282,632
2020-2024	-	-	1,033,209	117,418
2025-2029	-	-	113,570	1,493
Present Value of Minimum Lease Payments	<u>\$ 409,085</u>	<u>\$ 28,287</u>	<u>\$ 2,743,971</u>	<u>\$ 822,971</u>

Legal Debt Margin – The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$23,258,825 (the smaller of the two computed margins) as of September 30, 2009.

	15% Test	20% Test
Assessed value as of September 30, 2009:		
\$375,316,166 times applicable percentage	\$ 56,297,425	\$ 75,063,233
Less present debt subject to debt limits as of September 30, 2009:		
Total bonds outstanding (exclude proprietary)	<u>(33,038,600)</u>	<u>(33,038,600)</u>
Margin for additional debt	<u>\$ 23,258,825</u>	<u>\$ 42,024,633</u>

Prior Year Defeasance of Debt – In prior years, the City defeased a certain revenue bond by placing the proceeds of the new bond in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and liability for the defeased bond is not included in the City’s financial statements. On September 30, 2009, \$2,605,000 of outstanding revenue bonds (including prior years’ refunding) are considered defeased.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

NOTE 7 – DEFINED BENEFIT PENSION PLAN

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. At September 30, 2009, the current rate is 12% 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 years ending September 30, 2009, 2008, and 2007 were \$1,680,105, \$1,590,714 and \$1,389,635 respectively, equal to the required contributions for each year.

NOTE 8 – DEFICIT FUND BALANCE

A deficit unreserved fund balance of \$2,347,496 exists in the \$4,000,000 public improvement capital project fund. The deficit is a result of expenditures for public improvements that were incurred before the Series 2009 General Obligation Bond was issued as discussed in Note 12.

NOTE 9 – EQUITY TRANSFERS

The following is a summary of equity transfers made for the year ended September 30, 2009:

<u>Statements of Revenues, Expenditures and Changes in Net Assets</u>	<u>Transfer In</u>
Major funds:	
General fund	\$ 363,835
Debt service fund	79,335
Other governmental fund	(594,724)
Water and sewer fund	170,807
Natural gas fund	(19,253)
	<u>\$ -</u>

The principal purpose of equity transfers was to close out funds that are no longer in use.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statement
Year Ended September 30, 2009

NOTE 10 – PRIOR PERIOD ADJUSTMENT

A summary of prior period adjustments is as follows:

<u>Statement of Revenues, Expenditures and Changes in Net Assets-Governmental Funds</u>	<u>Amount</u>
General fund:	
Understated allowance for doubtful accounts	\$ (162,720)
Water and sewer fund:	
Understated allowance for doubtful accounts	(252,083)
Natural gas fund:	
Understated allowance for doubtful accounts	<u>(360,488)</u>
Total	<u><u>\$ (775,291)</u></u>

NOTE 11 - RISK MANAGEMENT

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

NOTE 12- LITIGATION

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

NOTE 12- SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 30, 2010, which is the date the financial statements were available to be issued.

In October 2009, the City issued and sold \$4,000,000 Series 2009 General Obligation Bonds to be repaid over 15 years with a variable rate for public improvements.

In November 2009, the City also signed a Series 2009 Tax Anticipation Note in the amount of \$3,051,000 with an interest rate of 1.99%, which will be repaid in March 2010.

In April 2010, the City issued and sold \$2,035,000 Series 2010 General Obligation Refunding Bonds to be repaid over 20 years with a variable rate to refund the remaining balances of the \$1,600,000 General Obligation Gas System Bonds, Series 1998, the \$1,600,000 General Obligation Improvements Bonds, Series 1998, and the General Obligation Fire Protection Bonds, Series 1999.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OLIVE BRANCH, MISSISSIPPI
 Budgetary Comparison Schedule
 Year Ended September 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>Budgetary Basis</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
General property taxes	\$ 9,008,596	\$ 9,008,596	\$ 8,831,777	\$ (176,819)
Intergovernmental	7,084,588	7,339,409	7,543,290	203,881
Charges for services	3,522,800	3,504,554	3,557,904	53,350
Franchise taxes	775,000	1,026,027	1,192,729	166,702
Interest	100,000	90,005	95,141	5,136
Miscellaneous	260,000	853,795	1,222,868	369,073
	<u>20,750,984</u>	<u>21,822,386</u>	<u>22,443,709</u>	<u>621,323</u>
<u>EXPENDITURES</u>				
General government	3,704,496	3,503,639	2,118,412	1,385,227
Public safety	11,898,517	11,837,776	11,353,434	484,342
Public works	3,803,546	3,995,843	3,749,216	246,627
Culture & recreation	1,772,526	1,832,095	1,789,556	42,539
Economic development	1,072,067	1,123,111	1,158,223	(35,112)
Capital outlay	339,350	2,239,516	2,182,345	57,171
Debt service				
Principal	601,953	601,953	586,527	15,426
Interest	161,375	161,375	161,013	362
	<u>23,353,830</u>	<u>25,295,308</u>	<u>23,098,726</u>	<u>2,196,582</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(2,602,846)</u>	<u>(3,472,922)</u>	<u>(655,017)</u>	<u>2,817,905</u>
Other Financing Sources (Uses)				
Grant revenue	68,000	146,756	232,745	85,989
Rents	48,000	43,150	51,025	7,875
Lease proceeds	-	449,658	449,658	-
Interfund transfers	-	-	(168,105)	(168,105)
Total Other Financing Sources (Uses)	<u>116,000</u>	<u>639,564</u>	<u>565,323</u>	<u>(74,241)</u>
Net change in fund balances	<u>\$ (2,486,846)</u>	<u>\$ (2,833,358)</u>	(89,694)	<u>\$ 2,743,664</u>
Fund Balance - Beginning of Year			5,206,332	
Equity Transfer			363,835	
Prior Period Adjustment			<u>(162,720)</u>	
Fund Balance - End of Year			5,317,753	
Adjustments to conform with GAAP:				
Revenues			(248,224)	
Expenditures			<u>(326,168)</u>	
Fund Balance - End of Year (GAAP basis)			<u>\$ 4,743,361</u>	

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Expenditures of Federal Awards
September 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
US Department of Housing and Urban Development			
Passed-through Mississippi Development Authority			
Community Development Block Grant - Sr. Citizen Center	14.219	1122-05-284-PF-01	\$ 36,349
US Department of Justice			
Passed-through Mississippi Development Authority			
Edward Byrne Memorial State and Local Law Enforcement			
Assistance Discretionary Grant Program	16.580	08-LB-318-1	4,492
Bulletproof Vest Partnership Program	16.607		2,600
Total US Department of Justice			<u>7,092</u>
US Department of Transportation			
Passed-through Mississippi Development Authority			
State and Community Highway Safety (A)	20.600	08-TA-318-1	<u>12,712</u>
US Environmental Protection Agency			
Passed-through Department of the Army			
Construction Grants for Wastewater Treatment Works (B)	66.418	WRDA Section 592 Funds	<u>1,361,418</u>
US Department of Homeland Security			
Passed-through Mississippi Emergency Management			
Homeland Security Grant Program (A)	97.067	07LE284	<u>5,896</u>
Total Expenditures of Federal Awards			<u>\$ 1,423,467</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2009. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting.

CITY OF OLIVE BRANCH, MISSISSIPPI
 Schedule of Property Tax Rates and Assessments
 September 30, 2009

Year	Millage Rate	Assessed Property Value
2009	34.5	\$375,316,166
2008	34.5	330,046,522
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

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2009

Name	Position	Company	Bond
Samuel Rikard	Mayor	Zurich North American Surety	\$ 100,000
Judy Herrington	City Clerk	Zurich North American Surety	50,000
Tina Williams	Asst. City Clerk	Zurich North American Surety	50,000
Public Employees			
Blanket Bond	Per employee required to have individual bonds.	Zurich North American Surety	25,000
Art Heun	Police Chief	Zurich North American Surety	50,000
Donald Gammage	Police Chief	Zurich North American Surety	50,000
Dishonesty Bond	Per Police Officer	Zurich North American Surety	50,000
Paula May	City Administrator	Zurich North American Surety	50,000
George Collins	Alderman	Zurich North American Surety	100,000
Dale Dickerson	Alderman	Zurich North American Surety	100,000
Maurice Wallace	Alderman	Zurich North American Surety	100,000
Don Tullos	Alderman	Zurich North American Surety	100,000
Pat Hamilton	Alderman	Zurich North American Surety	100,000
Harold Henderson	Alderman	Zurich North American Surety	100,000
Susan Johnson	Alderman	Zurich North American Surety	100,000
Steve Bigelow	Engineer	Zurich North American Surety	50,000
Charlotte Johnson	Director of Finance	Zurich North American Surety	50,000
Johnny Eason	Fire Chief	Zurich North American Surety	50,000
Bryan Dye	City Attorney	Zurich North American Surety	50,000
Timothy Lafleur	Public Works Director	Zurich North American Surety	50,000
Judy Jeans	Court Clerk	Zurich North American Surety	50,000



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INDEPENDENT AUDITORS' 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, 2009, which collectively comprise the City of Olive Branch, Mississippi's basic financial statements and have issued our report thereon dated June 30, 2010. 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.

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

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 2009-1, 2009-2, and 2009-3 to be significant deficiencies in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 2009-1, 2009-2, and 2009-3 to be material weaknesses.

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*.

City of Olive Branch, Mississippi's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on it.

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
June 30, 2010



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**INDEPENDENT AUDITORS' 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, 2009. 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, 2009.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the city's internal control over compliance.

A control deficiency in a city's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the city's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the city's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be a material weaknesses, as defined above.

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
June 30, 2010



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

Mayor and Board of Aldermen
City of Olive Branch
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, 2009, and issued our report thereon dated June 30, 2010. We conducted our audit in accordance with generally accepted auditing standards.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly we do not express such an opinion.

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

Finding:

Criteria

Section 27-105-5, Miss Code Ann (1972) requires a public depositor to 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 required by the Municipal Auditing and Accounting Guide, the City must submit this information within 30 days of this fiscal year end.

Condition

The City failed to submit the above information within the 30 days.

Effect

The City was not in compliance with state regulations.

Cause

The City has not designed procedures for appropriate adherence to state regulations.

Recommendation

The City should be submitting this information to the state in a timely fashion.

Response

The report is required by law and it will be filed in accordance with state law in the future.

City of Olive Branch, Mississippi's response to the finding included in this was not audited and, accordingly, we express no opinion on it.

This report is intended for the use of the City's 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
June 30, 2010

CITY OF OLIVE BRANCH, MISSISSIPPI
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2009

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | |
|---|---------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness (es) identified? | No |
| b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by OMB Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Construction Grants for Wastewater Treatment Works | CFDA # 66.418 |
| 8. The dollar threshold used to distinguish between types A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | No |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? | No |

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Section 2: Financial Statement Findings

2009-1

Criteria

Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles. Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Condition

On August 3, 2009, City of Olive Branch received an invoice from Desoto County, Mississippi in the amount of \$2,336,804 for the City's portion of the expenses for the Stateline Road project. Neither the expense nor the payable were included in the fund financial statements. The client also had not prepared the Statement of Net Assets, Statement of Activities, and complete notes to financial statements.

Effect

Due to this oversight, the external auditors were required to make a material adjusting journal entry to the financial statements. Also, lack of the Statement of Net Assets, Statement of Activities and complete notes to financial statements could result in misstatement of accounts on the City's financial statements.

Cause

The City has not designed internal control procedures for appropriate monitoring and recording of payable transactions, or adequately preparing the City's financial statements.

Recommendation

Management should develop internal control procedures to ensure that all invoices are reflected in the proper year and that the City's financial statements are properly prepared.

Response

In the future, the City will book such entries prior to closing the books for the audit.

2009-2

Criteria

Certain debt covenants require Municipalities to set aside, allocate, and deposit moneys from the operating accounts into separate accounts. Management is responsible for ensuring that all funds are correctly set aside for the City.

Condition

The City's Water & Sewer Fund and Gas Fund's restricted cash balances for debt covenants were underfunded by the current debt service amounts for principal and interest.

Effect

Due to this oversight, the City was not in compliance with debt covenant requirements.

Cause

The City has not designed internal control procedures for appropriate monitoring and recording of debt covenant transactions.

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Recommendation

Management should develop internal control procedures to ensure that all required cash balances are set aside and reflected in the City's financial statements.

Response

The City will comply with the bond resolutions and establish the necessary account(s) for the Water and Gas debt service proceeds and use them in accordance with the bond resolutions.

2009-3

Criteria

Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles. Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Condition

In September 2009, the City expended \$136,088 on a federally funded project but did not record a receivable at year end for the portion that is a reimbursement to the City.

Effect

Due to this oversight, the external auditors were required to make a material adjusting journal entry to the financial statements.

Cause

The City has not designed internal control procedures for appropriate monitoring and recording of receivable transactions.

Recommendation

Management should develop internal control procedures to ensure that all receivables are recorded in the proper year.

Response

In the future, the City will book such entries when a pay request is prepared.

Section 3: Federal Award Findings and Questioned Costs.

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