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City of
Olive Branch

MISSISSIPPI

SCOTT B. PHILLIPS, JR., MAYOR

9200 Pigeon Roost - Olive Branch, MS 38654
(662) 892-9201 - Email: sphillips@obms.us

September 6, 2013

Office of the State Auditor
P.O. Box 956
Jackson, Ms. 39205

Re: Annual Municipal Audit

Accompanying this letter are two copies of the annual audit of the City of Olive Branch, Mississippi, for the fiscal year ended September 30, 2012. In connection with this audit, a separate management letter was written to the City of Olive Branch. Enclosed you will find a copy of the management letter along with the audit reports.

Sincerely,

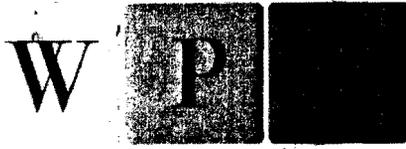
Scott B. Phillips, Mayor

SPR/jh

Enclosure – Two Hard Copies and management letter
One Electronic Copy has been E-mailed to tech@osa.ms.gov

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June 26, 2013

To the Board of Aldermen
and Management of the City of Olive Branch, Mississippi

In planning and performing our audit of 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 (the "City"), as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

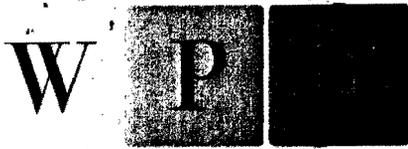
This communication is intended solely for the information and use of management, the Board of Aldermen, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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Hernando, Mississippi

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June 26, 2013

To the 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 City of Olive Branch, Mississippi (the "City") for the year ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 12, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciation expense is based on a straight-line basis over the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

In addition, management's estimate of the allowance for doubtful accounts is based on a number of days the account is outstanding. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 26, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. However during our audit of the City's financial statements, we noted the following issues in internal controls:

- The City should ensure that all items needed (i.e. journal entries, supporting schedules prepared, sub-ledgers reconciled) to begin audit work are complete and readily available upon commencing audit field work.
- The City should ensure all cash reconciliations are accurate and agree to the general ledger, and performed on a timely basis.
- The City should ensure the Schedule of Federal Expenditures is complete and accurate as of year-end. To facilitate this process, the City should centralize grant monitoring and recording of grant activity in the finance department.
- The City should ensure all federal receivables have been recorded (Highway 305 Utility Relocation project).
- The City should ensure all project accounts payable and retainage payable have been accrued (Highway 305 Utility Relocation project).

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Aldermen and management of City of Olive Branch, Mississippi and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Williams, Pitts & Beard, PLLC

Williams, Pitts, and Beard, PLLC

Description (Nature) of Audit Difference (AD)	Known (K) or Likely (L)	Cause	Work- paper Ref.	Financial Statement Effect—Amount of Over (Under) Statement of:						Change in Fund Balance/ Net Assets
				Total Assets	Total Liabilities	Working Cap.	Fund Balance/Net Assets	Revenues	Expen.	
A/P	(K)	immaterial diff	7-2		7,878					
Cash	(K)	immaterial diff	1-1	-15,674						
Perf Bond not recorded	(K)	immaterial diff	1-4a	-9,772	-9,772					
Cash Bonds Liab	(K)	immaterial diff	7-8		-4,137					
A/R Fund 001	K	not booked	11-10	-20,000				-20,000		
X - cked by cm										
Total				-45,446	-6,031	0	0	-20,000	0	0
Less audit adjustments subsequently booked										
Net unadjusted AD—current year (iron curtain method)				-45,446	-6,031	0	0	-20,000	0	0
Effect of unadjusted AD—prior years										
Combined current year and prior year AD (rollover method)				-45,446	-6,031	0	0	-20,000	0	0
Financial statement caption totals				20,425,130	13,253,444			25,501,877		
Current year AD as % of F/S captions (iron curtain method)				-0.22%	-0.05%	0.00%	0.00%	-0.08%	0.00%	0.00%
Current and prior year AD as % of F/S captions (rollover method)				-0.22%	-0.05%	0.00%	0.00%	-0.08%	0.00%	0.00%

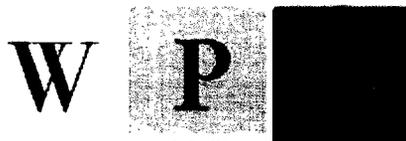
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Description (Nature) of Audit Difference (AD)	Known (K) or Likely (L)	Cause	Work-paper Ref.	Financial Statement Effect—Amount of Over (Under) Statement of:						
				Total Assets	Total Liabilities	Working Cap.	Fund Balance/Net Assets	Revenues	Expen.	Change in Fund Balance/Net Assets
A/P water, sewer, gas	K	not booked	11-12	-161,114	-161,114					
A/R water sewer gas	K	not booked	11-10	-32,839				-32,839		
Retainage payable; water sewer gas	K	not booked	11-12	-101,693	-101,693					
Cash receipts theft	K	amount not known at	3-12	-33,760				-33,760		
Total				-329,406	-262,807	0	0	-66,599	0	0
Less audit adjustments subsequently booked										
Net unadjusted AD—current year (iron curtain method)				-329,406	-262,807	0	0	-66,599	0	0
Effect of unadjusted AD—prior years										
Combined current year and prior year AD (rollover method)				-329,406	-262,807	0	0	-66,599	0	0
Financial statement caption totals				53,508,725	29,161,236			22,819,763		
Current year AD as % of F/S captions (iron curtain method)				-0.62%	-0.90%	0.00%	0.00%	-0.29%	0.00%	0.00%
Current and prior year AD as % of F/S captions (rollover method)				-0.62%	-0.90%	0.00%	0.00%	-0.29%	0.00%	0.00%

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CITY OF OLIVE BRANCH, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2012



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CITY OF OLIVE BRANCH, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2012

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WILLIAMS, PELTIER & CO.
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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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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, as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge



we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
June 26, 2013



MANAGEMENT'S DISCUSSION AND ANALYSIS



CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

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, 2012. 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 2010 census, was 33,484 and estimates indicate a population of approximately 34,290 as of 9/30/12. 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 2010 the City began recovering from the recession with a slight increase in the number of businesses. As of 9/30/12 the City had approximately 1280 active businesses (as compared to 1333 in '07, 1275 in '08, 1223 in '09, 1342 in '10 and 1265 in '11). Approximately 826 were commercial/industrial businesses and 450 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 140 residential building permits were issued in Olive Branch in 2012 (as compared to 378 in '07, 126 in '08, 108 in '09, 97 in '10 and 83 in '11). The cost of providing quality services, public safety and infrastructure continues to increase but the City has managed to maintain an attractive tax rate. The City's ad valorem tax rate increased from 31.5 mills to 34.5 mills in September '07 and remains at 34.5 mills today.

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

Total net assets increased \$3,060,019, which represents a 3% increase from the prior fiscal year. The City's ending cash balance increased by \$2,886,850, which represents a 17% increase from the prior fiscal year. The City had \$54,411,272 in total revenues. Tax revenues account for \$22,362,891 (or 41%) of total revenues. Sales of utilities totaled \$22,345,022 or 41% of total revenues.

The City had \$51,351,253 in total expenses. Expenses in the amount of \$47,304,223 were offset by grants, outside contributions or charges for services.

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**CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

Among major funds, the General Fund had \$36,508,372 in revenues and \$36,017,981 in expenditures. As a result, the General Fund's fund balance increased \$490,391 over the prior year.

The Combined Water & Sewer System had \$13,118,693 in revenues and \$11,463,760 in expenditures. As a result the Combined Water & Sewer System's Fund balance increased by \$1,654,933 over the prior year. The increase in the fund balance is attributed to increases in the water and sewer rates following the most recent rate study (which was conducted to determine if rates were adequate to cover the costs of the system, pass on increased costs of wastewater treatment, and for issuance of bonds for various improvements to the system.

The Natural Gas System had \$10,596,782 in revenues and \$9,928,158 in expenditures. As a result the Natural Gas System's Fund balance increased by \$668,624 over the prior year. The increase in the fund balance is attributed to a mild winter coupled with lower rates in the natural gas market and more careful review of the gas market when purchasing natural gas. Gas is purchased when rates are at lower prices and placed in storage for use of the City's natural gas customers.

Capital assets, net of accumulated depreciation decreased by \$1,894,016.

Long-term debt decreased by \$5,051,906.

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 4 and 5 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into two categories: governmental funds, and proprietary funds.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

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 7 and 9, 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 6 and 8 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 10 through 12 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 13 through 25 of this report.

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

The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on page 27 of this report.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

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 \$103,932,043 as of September 30, 2012.

The largest portion of the City's net assets (78%) 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, 2012.

	2012		2011	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Current Assets	24,775,299	18,486,545	23,897,088	18,954,651
Capital Assets, Net	102,319,182	34,049,801	104,632,614	33,630,385
Total Assets	127,094,481	52,536,346	128,529,702	52,585,036
Current Liabilities	16,572,578	2,784,382	16,210,158	2,638,826
Long-term debt outstanding	30,937,353	25,404,471	33,471,456	27,922,274
Total Liabilities	47,509,931	28,188,853	49,681,614	30,561,100
Net Assets:				
Invested in capital assets, net of related debt	72,202,744	8,813,449	71,895,154	6,401,080
Restricted Debit Service	242,999	5,835,974	2,343,094	4,276,885
Unrestricted	7,138,807	9,698,070	4,609,840	11,345,971
Total Net Assets	\$79,584,550	\$24,347,493	\$78,848,088	\$22,023,936

Changes in Net Assets – City of Olive Branch total revenues for the fiscal year ended September 30, 2012 was \$54,411,272. The total cost for all services provided was \$51,351,253. The increase in net assets was \$3,060,019.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2012.

	2012			2011		
	General Fund	Business-type Activities	Totals	General Fund	Business-type Activities	Totals
Program Revenue:						
Charges for Services	\$5,180,115	\$22,345,022	\$27,525,137	\$4,778,275	\$25,488,591	\$30,266,866
Operating Grants & Contributions	\$355,483		\$355,483	\$183,026		\$183,026
Capital Grants & Contributions	\$476,538	\$615,582	\$1,092,120	\$2,199,467	\$4,799,397	\$6,998,864
Transfers from/to other funds	\$725	(\$725)	\$0	(\$187,476)	\$187,476	\$0
Fee in Lieu of Tax Intergovernmental	\$925,787		\$925,787	\$801,407		\$801,407
Taxes	\$22,362,891		\$22,362,891	\$21,674,612		\$21,674,612
Contributed Capital	\$615,444		\$615,444			\$0
Other	\$779,539	\$754,871	\$1,534,410	\$1,026,520	\$855,017	\$1,881,537
	\$30,696,522	\$23,714,750	\$54,411,272	\$30,475,831	\$31,330,481	\$61,806,312
Expenses:						
General Government	\$2,856,198		\$2,856,198	\$2,519,374		\$2,519,374
Public Safety	\$14,319,156		\$14,319,156	\$12,612,394		\$12,612,394
Public Works	\$8,764,154		\$8,764,154	\$7,985,142		\$7,985,142
Culture & Recreation	\$1,917,328		\$1,917,328	\$1,861,624		\$1,861,624
Economic Development	\$1,089,782		\$1,089,782	\$1,050,931		\$1,050,931
Debt Services	\$1,013,442	\$918,192	\$1,931,634	\$1,582,246	\$1,063,839	\$2,646,085
Water System		\$10,695,976	\$10,695,976		\$10,316,155	\$10,316,155
Gas System		\$9,777,025	\$9,777,025		\$12,006,234	\$12,006,234
	\$29,960,060	\$21,391,193	\$51,351,253	\$27,611,711	\$23,386,228	\$50,997,939
Change in Net Assets	736,462.00	2,323,557.00	3,060,019.00	2,864,120.00	7,944,253.00	10,808,373.00

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's Discussion and Analysis
For the Year Ended September 30, 2012

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.

	2012		2011	
	Total Costs	Net (Cost)/Revenues	Total Costs	Net (Cost)/Revenues
General Government	\$2,856,198	(\$1,701,638)	\$2,519,374	\$75,433
Public Safety	\$14,319,156	(\$11,280,787)	\$12,612,394	(\$9,651,739)
Public Works	\$8,764,154	(\$7,141,752)	\$7,985,142	(\$6,597,879)
Culture & Recreation	\$1,917,328	(\$1,720,523)	\$1,861,624	(\$1,643,581)
Economic Development	\$1,089,782	(\$1,089,782)	\$1,050,931	(\$1,050,931)
Capital Outlay				
Debt Service	\$1,013,442	(\$1,013,442)	\$1,582,246	(\$1,582,246)
Depreciation				
	<u>\$29,960,060</u>	<u>(\$23,947,924)</u>	<u>\$27,611,711</u>	<u>(\$20,450,943)</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 \$7,849,858, an increase of \$135,208.

The General Fund is the principal operating fund of the City. The increase in the fund balance of the General Fund for the fiscal year was \$490,391.

Business-type funds – Revenue from the City's Utility Funds decreased by 24% to \$23,715,475 and expenses decreased by 8% to \$21,391,918.

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:

- Revenues were increased by \$130,000 as a result of acquiring all assets of the Summershill Fire Protection District.
- Revenues were increased by \$534,960 as a result of Tax Anticipation Loan proceeds borrowed from the Natural Gas Fund for the purpose of covering general fund expenses until receipt of ad valorem taxes in February of 2012. Said note was paid in full March 7, 2012.
- Revenues were increased by \$1,042,657.50 as a result of proceeds from Letters of credit which the City drafted in order to provide required infrastructure improvements (mostly street improvements in various subdivisions) when developers defaulted. The Letters of Credit, in favor of the City, had originally been presented to the City by developers as performance guarantees for required improvements in subdivisions they were developing.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

- Revenues were increased by \$135,000 as a result of Tax Anticipation Loan proceeds borrowed from the Natural Gas Fund for the purpose of covering general fund expenses until receipt of ad valorem taxes in February of 2012. Said note was paid in full March 7, 2012
- Revenues were increased by \$56,440 for proceeds received from a Natural Resources Conservation Service Grant being awarded by the US Department of Agriculture
- Revenues were increased by \$194,000 for proceeds received from a Homeland Security Grant awarded by the MS Department of Public Safety
- Revenues were increased by \$370,000 as a result of receiving more Sales Tax revenue than anticipated
- Revenues were increased by \$269,868 as a result of issuing more Building Permits than anticipated
- Revenues were decreased by \$325,000 in anticipated loan revenues from MDA for improvements to the intersection of Polk and Kirk (Soladigm Project) due to said project being delayed
- Revenues were decreased by \$495,898 from Letters of Credit as a result of certain infrastructure improvements costing less than anticipated.

Expenses:

- Fire Department Capital Outlay Vehicles Expense was increased by \$350,000 to pay off a loan on a 2008 Pierce Pumper of the Summershill Fire Protection District when the City acquired said district
- Expenses were increased by \$534,960 for repayment of Tax Anticipation Loan proceeds borrowed from the Natural Gas Fund for the purpose of covering general fund expenses until receipt of ad valorem taxes in February of 2012). Said note was paid in full March 7, 2012.
- Street Department expenses were increased by \$1,042,657.50 to budget expenses associated with infrastructure improvements (mostly street improvements in various subdivisions) when developers defaulted.
- Expenses were increased by \$135,000 for repayment of Tax Anticipation Loan proceeds borrowed from the Natural Gas Fund to budget repayment of Tax Anticipation Loan proceeds borrowed from the Natural Gas Fund for the purpose of covering general fund expenses until receipt of ad valorem taxes in February of 2012). Said note was paid in full March 7, 2012.
- Expenses in the Street Department were increased by \$66,400 for work relative to an emergency watershed project for a bank stabilization project to a major drainage ditch on Old Goodman Road west of Hwy 305 that had been damaged by heavy storms April 24 to May 2, 2010. Said expenses were covered by a Natural Resources Conservation Service Grant awarded by the US Department of Agriculture. As a result of receiving the grant, the City's share of expense was only \$9,960.
- Expenses in the Grants Department were increased by \$35,167 for Supplies and \$158,833 for Public Safety Capital Outlay to cover expenses associated with purchase of SWAT equipment and supplies for the Olive Branch Police Department. Proceeds from a Homeland Security Grant in the amount of \$194,000 awarded by the MS Department of Public Safety offset these expenses.
- Capital Outlay Infrastructure was reduced by \$325,000 in the Streets Department due to improvements to the intersection of Polk and Kirk for the Soladigm Project being delayed

**CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

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, 2012, City of Olive Branch total capital assets were \$136,368,983, 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 a decrease from the previous year of \$18,940. Total accumulated depreciation as of September 30, 2012 was \$90,876,191 including \$7,672,140 of depreciation expense for the year.

Additional information on City of Olive Branch capital assets can be found in note D on page 19 of this report.

Debt Administration – At September 30, 2012, City of Olive Branch had \$56,341,820 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, \$4,764,576 is due within one year.

In October 2011 the City issued \$2,090,000 in Gas System Revenue Refunding Bonds to refund a portion of the city's outstanding Gas System Revenue Bonds, Series 1999. These new Bonds were issued at a lower interest rate than the refunded bonds and reduced the City's debt service payments for a savings of more than \$167,000 over the next 13 years.

In April 2012 the City issued \$8,255,000 in G.O. Refunding Bonds to refund the city's G.O. Public Improvement Bonds, Series 2003, the G.O. Improvement and Acquisition Bonds, Series 2004, and the City's G.O. Public Improvement Bonds, Series 2005. These new Bonds were issued at a lower interest rate than the refunded bonds and reduced the City's debt service payments for a savings of more than \$500,000 over the next 12 years.

CURRENT/FUTURE ITEMS OF IMPACT

General Fund

In May, 2010 the city entered into agreement with Mississippi Development Authority (acting on behalf of the State of Mississippi), DeSoto County and the McKesson Corporation relative to McKesson Corporation's plans for locating and operating a distribution facility in Olive Branch. McKesson committed \$115,000,000 in private investment and to bring 306 full time jobs with average annual compensation of \$43,424.00 to Olive Branch. Certain incentives and inducements were negotiated with the State of Mississippi providing MIIF proceeds to McKesson and to the City of Olive Branch for various infrastructure improvements. DeSoto County and the City of Olive Branch also agreed to invest in infrastructure improvements, offer ad valorem tax exemptions and provide various other incentives. Construction of various infrastructure improvements was completed by B&C Construction at a cost of \$2,697,214. Funding for said improvements was provided by Mississippi Development Authority through a Mississippi Industry Incentive Finance (MIIF) grant to the city. McKesson began operation here in Olive Branch in august of 2012. Plans for additional improvements such as traffic signalization and improvement to the intersection of Polk Lane and Hwy 302 which were anticipated to be completed in 2012 are in progress and expected to be completed by September of 2013.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

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In July, 2010 the City entered into agreement with Mississippi Development Authority (acting on behalf of the State of Mississippi), DeSoto County and Soladigm, Inc. relative to Soladigm's plans for locating a manufacturing and distribution facility in Olive Branch. Soladigm is the developer of next-generation green building solutions designed to improve energy efficiency. The company manufactures a glass that changes from clear to tinted on demand, resulting in significant cost savings, environmental benefits and quality of life enhancements. Soladigm committed investment of \$133 Million dollars in DeSoto County in land, buildings and equipment and to bring 330 new full time jobs with average annual compensation of \$48,000.00 to Olive Branch within 5 years of the start of production. Certain incentives and inducements were negotiated with the State of Mississippi, DeSoto County, and the City of Olive Branch agreeing to invest in infrastructure improvements, offer ad valorem tax exemptions and provide various other incentives. Soladigm began commercial production here in Olive Branch in November of 2012. Plans for improvements to the intersection of Polk and Kirk Roads have been delayed as the county seeks the necessary easements. Anticipated date for completion is currently unavailable but is expected to be in the near future.

In 2010 The City of Olive Branch was awarded 3 grants totaling \$1,066,351 as a result of the American Recovery and Reinvestment Act. The grant proceeds covered expenses of making roadway improvements to the intersection of Hwy 305 and Pigeon Roost Road (traffic signalization and intersection improvements), widening of Stateline Road and construction of bike paths. Said grants required no City matching funds. The project funded through the US Department of Energy was completed in 2011 and the 2 roadway projects were completed in 2013.

As a result of population changes noted in the 2010 census, the City began the process of redistricting the Alderman Wards in 2011. The redistricting was completed and approved by the US Justice Department in 2012. Municipal elections were held in 2013 to elect officials for a new 4-year term of office to begin July 1 of 2013.

In 2010 the state Department of Health granted approval for Methodist Hospital to build a hospital in Olive Branch. This was the culmination of a 12 -14 year effort on the part of many government officials who worked together to help make this happen. Methodist Hospital broke ground in October of 2011 and the project to build a 100 bed began. Various infrastructure improvements to the city's water and sewer system and the adjacent roadway were necessary. The city received a Development Infrastructure Program grant, an Economic Development Highway Program Grant and a capital improvement loan through Mississippi Development Authority (MDA) to finance these improvements. Methodist LeBonheur will bear a portion of the debt service on the Cap Loan. The Hospital is expected to provide approximately 450 jobs and the city anticipates significant spin-off growth from the hospital's presence in the form of doctor's offices, clinics, pharmacies, etc. Methodist Hospital anticipates opening in August of 2013.

Water & Sewer Fund

In February 2010 the city entered into agreement with MDOT to relocate Water and Sewer lines to allow the construction of I-269 from I-55 to State Road 305. The cost of relocating the water lines was estimated at \$119,699 and \$9,240 for relocating sewer lines. MDOT agreed to pay 100% of said costs. Work on the project completed in December of 2012 with a total cost of \$702,698. Total Water and Sewer expenses were \$105,217. MDOT will cover 100% of the water and sewer expenses, with no cost to the city. *(Refer to Natural Gas Fund for more detail on this project).*

In 2011 the city entered into agreement for MDOT to relocate Utility lines to allow the widening of MS Highway 305. The initial construction contract amount for relocating all utility lines was \$1,787,914. MDOT contracted to pay 14.956 % of the Water expenses and 34.971 % of the Sewer Expenses. Work on the project completed in October of 2012, but the Board of Aldermen has not accepted the project as complete and a balance of \$37,500 remains in dispute. Construction expense paid to date for the project is \$1,996,358. The total water expense was \$ 767,178, with the cost to MDOT being \$114,739 and the cost to the City being \$652,439. The total sewer expense was \$364,297, with the cost to MDOT being \$127, 398 and the cost to the city being \$236,898. *(Refer to Natural Gas Fund for more detail on this project).*

**CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

Natural Gas Fund

In February 2010 the city entered into agreement with MDOT to relocate Natural Gas lines to allow the construction of I-269 from I-55 to State Road 305. MDOT agreed to pay 70.755% of the gas expenses with the city to pay 29.245% of the cost. The project was completed in December of 2012 with a total cost of \$702,698. Total Natural Gas expense was \$597,481. MDOT's share was \$422,717 with the city's share being \$174,763. *(Refer to Water and Sewer Fund for more detail on this project).*

In 2011 the city entered into agreement for MDOT to relocate Utility lines to allow the widening of MS Highway 305. The initial construction contract amount for relocating all utility lines was \$1,787,914. MDOT contracted to pay 17.88 % of the gas expenses with the city to pay 82.12 % of the cost. Work on the project completed in October of 2012 but the Board of Aldermen has not accepted the project as complete and a balance of \$37,500 remains in dispute. Construction expense paid to date for the project is \$1,996,358. The total gas expense paid to date is \$864,883.00 with the cost to MDOT being \$154,641 and the cost to the City being \$ 710,242. *(Refer to Water and Sewer Fund for more detail on this project).*

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 Finance, the office of the Director of Administration, or the office of the City Clerk at 9200 Pigeon Roost, Olive Branch, Mississippi 38654.

BASIC FINANCIAL STATEMENTS

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Net Assets
September 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 7,294,822	\$ 12,513,353	\$ 19,808,175
Cash with fiscal agents	803,474	-	803,474
Accounts receivable, net of allowance for doubtful accounts of \$2,722,807	1,283,464	2,579,063	3,862,527
Intergovernmental receivables	922,358	331,612	1,253,970
Property tax receivable	13,491,077	-	13,491,077
Prepaid expenses	315,863	154,248	470,111
Internal balances	130,644	(130,644)	-
Restricted assets		2,315,817	2,315,817
Bond issue costs, net	533,597	723,096	1,256,693
Capital assets, net of accumulated depreciation	<u>102,319,182</u>	<u>34,049,801</u>	<u>136,368,983</u>
Total Assets	<u>127,094,481</u>	<u>52,536,346</u>	<u>179,630,827</u>
Liabilities			
Accounts payable	985,992	512,011	1,498,003
Accrued expenses	780,482	218,566	999,048
Customer deposits	-	2,053,805	2,053,805
Deferred revenue	13,506,069	-	13,506,069
Warranty bonds	1,300,035	-	1,300,035
Long-term liabilities			
Due within one year:			
Capital debt	2,311,495	2,463,081	4,774,576
Due in more than one year:			
Capital debt	27,804,943	22,773,271	50,578,214
Non-capital debt	<u>820,915</u>	<u>168,119</u>	<u>989,034</u>
Total Liabilities	<u>47,509,931</u>	<u>28,188,853</u>	<u>75,698,784</u>
Net Assets			
Invested in capital assets, net of related debt	72,202,744	8,813,449	81,016,193
Restricted for:			
Debt service	242,999	5,835,974	6,078,973
Unrestricted	<u>7,138,807</u>	<u>9,698,070</u>	<u>16,836,877</u>
Total Net Assets	<u>\$ 79,584,550</u>	<u>\$ 24,347,493</u>	<u>\$ 103,932,043</u>

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Balance Sheet - Governmental Funds
September 30, 2012

	<u>Major Funds</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Debt Service</u>		
Assets				
Cash and cash equivalents	\$ 6,211,789	\$ 488,696	\$ 594,337	\$ 7,294,822
Cash with fiscal agents	522,884	280,590	-	803,474
Due from other funds	1,208,211	-	-	1,208,211
Accounts receivable, net of allowance for doubtful accounts of \$2,722,807	1,283,464	-	-	1,283,464
Intergovernmental receivables	750,925	-	171,432	922,357
Property tax receivable	10,131,994	3,359,083	-	13,491,077
Prepaid expenses	315,863	-	-	315,863
Restricted assets	-	-	-	-
Total Assets	<u>\$ 20,425,130</u>	<u>\$ 4,128,369</u>	<u>\$ 765,769</u>	<u>\$ 25,319,268</u>
Liabilities				
Accounts payable	\$ 642,175	\$ 13,268	\$ 330,549	\$ 985,992
Accrued expenses	599,745	-	-	599,745
Due to other funds	564,501	513,022	44	1,077,567
Deferred revenue	10,146,988	3,359,083	-	13,506,071
Warranty bonds	1,300,035	-	-	1,300,035
Total Liabilities	<u>13,253,444</u>	<u>3,885,373</u>	<u>330,593</u>	<u>17,469,410</u>
Fund Balances				
Nonspendable:				
Prepaid expenses	315,863	-	-	315,863
Restricted for:				
Debt service	180,737	242,996	-	423,733
Public safety	50,807	-	-	50,807
Public works	-	-	-	-
Capital projects	14,117	-	435,220	449,337
Unassigned	6,610,162	-	(44)	6,610,118
Total Fund Balances	<u>7,171,686</u>	<u>242,996</u>	<u>435,176</u>	<u>7,849,858</u>
Total Liabilities and Fund Balances	<u>\$ 20,425,130</u>	<u>\$ 4,128,369</u>	<u>\$ 765,769</u>	<u>\$ 25,319,268</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, 2012

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

Total Fund Balance - Governmental Funds \$ 7,849,858

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	7,703,675	
Buildings and improvements	26,348,232	
Equipment and vehicles	10,083,318	
Infrastructure	114,213,851	
Construction in progress	2,589,119	
Accumulated depreciation	<u>(58,619,013)</u>	
		102,319,182

Deferred charges - bond issuance costs 533,597

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	(92,402)	
Loans payable	(235,974)	
General obligation and revenue bonds	(29,788,062)	
Compensated absences	(820,915)	
Accrued interest	<u>(180,734)</u>	
		<u>(31,118,087)</u>

Net Assets of Governmental Activities **\$ 79,584,550**

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CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
For the Year Ended September 30, 2012

	<u>Major Funds</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Debt Service</u>		
Revenues				
General property taxes	\$ 10,267,033	\$ 3,291,416	\$ -	\$ 13,558,449
Intergovernmental	8,096,966	-	79,909	8,176,875
Charges for services	5,180,115	-	-	5,180,115
Franchise taxes	1,553,354	-	-	1,553,354
Forfeitures	432,780	-	-	432,780
Interest	24,548	2,433	3,416	30,397
Miscellaneous	379,861	3,548	-	383,409
Total Revenues	25,934,657	3,297,397	83,325	29,315,379
Expenditures				
General government	2,576,700	186	97,626	2,674,512
Public safety	13,856,833	-	-	13,856,833
Public works	4,612,014	-	-	4,612,014
Culture and recreation	1,702,246	-	-	1,702,246
Economic development	1,085,916	-	-	1,085,916
Capital outlay	1,867,347	-	853,218	2,720,565
Debt service:				
Principal	622,399	2,236,955	-	2,859,354
Interest	103,513	1,024,458	-	1,127,971
Bond issue cost	266,052	-	-	266,052
Total Expenditures	26,693,020	3,261,599	950,844	30,905,463
Excess (Deficiency) of Revenues Over (Under) Expenditures	(758,363)	35,798	(867,519)	(1,590,084)
Other Financial Sources (Uses)				
Contributed Capital	615,444	-	-	615,444
Rents	11,050	-	-	11,050
Grant revenue	355,483	-	476,538	832,021
Interfund transfers	725	-	-	725
Bond proceeds - refunding	8,255,000	-	-	8,255,000
Payment to bond refunding escrow agent	(8,655,000)	-	-	(8,655,000)
Gain on refunding bonds	327,368	-	-	327,368
Premium on bonds issued	338,684	-	-	338,684
Loan proceeds	669,961	-	-	669,961
Tax anticipation loan payments	(669,961)	-	-	(669,961)
Total Other Financing Sources (Uses)	1,248,754	-	476,538	1,725,292
Net Change in Fund Balances	490,391	35,798	(390,981)	135,208
Fund Balances - Beginning	6,681,295	207,198	826,157	7,714,650
Fund Balance - End of Year	\$ 7,171,686	\$ 242,996	\$ 435,176	\$ 7,849,858

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 135,208

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 depreciation of \$5,039,998 exceeds capital outlays of \$2,803,938 in the current period. (2,236,060)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds of \$8,924,961 and amortization of \$45,527 are exceeded by repayments of \$12,184,315 and bond issue cost of \$266,052 in the current period. 3,479,879

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	(59,199)
Sale of capital assets	(77,372)
Accrued interest	160,057
Gain on refunding bonds	(327,368)
Premium on bonds issued	(338,683)
	(736,462)

Change in Net Assets of Governmental Activities \$ 736,462

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Net Assets - Proprietary Funds
September 30, 2012

	<u>Water & Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 6,187,749	\$ 6,325,604	\$ 12,513,353
Accounts receivable, net of allowance for doubtful accounts \$987,619	1,769,376	809,687	2,579,063
Intergovernmental receivable	331,612	-	331,612
Prepaid expenses	126,137	28,111	154,248
Due from other funds	526,324	315,411	841,735
Total Current Assets	<u>8,941,198</u>	<u>7,478,813</u>	<u>16,420,011</u>
Noncurrent Assets			
Restricted assets	1,899,631	416,186	2,315,817
Bond issue cost, net	614,183	108,913	723,096
Capital assets, net of accumulated depreciation	28,955,481	5,094,320	34,049,801
Total Noncurrent Assets	<u>31,469,295</u>	<u>5,619,419</u>	<u>37,088,714</u>
Total Assets	<u>\$ 40,410,493</u>	<u>\$ 13,098,232</u>	<u>\$ 53,508,725</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 214,967	\$ 297,044	\$ 512,011
Accrued expenses	145,007	73,559	218,566
Customer deposits	669,138	1,384,667	2,053,805
Due to other funds	392,376	580,003	972,379
Total Current Liabilities	<u>1,421,488</u>	<u>2,335,273</u>	<u>3,756,761</u>
Current Liabilities Payable from Restricted Assets			
Long-term liabilities due within one year:			
Capital debt	2,123,909	339,172	2,463,081
Total Current Liabilities Payable From Restricted Assets	<u>2,123,909</u>	<u>339,172</u>	<u>2,463,081</u>
Long-term liabilities due in more than one year:			
Capital debt	18,842,505	3,930,766	22,773,271
Non-capital debt	97,004	71,115	168,119
Total Long-Term Liabilities	<u>18,939,509</u>	<u>4,001,881</u>	<u>22,941,390</u>
Total Liabilities	<u>22,484,906</u>	<u>6,676,326</u>	<u>29,161,232</u>
Net Assets			
Invested in capital assets, net of related debt	7,989,067	824,382	8,813,449
Restricted for:			
Debt service	3,568,717	2,267,257	5,835,974
Unrestricted	6,367,803	3,330,267	9,698,070
Total Net Assets	<u>17,925,587</u>	<u>6,421,906</u>	<u>24,347,493</u>
Total Liabilities and Net Assets	<u>\$ 40,410,493</u>	<u>\$ 13,098,232</u>	<u>\$ 53,508,725</u>

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
For the Year Ended September 30, 2012

	<u>Water & Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 12,298,946	\$ 10,046,076	\$ 22,345,022
Miscellaneous	294,489	180,251	474,740
Total Operating Revenues	<u>12,593,435</u>	<u>10,226,327</u>	<u>22,819,762</u>
Operating Expenses			
Cost of sales	-	5,956,093	5,956,093
Personnel	2,449,017	2,374,461	4,823,478
Depreciation and amortization	2,197,092	620,656	2,817,748
Material and supplies	828,692	355,721	1,184,413
Professional services	3,631,205	1,018	3,632,223
Other	1,589,970	469,076	2,059,046
Total Operating Expenses	<u>10,695,976</u>	<u>9,777,025</u>	<u>20,473,001</u>
Operating Income	<u>1,897,459</u>	<u>449,302</u>	<u>2,346,761</u>
Non-Operating Revenues (Expenses)			
Interest income	33,322	33,655	66,977
Interest expense	(767,059)	(151,133)	(918,192)
Rent	213,154	-	213,154
Interfund transfers	(725)	-	(725)
Grant proceeds	278,782	336,800	615,582
Total Non-Operating Revenues (Expenses)	<u>(242,526)</u>	<u>219,322</u>	<u>(23,204)</u>
Change in Net Assets	1,654,933	668,624	2,323,557
Net Assets - Beginning of Year	<u>16,270,654</u>	<u>5,753,282</u>	<u>22,023,936</u>
Net Assets - End of Year	<u>\$ 17,925,587</u>	<u>\$ 6,421,906</u>	<u>\$ 24,347,493</u>

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2012

	<u>Water & Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
Cash Flows From Operating Activities			
Cash received from customers	\$ 12,530,561	\$ 10,194,108	\$ 22,724,669
Cash payments for goods and services	(6,179,393)	(6,823,148)	(13,002,541)
Cash payments to employees	(2,450,040)	(2,377,292)	(4,827,332)
Net Cash Provided By (Used In) Operating Activities	<u>3,901,128</u>	<u>993,668</u>	<u>4,894,796</u>
Cash Flows From Non-Capital Financing Activities			
Interfund activity	(196,793)	176,207	(20,586)
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(196,793)</u>	<u>176,207</u>	<u>(20,586)</u>
Cash Flows From Capital And Related Financing Activities			
Payments for capital acquisitions	(1,814,254)	(1,320,779)	(3,135,033)
Proceeds from long-term debt	-	2,116,890	2,116,890
Grant proceeds	369,095	340,986	710,081
Principal payments and bond issue cost	(2,282,121)	(2,460,842)	(4,742,963)
Interest payments	(767,059)	(151,133)	(918,192)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(4,494,339)</u>	<u>(1,474,878)</u>	<u>(5,969,217)</u>
Cash Flows From Investing Activities			
Rent	213,154	-	213,154
Interest on investments	33,322	33,655	66,977
Net Cash Provided By (Used In) Investing Activities	<u>246,476</u>	<u>33,655</u>	<u>280,131</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(543,528)	(271,348)	(814,876)
Cash and Cash Equivalents-Beginning of Year	<u>8,630,908</u>	<u>7,013,141</u>	<u>15,644,049</u>
Cash and Cash Equivalents-End of Year	<u>\$ 8,087,380</u>	<u>\$ 6,741,793</u>	<u>\$ 14,829,173</u>
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities			
Operating income	\$ 1,897,459	\$ 449,302	\$ 2,346,761
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	2,197,092	620,656	2,817,748
(Increase) decrease in customer receivables	(62,874)	(32,219)	(95,093)
(Increase) decrease in prepaids	(79,018)	(15,176)	(94,194)
Increase (decrease) in accounts payable	(74,764)	(18,462)	(93,226)
Increase (decrease) in accrued expenses	24,256	(7,602)	16,654
Increase (decrease) in compensated absences	(1,023)	(2,831)	(3,854)
Total adjustments	<u>2,003,669</u>	<u>544,366</u>	<u>2,548,035</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 3,901,128</u>	<u>\$ 993,668</u>	<u>\$ 4,894,796</u>

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

Financial Reporting Entity

These financial statements present all the accounts of the City. There are no outside organizations that should be included as component units of the City's reporting entity as defined by GAAP.

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets and 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 Net Assets presents the financial condition of the governmental activities and business-type activities of the City at year-end. 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

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental, and proprietary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Measurement Focus/Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. "Available" means collected in the current period or within 60 days after year-end to liquidate liabilities existing at the end of the year. "Measurable" means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales tax collected and held by the state at year-end on behalf of the government is also recognized as revenue.

The City has presented the following major governmental funds:

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.

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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.

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 an ordinance. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.

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

Cash and Cash Equivalents

For the purpose of the Statement of Net Assets, "Cash and cash equivalents" include 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.

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.

Accounts Receivable

Ambulance and Utility receivables are reported net of an allowance for doubtful accounts. The City's policy is to reserve ambulance receivables over 12 months and utility receivables over 120 days as uncollectible.

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

payable between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Restricted Assets

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.

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:

	Capitalization Thresholds	Estimated Useful Life
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

Long-term Liabilities

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent of long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities and business-type activities Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

in the government-wide financial statements and proprietary fund financial statements. In fund financial statements, governmental funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and displayed in the categories:

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

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

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

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the City:

- **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** – Amounts that can be used only for specific purposes determined by a formal action by the Board of Aldermen ordinance or resolution. There were no amounts committed at year end.
- **Assigned** – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Aldermen.
- **Unassigned** – All amounts not included in other spendable classifications.

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

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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.

Use of Estimates

The City uses estimates in preparing the financial statements in accordance with GAAP. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

NOTE B – CASH AND CASH EQUIVALENTS

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

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2012, the City's bank balance was not exposed to custodial credit risk. As of September 30, 2012, the carrying amount of the City's deposits was \$22,124,295 and the bank balances totaled \$22,446,731. Of the bank balances, \$515,840 was insured by the FDIC and \$20,899,211 was covered by pooled and/or pledged collateral.

NOTE C – INTERGOVERNMENTAL RECEIVABLES

intergovernmental receivables consist of the following:

<u>Description</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Water and Sewer Fund</u>
Court fines assessment	\$ 54,251	\$ -	\$ -
Sales tax	611,558	-	-
Grant proceeds	85,116	171,432	331,612
Totals	\$ 750,925	\$ 171,432	\$ 331,612

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE D – CAPITAL ASSETS

	<u>Balance at 9/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2012</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 7,690,675	\$ 13,000	\$ -	\$ 7,703,675
Construction in progress	2,619,138	715,239	745,258	2,589,119
Total capital assets, not being depreciated	<u>10,309,813</u>	<u>728,239</u>	<u>745,258</u>	<u>10,292,794</u>
Capital assets, being depreciated:				
Buildings and improvements	26,017,183	331,049	-	26,348,232
Infrastructure	112,898,405	1,315,446	-	114,213,851
Equipment and vehicles	9,653,035	1,174,462	744,179	10,083,318
Total capital assets, being depreciated	<u>148,568,623</u>	<u>2,820,957</u>	<u>744,179</u>	<u>150,645,401</u>
Less accumulated depreciation for:				
Buildings and improvements	4,419,227	615,262	-	5,034,489
Infrastructure	42,560,868	4,016,557	-	46,577,425
Equipment and vehicles	7,265,727	408,179	666,807	7,007,099
Total accumulated depreciation	<u>54,245,822</u>	<u>5,039,998</u>	<u>666,807</u>	<u>58,619,013</u>
Total capital assets, being depreciated, net	<u>94,322,801</u>	<u>(2,219,041)</u>	<u>77,372</u>	<u>92,026,388</u>
Governmental Activities Capital Assets, Net	<u>\$ 104,632,614</u>	<u>\$ (1,490,802)</u>	<u>\$ 822,630</u>	<u>\$ 102,319,182</u>
	<u>Balance at 9/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2012</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 210,101	\$ -	\$ -	\$ 210,101
Construction in progress	8,939,964	2,461,784	8,678,067	2,723,681
Total capital assets, not being depreciated	<u>9,150,065</u>	<u>2,461,784</u>	<u>8,678,067</u>	<u>2,933,782</u>
Capital assets, being depreciated:				
Buildings and improvements	324,529	-	-	324,529
Infrastructure	50,885,531	9,293,885	-	60,179,416
Equipment and vehicles	2,811,820	64,681	7,249	2,869,252
Total capital assets, being depreciated	<u>54,021,880</u>	<u>9,358,566</u>	<u>7,249</u>	<u>63,373,197</u>
Less accumulated depreciation for:				
Buildings and improvements	74,316	7,748	-	82,064
Infrastructure	27,619,347	2,525,595	-	30,144,942
Equipment and vehicles	1,847,897	188,799	6,524	2,030,172
Total accumulated depreciation	<u>29,541,560</u>	<u>2,722,142</u>	<u>6,524</u>	<u>32,257,178</u>
Total capital assets, being depreciated, net	<u>24,480,320</u>	<u>6,636,424</u>	<u>725</u>	<u>31,116,019</u>
Business-Type Activities Capital Assets, Net	<u>\$ 33,630,385</u>	<u>\$ 9,098,208</u>	<u>\$ 8,678,792</u>	<u>\$ 34,049,801</u>

No interest was capitalized during the year due to immaturity.

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CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

Depreciation expense was charged to the following functions:

Governmental Activities:

General government	\$ 181,687
Public safety	487,223
Public works	4,152,140
Culture and recreation	215,082
Economic development	3,866
Total governmental activities depreciation expense	<u>\$ 5,039,998</u>

Water and Sewer	\$ 2,137,722
Natural Gas	584,420
Total business-type activities depreciation expense	<u>\$ 2,722,142</u>

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

Project	Contract Amount	Remaining Balance	Fund
2011 Street Repair	\$ 1,040,532	\$ 344,365	General
Craft Road North of 302 Widening	223,118	10,228	General
Polk Lane and Kirk Road Improvements	60,399	3,986	General
McKesson Construction	204,060	22,738	General
Police & Court Building Fixtures	106,808	10,136	General
Stateline Road Improvements	603,924	59,578	General
Alexander Road Widening	871,943	391,194	General
Traffic Signal 302 & Polk Roads	55,122	41,525	General
2012 Asphalt Overlay & Street Repairs	391,634	49,424	General
Stateline Road Paving	112,500	112,500	General
I-269 Utility Relocation	678,714	153,845	Enterprise
Highway 178 Sewerline Improvements	30,318	30,318	Enterprise
Hwy 305 Utility Relocation	1,933,393	66,790	Enterprise
Elevated Tank Methodist Hospital	85,300	40,300	Enterprise
Hacks Cross Waterline Expansion	28,800	19,300	Enterprise
Bethel Park Pumping Station Upgrade	14,750	8,250	Enterprise
Cedar Crest Sanitary Sewer Improvements	113,752	113,752	Enterprise
SCADA System	193,037	193,037	Enterprise
Annesdale Drive Waterline Improvements	78,706	78,706	Enterprise
Diesel Generators & Automatic Switch Water Treatment Plants	212,515	212,515	Enterprise
Total	<u>\$ 7,039,325</u>	<u>\$ 1,962,487</u>	

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE E – INTERFUND TRANSFERS AND BALANCES

The following is a summary of interfund transactions and balances:

	Due To	Due From
Major Funds:		
General fund	\$ 564,501	\$ 1,208,211
Debt service	513,022	-
Other Governmental funds	44	-
Water and sewer fund	392,376	526,324
Natural gas fund	580,003	315,411
Total Funds	\$ 2,049,946	\$ 2,049,946

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

	Transfers In	Transfer Out
Major Funds:		
General fund	\$ 725	\$ -
Water and sewer fund	-	725
Total Funds	\$ 725	\$ 725

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.

NOTE F - LONG-TERM DEBT

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

	Balance at 9/30/2011	Additions	Deletions	Balance at 9/30/2012	Amounts Due Within One Year
Governmental Activities:					
General obligation bonds payable	\$ 30,939,065	\$ 8,255,000	\$ 11,066,955	\$ 28,127,110	\$ 1,849,868
Revenue bonds payable	1,296,600	-	301,700	994,900	312,100
Loans payable	291,896	-	55,922	235,974	57,125
Tax anticipation loan	-	669,961	669,961	-	-
Leases payable	182,179	-	89,777	92,402	92,402
Deferred gain on bond refunding	-	327,368	-	327,368	-
Bond premium	-	338,684	-	338,684	-
Compensated absences payable	761,716	59,199	-	820,915	-
Governmental Activities Long-Term Liabilities	\$ 33,471,456	\$ 9,650,212	\$ 12,184,315	\$ 30,937,353	\$ 2,311,495
Business-Type Activities:					
General obligation bonds payable	\$ 981,331	\$ -	\$ 288,752	\$ 692,579	\$ 292,088
Revenue bonds payable	18,720,000	2,090,000	3,595,000	17,215,000	1,525,000
Loans payable	5,667,305	-	502,037	5,162,362	495,165
Leases payable	2,467,439	-	145,663	2,321,776	150,828
Deferred loss on bond refunding	(85,774)	(130,940)	(34,459)	(182,255)	-
Bond premium	-	26,890	-	26,890	-
Compensated absences payable	171,973	-	3,854	168,119	-
Business-Type Activities Long-Term Liabilities	\$ 27,922,274	\$ 1,985,950	\$ 4,500,847	\$ 25,404,471	\$ 2,463,081

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
General Long Term					
2001	2.50-4.00%	12/20/2001	9/1/2014	\$ 930,000	\$ 175,000
2004	2.50-5.20%	5/12/2004	10/1/2015	1,850,000	780,000
2007	4.38%	9/1/2007	9/1/2027	12,000,000	9,950,000
2009	3.00-3.63%	10/1/2009	10/1/2024	4,000,000	3,790,000
2010	2.00-3.38%	4/15/2010	8/1/2019	1,610,296	807,110
2011	2.00-3.13%	6/29/2011	3/1/2022	1,650,000	1,620,000
2011	2.00-3.00%	6/29/2011	6/1/2019	2,800,000	2,750,000
2012	1.00-2.75%	4/4/2012	3/1/2023	8,255,000	8,255,000
				<u>33,095,296</u>	<u>28,127,110</u>
Enterprise Funds					
MBIA - 1995	0.00%	7/5/1995	9/1/2015	750,000	112,500
MBIA - 1998	2.00%	11/1/1998	11/1/2013	2,000,000	367,189
2010	2.00-3.38%	4/15/2010	8/1/2019	424,704	212,890
				<u>3,174,704</u>	<u>692,579</u>
Total				<u>\$ 36,270,000</u>	<u>\$ 28,819,689</u>

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 September 30, 2012 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
General					
2001 General Fund	5.68%	8/6/2002	5/1/2017	\$ 94,000	\$ 39,900
2007 General Fund	3.85%	7/1/2007	10/1/2014	2,080,000	955,000
				<u>2,174,000</u>	<u>994,900</u>
Enterprise Funds					
Combined Water & Sewer 2003	1.10-3.45%	7/1/2003	3/1/2014	2,100,000	440,000
2004 Refunding	2.35-4.20%	11/9/2004	3/1/2017	2,410,000	1,260,000
Combined Water & Sewer 2005	3.75-5.25%	5/26/2005	3/1/2020	2,200,000	1,355,000
Natural Gas System 2007	4.80-5.25%	6/1/2007	6/1/2027	2,500,000	2,070,000
Combined Water & Sewer 2008	3.76-4.36%	9/23/2008	3/1/2020	2,625,000	2,140,000
Combined Water & Sewer Refund 2010	2.00-3.50%	10/27/2010	3/1/2026	5,260,000	4,795,000
Combined Water & Sewer 2011	3.50-3.63%	7/1/2011	3/1/1931	3,200,000	3,105,000
Natural Gas System 2011	2.00-3.38%	10/27/2011	9/1/2024	2,090,000	2,050,000
				<u>22,385,000</u>	<u>17,215,000</u>
Total				<u>\$ 24,559,000</u>	<u>\$ 18,209,900</u>

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

Loans. The City also uses loans to finance its projects. Loans outstanding as of September 30, 2012 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
General					
First Tennessee	2.15%	5/11/2011	4/30/2016	\$ 291,896	\$ 235,974
Enterprise Funds					
MS Dept. of Environmental Quality SRF Loan	4.50%	8/14/1998	11/15/2019	2,068,909	922,169
MS Dept. of Environmental Quality SRF Loan	2.00%	11/1/2006	6/1/2026	1,011,918	748,110
DWSIRLF Loan - DWI-H280007-01	4.50%	4/1/2005	10/1/2016	1,935,359	250,535
DWSIRLF Loan - DWI-H280049-01/02	3.00%	10/1/2001	7/1/2021	1,940,384	1,049,246
DWSIRLF Loan - DWI-H280049-03	4.00%	11/10/2003	9/1/2025	1,350,535	1,056,583
DWSIRLF Loan- DWI-H280049-05	2.00%	6/7/2005	1/1/2026	1,443,899	1,135,719
				<u>9,751,004</u>	<u>5,162,362</u>
Total				<u>\$ 10,042,900</u>	<u>\$ 5,398,336</u>

Annual debt service requirements to maturity of general obligation bonds, revenue bonds, and loans for the years subsequent to September 30, 2012 are as follows:

Year Ending September 30	General Long-Term Debt		Business-Type	
	Principal	Interest	Principal	Interest
2013	\$ 2,219,093	\$ 942,674	\$ 2,312,253	\$ 731,282
2014	2,818,924	865,079	2,285,962	662,430
2015	2,839,650	781,550	1,928,383	598,813
2016	2,586,332	701,825	1,965,087	536,631
2017	2,389,900	630,852	2,011,900	471,124
2018-2022	10,689,085	2,080,939	7,853,005	1,465,756
2023-2027	5,815,000	668,271	3,800,553	494,683
2028-2032	-	-	912,798	65,801
Total	<u>\$ 29,357,984</u>	<u>\$ 6,671,190</u>	<u>\$ 23,069,941</u>	<u>\$ 5,026,520</u>

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

Year Ending September 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 92,402	\$ 2,718	\$ 150,828	\$ 79,297
2014	-	-	156,177	73,948
2015	-	-	161,715	68,410
2016	-	-	167,450	62,675
2017	-	-	173,388	56,737
2018-2022	-	-	963,651	186,976
2023-2027	-	-	548,567	26,746
Present Value of Minimum Lease Payments	<u>\$ 92,402</u>	<u>\$ 2,718</u>	<u>\$ 2,321,776</u>	<u>\$ 554,789</u>

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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 \$31,936,464 (the smaller of the two computed margins) as of September 30, 2012.

	15% Test	20% Test
Assessed value as of September 30, 2012: \$407,056,492 times applicable percentage	\$ 61,058,474	\$ 81,411,298
Less present debt subject to debt limits as of September 30, 2012: Total bonds outstanding (exclude proprietary)	(29,122,010)	(29,122,010)
Margin for additional debt	\$ 31,936,464	\$ 52,289,288

Advance Refunding - General – In April 2012, the City issued \$8,255,000 in general obligation refunding bonds with an average interest rate of 2.37% to advance refund \$8,255,000 of the following outstanding bond issues:

Issue	Outstanding Amount Refunded
2003 G/O Bond	\$ 5,895,000
2004 G/O Bond	1,405,000
2005 G/O Bond	1,355,000
Total	\$ 8,655,000

The City advance refunded the above bonds to reduce its total debt service payments over the next 12 years by \$546,219 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$507,839.

Advance Refunding - Enterprise – In October 2011, the City issued \$2,090,000 Natural Gas System Revenue Refunding Bonds, Series 2011, with an interest rate of 2.81% to advance refund \$1,925,000 of the Natural Gas System Revenue Bonds, Series 1999.

The City advance refunded the bonds to reduce its total debt service payments over the next 12 years by \$193,022 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$167,689.

NOTE G– DEFINED BENEFIT PENSION PLAN

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

Funding Policy. PERS members are required to contribute 9% of their annual covered salary and the City is required to contribute at an actuarially determined rate. At September 30, 2012, the current rate is 14.26% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Olive Branch's contributions to PERS for the years ending September 30, 2012, 2011, and 2010 were \$1,933,542, \$1,685,371, and \$1,693,798 respectively, equal to the required contributions for each year.

NOTE H – DEFICIT FUND BALANCE

A deficit unreserved fund balance of \$44 exists in the McKesson Project Fund.

NOTE I - 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 J - 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 K - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in accompanying notes. Management of the City evaluated the activity of the City through June 26, 2013, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

In May 2013, the City issued General Obligation Utility Refunding Bonds in the amount of \$2,905,000, payable over 12 years with an interest rate of 2.00% - 2.375%

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OLIVE BRANCH, MISSISSIPPI
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u>
Revenues				
General property taxes	\$ 10,103,312	\$ 10,146,281	\$ 10,267,033	\$ 120,752
Intergovernmental	7,222,507	7,604,686	8,096,966	492,280
Charges for services	3,686,092	3,725,460	5,532,173	1,806,713
Franchise taxes	1,512,800	1,512,800	1,553,354	40,554
Interest	90,962	90,968	24,548	(66,420)
Miscellaneous	120,235	973,839	558,054	(415,785)
Total Revenues	22,735,908	24,054,034	26,032,128	1,978,094
Expenditures				
General government	2,656,100	2,789,292	2,569,314	219,978
Public safety	13,980,932	15,171,828	13,856,832	1,314,996
Public works	4,027,572	5,246,742	4,612,014	634,728
Culture & recreation	1,720,504	1,787,727	1,402,246	385,481
Economic development	1,212,316	1,293,650	1,085,916	207,734
Capital outlay	1,091,471	3,374,500	1,866,622	1,507,878
Debt service				
Principal	620,864	620,864	622,399	(1,535)
Interest	103,500	103,500	103,513	(13)
Bond issue cost	-	-	147,653	147,653
Total Expenditures	25,413,259	30,388,103	26,266,509	4,416,900
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,677,351)	(6,334,069)	(234,381)	6,394,994
Other Financing Sources (Uses)				
Grant revenue	235,608	459,561	1,317,313	857,752
Rents	-	-	11,050	11,050
Bond proceeds - refunding	-	-	8,255,000	8,255,000
Payment to bond refunding escrow agent	-	-	(8,655,000)	(8,655,000)
Bond proceeds	-	-	8,226	8,226
Loan proceeds	325,000	716,761	669,961	(46,800)
Tax anticipation loan payments	-	-	(669,961)	(669,961)
Interfund transfers	2,247,498	2,262,832	-	(2,262,832)
Total Other Financing Sources (Uses)	2,808,106	3,439,154	936,589	(2,502,565)
Net Change in Fund Balances	\$ 130,755	\$ (2,894,915)	702,208	\$ 3,892,429
Fund Balances - Beginning			6,681,295	
Fund Balance - End of Year			7,383,503	
Adjustments to conform with GAAP:				
Revenues			214,694	
Expenditures			(426,511)	
Fund Balance - End of Year (GAAP Basis)			\$ 7,171,686	

Notes to the Required Supplementary Information

Basis of Presentation

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted amounts on a budgetary basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund. The Budgetary Comparison Schedule is a part of required supplementary information.

SUPPLEMENTARY INFORMATION

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	2012 Federal Expenditures
US Department of Agriculture			
Direct Program			
Mississippi Emergency Watershed Protection Program	10.923		\$ 54,895
			<u>54,895</u>
US Department of Justice			
Passed-through Mississippi Development Authority			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2009-SB-89-2077	1,290
Bulletproof Vest Partnership Program	16.607		4,785
Bulletproof Vest Partnership Program	16.607		5,324
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0584	27,012
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-3335	29,830
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0965	12,540
Total US Department of Justice			<u>80,781</u>
US Department of Transportation			
Passed-through Mississippi Department of Transportation			
Highway Planning and Construction	20.205	0031-02(001)	367,375
Highway Planning and Construction	20.205	7862-00(003)	20,000
Highway Planning and Construction	20.205	7905-00(001)	555,448
Total US Department of Transportation			<u>942,823</u>
US Department of Homeland Security			
Passed-through Mississippi Emergency Management			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1972-DR-MS-033-S4040-00	128
Homeland Security Grant Program	97.067	08HS284T	2,500
Homeland Security Grant Program	97.067	09BZ284	194,000
Total US Department of Homeland Security			<u>196,628</u>
Total Expenditures of Federal Awards			<u>\$ 1,275,127</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2012. 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 B - 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 Expenditures of Federal Awards
For the Year Ended September 30, 2012

Note C – Joint Recipients

Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program.

Of the federal expenditures presented in this schedule for pass-through numbers 2010-DJ-BX-0584 and 2011-DJ-BX-3335 the amounts of \$14,910 and \$14,381, respectively, were expenditures of the joint applicant, Southaven, MS.

Note D - Contingencies

Federal Grants- the City has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability for the City.

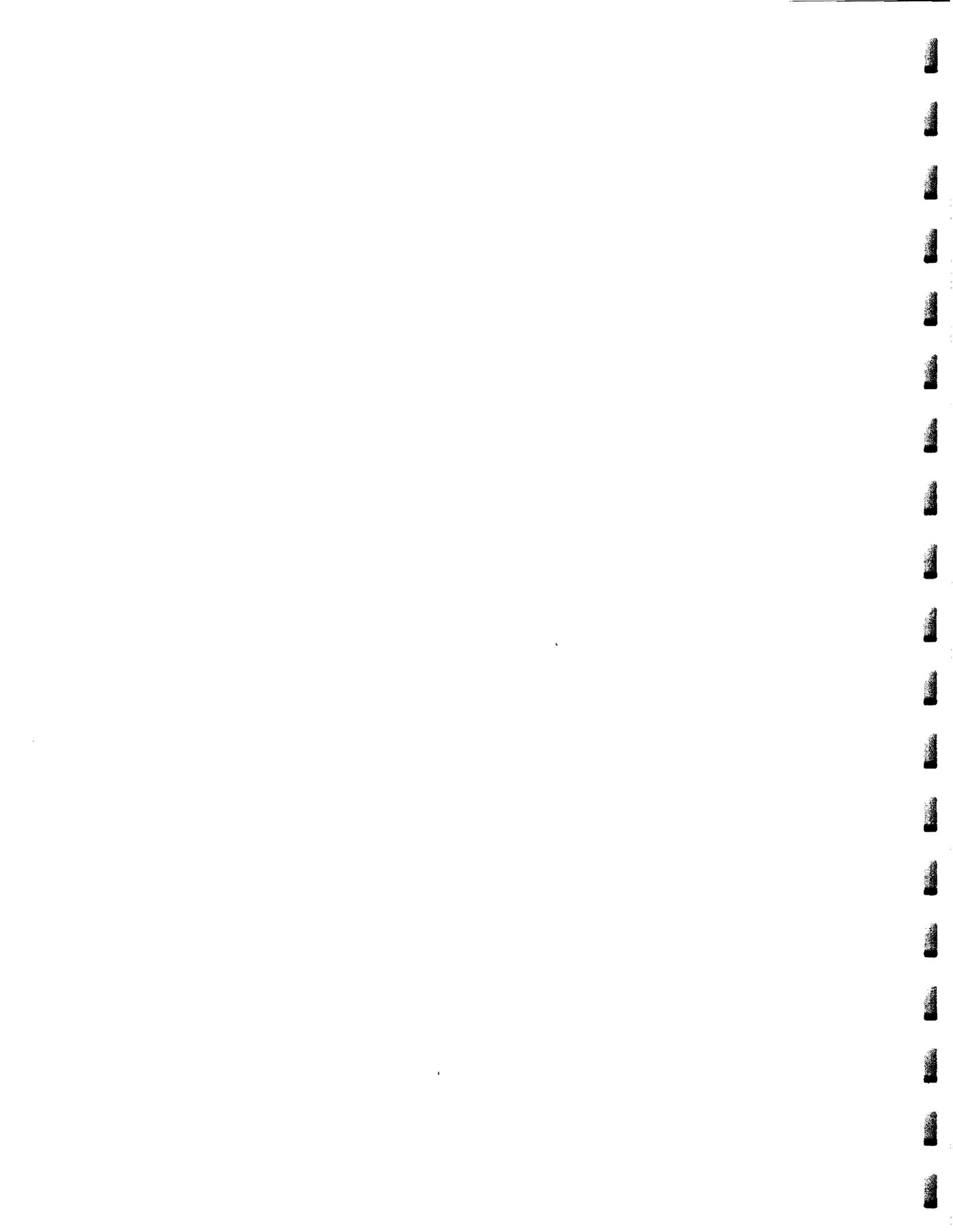
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CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Property Tax Rates and Assessments
September 30, 2012

<u>Year</u>	<u>Millage Rate</u>	<u>Assessed Property Value</u>
2012	34.5	\$ 407,056,492
2011	34.5	397,577,586
2010	34.5	400,705,276
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	30.0	13,219,511
1988	30.0	11,244,420
1987	30.0	8,379,634
1986	30.0	9,099,051
1985	30.0	8,370,366
1984	30.0	13,790,500

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2012

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Samuel Rikard	Mayor	Zurich North American Surety	\$ 100,000
Judy Herrington	City Clerk	Zurich North American Surety	50,000
Tina Griffith	Asst. City Clerk	Zurich North American Surety	50,000
Public Employees			
Blanket Bond	Per employee	Zurich North American Surety	250,000
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
David 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	Public Works Director	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 Manager	Zurich North American Surety	50,000
Judy Jeans	Court Clerk	Zurich North American Surety	50,000



SPECIAL REPORTS





Whitman, Brown & Company
 CERTIFIED PUBLIC ACCOUNTANTS

Donald E. Whitman
 Brian W. Brown
 Thomas A. Brown
 Kenneth A. Whitten
 1001 North Main Street
 Gulfport, Mississippi 39201
 601.421.4100

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 (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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We noted certain matters that we reported to management of the City in a separate letter dated June 26, 2013.

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

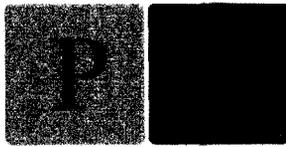
Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Hernando, Mississippi

June 26, 2013





WILLIAMS, PATE & FLETCHER
CERTIFIED PUBLIC ACCOUNTANTS

DAVID E. WILLIAMS
JAMES W. PATE
DANIEL A. FLETCHER
KIMBERLY A. WOODHULL
SEC. MEMBER, MISSISSIPPI SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
1000 OLIVE BRANCH
OLIVE BRANCH, MISSISSIPPI 38654

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

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

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Compliance

We have audited the City of Olive Branch, Mississippi's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City'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's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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



noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
June 26, 2013



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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 basic 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 (the "City"), as of and for the year ended September 30, 2012, and have issued our report dated June 26, 2013. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 purpose financial statements disclosed no material instance of noncompliance with state laws and regulations.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
June 26, 2013



CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section 1: Summary of Auditors' Results

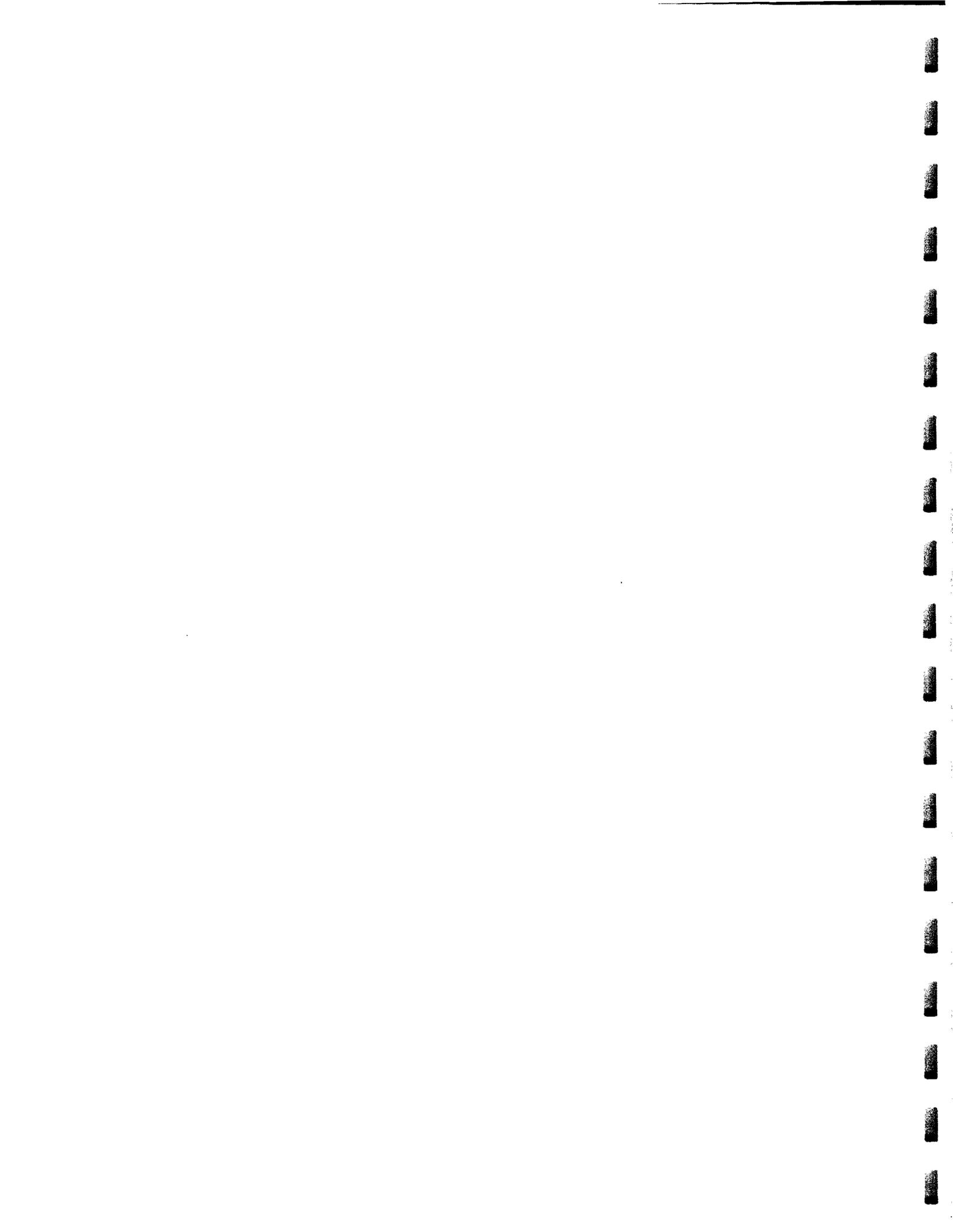
Financial Statements:

- | | |
|---|----------------------|
| 1. Type of auditor's report issued on the general purpose financial statements: | <u>Unqualified</u> |
| 2. Material noncompliance relating to the general purpose financial statements? | <u>No</u> |
| 3. Internal control over financial reporting: | |
| a. Material weakness (es) identified? | <u>No</u> |
| b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | <u>None reported</u> |

Federal Awards:

- | | |
|---|----------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major programs: | |
| a. Material weakness (es) identified? | <u>No</u> |
| b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | <u>None reported</u> |
| 6. Any audit finding(s) reported as required by OMB Circular A-133? | <u>No</u> |
| 7. Federal programs identified as major programs: | |
| Highway Planning and Construction | <u>CFDA # 20.205</u> |
| 8. The dollar threshold used to distinguish between types A and type B programs: | <u>\$300,000</u> |
| 9. Auditee qualified as a low-risk auditee? | <u>No</u> |

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CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133?

_____ No _____

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs.

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

