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City Clerk

September 18, 2014

MS Office of the State Auditor
ATTN: Technical Assistance
P.O. Box 956
Jackson, MS 39205

To Whom It May Concern,

Enclosed is the City of Olive Branch Audit for fiscal year 2012-2013. This report was approved at the September 16, 2014 Board of Aldermen Meeting.

If you have questions, please contact me.

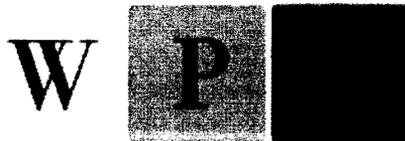
Best regards,

Tina Griffith
City Clerk
City of Olive Branch
662-892-9211
tgriffith@obms.us

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**CITY OF OLIVE BRANCH, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2013**



W P & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF OLIVE BRANCH, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2013

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-xi and 27 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Property Tax Rates and Assessments and Schedule of Surety Bonds for Municipal Officials are presented for purposes of additional analysis and are not a required part of the basic financial statements.

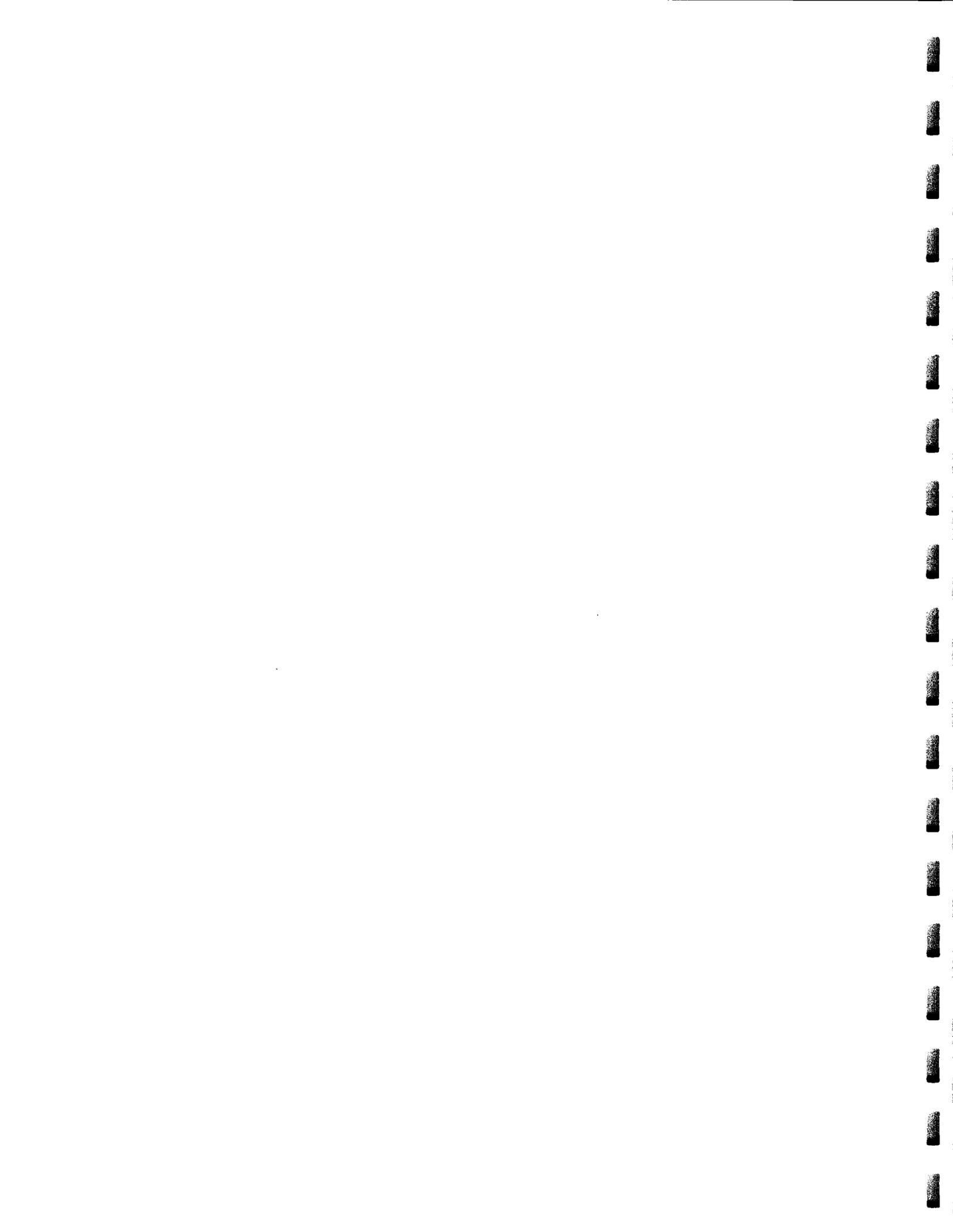
The Schedule of Property Tax Rates and Assessments and Schedule of Surety Bonds for Municipal Officials are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Property Tax Rates and Assessments and Schedule of Surety Bonds for Municipal Officials is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2014, on our consideration of the City of Olive Branch, Mississippi'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Olive Branch, Mississippi's internal control over financial reporting and compliance.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
August 19, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2013

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, 2013. 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 34,989 as of 9/30/13. 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 9/30/13 the City had approximately 1320 active businesses (as compared to 1333 in '07, 1275 in '08, 1223 in '09, 1342 in '10, 1265 in '11, and 1280 in '12). Approximately 816 were commercial/industrial businesses and 504 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 149 residential building permits were issued in Olive Branch in 2013 (as compared to 378 in '07, 126 in '08, 108 in '09, 97 in '10, 83 in '11, and 140 in '12). 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 position increased \$3,118,922, which represents a 1.92% increase from the prior fiscal year. The City's ending cash balance increased by \$343,663, which represents a 1.7% increase from the prior fiscal year. The City had \$57,083,288 in total revenues. Tax revenues account for \$23,120,569 (or 41%) of total revenues. Sales of utilities totaled \$24,293,241 or 43% of total revenues.

The City had \$53,964,366 in total expenses. Expenses in the amount of \$51,087,321 were offset by grants, outside contributions or charges for services.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2013

Among major funds, the General Fund had \$27,096,632 in revenues and \$27,903,322 in expenditures. As a result, the General Fund's fund balance decreased \$806,690 over the prior year.

The Combined Water & Sewer System had \$14,384,156 in revenues and \$11,766,760 in expenditures. As a result the Combined Water & Sewer System's Fund balance increased by \$2,617,396 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 \$12,605,704 in revenues and \$11,660,703 in expenditures. As a result the Natural Gas System's Fund balance increased by \$945,001 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 \$483,985.

Long-term debt decreased by \$3,732,963.

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 position** presents information on all City assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2013

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 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 26 of this report.

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2013

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 28 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position – Net position 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 \$107,050,965 as of September 30, 2013.

The largest portion of the City's net position (79%) 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 position for the fiscal year ended September 30, 2013.

| | 2013 | | 2012 | |
|---|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Government Activities | Business-type Activities |
| Current Assets | 22,862,757 | 19,610,575 | 24,775,299 | 18,486,545 |
| Capital Assets, Net | 99,657,371 | 36,227,627 | 102,319,182 | 34,049,801 |
| Total Assets | 122,520,128 | 55,838,202 | 127,094,481 | 52,536,346 |
| Current Liabilities | 15,404,994 | 3,293,510 | 16,572,578 | 2,784,382 |
| Long-term debt outstanding | 27,974,060 | 24,634,801 | 30,937,353 | 25,404,471 |
| Total Liabilities | 43,379,054 | 27,928,311 | 47,509,931 | 28,188,853 |
| Net Position: | | | | |
| Net investment in capital assets, net of related debt | 72,567,033 | 11,763,779 | 72,202,744 | 8,813,449 |
| Restricted Debit Service | 1,241,805 | 2,125,317 | 242,999 | 5,835,974 |
| Unrestricted | 5,332,236 | 14,020,795 | 7,138,807 | 9,698,070 |
| Total Net Position | 79,141,074 | 27,909,891 | \$79,584,550 | \$24,347,493 |

Changes in Net Position – City of Olive Branch total revenues for the fiscal year ended September 30, 2013 was \$57,083,288. The total cost for all services provided was \$53,964,366. The increase in net position was \$3,118,922.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2013

The following table presents a summary of the changes in net position for the fiscal year ended September 30, 2013.

| | 2013 | | | 2012 | | |
|----------------------------------|---------------------|--------------------------|---------------------|---------------------|--------------------------|---------------------|
| | General Fund | Business-type Activities | Totals | General Fund | Business-type Activities | Totals |
| Program Revenue: | | | | | | |
| Charges for Services | \$5,318,705 | \$24,293,341 | \$29,612,046 | \$5,180,115 | \$22,345,022 | \$27,525,137 |
| Operating Grants & Contributions | \$651,424 | | \$651,424 | \$355,483 | | \$355,483 |
| Capital Grants & Contributions | \$66,267 | \$1,404,643 | \$1,470,910 | \$476,538 | \$615,582 | \$1,092,120 |
| Transfers from/to other funds | (\$510,546) | \$510,546 | \$0 | \$725 | (\$725) | \$0 |
| Fee in Lieu of Tax | | | \$0 | | | \$0 |
| Intergovernmental | \$899,380 | | \$899,380 | \$925,787 | | \$925,787 |
| Taxes | \$23,120,569 | | \$23,120,569 | \$22,362,891 | | \$22,362,891 |
| Contributed Capital | | | \$0 | \$615,444 | | \$615,444 |
| Other | \$547,628 | \$781,331 | \$1,328,959 | \$779,539 | \$754,871 | \$1,534,410 |
| | \$30,093,427 | \$26,989,861 | \$57,083,288 | \$30,696,522 | \$23,714,750 | \$54,411,272 |
| Expenses: | | | | | | |
| General | | | | | | |
| Government | \$2,781,245 | | \$2,781,245 | \$2,856,198 | | \$2,856,198 |
| Public Safety | \$15,210,441 | | \$15,210,441 | \$14,319,156 | | \$14,319,156 |
| Public Works | \$8,513,360 | | \$8,513,360 | \$8,764,154 | | \$8,764,154 |
| Culture & Recreation | \$1,924,993 | | \$1,924,993 | \$1,917,328 | | \$1,917,328 |
| Economic Development | \$1,057,655 | | \$1,057,655 | \$1,089,782 | | \$1,089,782 |
| Debt Services | \$1,049,209 | \$770,181 | \$1,819,390 | \$1,013,442 | \$918,192 | \$1,931,634 |
| Water System | | \$11,154,001 | \$11,154,001 | | \$10,695,976 | \$10,695,976 |
| Gas System | | \$11,503,281 | \$11,503,281 | | \$9,777,025 | \$9,777,025 |
| | \$30,536,903 | \$23,427,463 | \$53,964,366 | \$29,960,060 | \$21,391,193 | \$51,351,253 |
| Change in Net Position | (443,476) | 3,562,398 | 3,118,922 | 736,462.00 | 2,323,557.00 | 3,060,019.00 |

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, 2013

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.

| | 2013 | | 2012 | |
|----------------------|---------------------|------------------------|---------------------|------------------------|
| | Total Costs | Net (Cost)/Revenues | Total Costs | Net (Cost)/Revenues |
| General Government | \$2,781,245 | (\$1,440,954) | \$2,856,198 | (\$1,701,638) |
| Public Safety | \$15,210,441 | (\$12,172,132) | \$14,319,156 | (\$11,280,787) |
| Public Works | \$8,513,360 | (\$7,065,721) | \$8,764,154 | (\$7,141,752) |
| Culture & Recreation | \$1,924,993 | (\$1,714,836) | \$1,917,328 | (\$1,720,523) |
| Economic Development | \$1,057,655 | (\$1,057,655) | \$1,089,782 | (\$1,089,782) |
| Capital Outlay | | | | |
| Debt Service | \$1,049,209 | (\$1,049,209) | \$1,013,442 | (\$1,013,442) |
| Depreciation | | | | |
| | <u>\$30,536,903</u> | <u>(\$24,500,507)</u> | <u>\$29,960,060</u> | <u>(\$23,947,924)</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 \$7,169,273 a decrease of \$680,585.

The General Fund is the principal operating fund of the City. The decrease in the fund balance of the General Fund for the fiscal year was \$806,690.

Business-type funds – Revenue from the City's Utility Funds increased by 14% to \$26,989,860 and expenses increased by 9.5% to \$23,427,463.

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 \$399,837 for proceeds received from a Crossroads Distribution Center-Milwaukee Tool Dip Project Grant.
- Revenues were increased by \$150,000 for proceeds received for a Helen of Troy Grant from Mississippi Development Authority to construct a traffic light.
- Revenues were increased by \$239,000 as a result of issuing more Building Permits than anticipated.
- Revenues were decreased by \$361,000 from Ambulance Fees as a result of receiving fewer fees than anticipated.

**CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2013**

Expenses:

- Capital Outlay Infrastructure was increased by \$343,212 in the Street Department due to a Major Street Repair Project by Standard Construction.

- Capital Signalization was increased by \$150,000 in the Street Department due to a Helen of Troy Grant from Mississippi Development Authority to construct a traffic light.

- Capital Outlay Infrastructure increased by \$447,378 in the Street Department due to a Crossroads Distribution Center-Milwaukee Tool Dip Project.

- Repair & Maintenance increased by \$102,300 in the Street Department due to surface mix for Alexander Road, Craft Road, Highway 178, and Hacks Cross Road.

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, 2013, City of Olive Branch total capital assets were \$135,884,998, 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 \$483,985. Total accumulated depreciation as of September 30, 2013 was \$97,334,920 including \$6,747,545 of depreciation expense for the year.

Additional information on City of Olive Branch capital assets can be found in Note E on page 20 of this report.

Debt Administration – At September 30, 2013, City of Olive Branch had \$52,608,861 in long-term debt outstanding. This includes general obligation bonds, revenue bonds, Mississippi Business Investment Act notes and obligations under capital lease. Of this debt, \$5,129,466 is due within one year.

In May 2013 the City issued \$2,905,000 in G.O. Utility Refunding Bonds to refund all or a portion of the city's Mississippi State Department of Health Drinking Water Improvements Revolving Loans and Mississippi Department of Environmental Quality SRF Loan.

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

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CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2013

various other incentives. 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 February 2015.

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 Stalene 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.

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 opened on August 26, 2013.

Water & Sewer Fund

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)*

Natural Gas Fund

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2013

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 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 Position
September 30, 2013

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 6,780,486 | \$ 13,371,352 | \$ 20,151,838 |
| Cash with fiscal agents | 634,804 | - | 634,804 |
| Accounts receivable, net of allowance for uncollectibles of \$3,139,413 | 1,308,261 | 2,382,974 | 3,691,235 |
| Intergovernmental receivables | 928,890 | 22,524 | 951,414 |
| Property tax receivable | 12,720,036 | - | 12,720,036 |
| Note receivable | - | 470,779 | 470,779 |
| Prepaid expenses | 537,827 | 38,166 | 575,993 |
| Internal balances | (516,774) | 516,774 | - |
| Restricted assets | - | 2,125,317 | 2,125,317 |
| Deferred charges - bond issuance costs | 469,227 | 682,689 | 1,151,916 |
| Capital assets, net of accumulated depreciation | <u>99,657,371</u> | <u>36,227,627</u> | <u>135,884,998</u> |
| Total Assets | <u>122,520,128</u> | <u>55,838,202</u> | <u>178,358,330</u> |
| Liabilities | | | |
| Accounts payable | 516,395 | 651,775 | 1,168,170 |
| Accrued expenses | 821,781 | 221,500 | 1,043,281 |
| Customer deposits | - | 2,420,235 | 2,420,235 |
| Unearned revenue | 12,720,036 | - | 12,720,036 |
| Warranty bonds | 1,346,782 | - | 1,346,782 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 2,818,970 | 2,310,496 | 5,129,466 |
| Due in more than one year: | | | |
| Capital debt | 24,271,368 | 22,153,352 | 46,424,720 |
| Non-capital debt | <u>883,722</u> | <u>170,953</u> | <u>1,054,675</u> |
| Total Liabilities | <u>43,379,054</u> | <u>27,928,311</u> | <u>71,307,365</u> |
| Net Position | | | |
| Net investment in capital assets | 72,567,033 | 11,763,779 | 84,330,812 |
| Restricted for: | | | |
| Expendable: | | | |
| Debt service | 263,032 | 2,125,317 | 2,388,349 |
| Public safety | 66,268 | - | 66,268 |
| Capital projects | 374,678 | - | 374,678 |
| Nonexpendable | 537,827 | - | 537,827 |
| Unrestricted | <u>5,332,236</u> | <u>14,020,795</u> | <u>19,353,031</u> |
| Total Net Position | <u>\$ 79,141,074</u> | <u>\$ 27,909,891</u> | <u>\$ 107,050,965</u> |

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2013

| | Expenses | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Position | | |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities | | | | | | | |
| General government | \$ 2,781,245 | \$ 680,350 | \$ 593,674 | \$ 66,267 | \$ (1,440,954) | \$ - | \$ (1,440,954) |
| Public safety | 15,210,441 | 2,990,765 | 47,544 | - | (12,172,132) | - | (12,172,132) |
| Public works | 8,513,360 | 1,437,433 | 10,206 | - | (7,065,721) | - | (7,065,721) |
| Culture and recreation | 1,924,993 | 210,157 | - | - | (1,714,836) | - | (1,714,836) |
| Economic development | 1,057,655 | - | - | - | (1,057,655) | - | (1,057,655) |
| Interest on long-term debt | 1,049,209 | - | - | - | (1,049,209) | - | (1,049,209) |
| Total Governmental Activities | 30,536,903 | 5,318,705 | 651,424 | 66,267 | (24,500,507) | - | (24,500,507) |
| Business-Type Activities | | | | | | | |
| Water & sewer | 11,154,001 | 12,073,423 | - | 1,292,835 | - | 2,212,257 | 2,212,257 |
| Gas system | 11,503,281 | 12,219,918 | - | 111,808 | - | 828,445 | 828,445 |
| Interest on long-term debt | 770,181 | - | - | - | - | (770,181) | (770,181) |
| Total Business-Type Activities | 23,427,463 | 24,293,341 | - | 1,404,643 | - | 2,270,521 | 2,270,521 |
| Total Government | \$ 53,964,366 | \$ 29,612,046 | \$ 651,424 | \$ 1,470,910 | (24,500,507) | 2,270,521 | (22,229,986) |
| General Revenues | | | | | | | |
| | | | | | 13,610,325 | - | 13,610,325 |
| | | | | | 899,380 | - | 899,380 |
| | | | | | 7,686,488 | - | 7,686,488 |
| | | | | | 1,823,756 | - | 1,823,756 |
| | | | | | 10,175 | 212,951 | 223,126 |
| | | | | | 8,064 | 49,081 | 57,145 |
| | | | | | 558,925 | 519,299 | 1,078,224 |
| | | | | | (29,536) | - | (29,536) |
| | | | | | (510,546) | 510,546 | - |
| | | | | | 24,057,031 | 1,291,877 | 25,348,908 |
| | | | | | (443,476) | 3,562,398 | 3,118,922 |
| | | | | | 79,584,550 | 24,347,493 | 103,932,043 |
| | | | | | \$ 79,141,074 | \$ 27,909,891 | \$ 107,050,965 |

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Balance Sheet - Governmental Funds
September 30, 2013

| | <u>Major Funds</u> | | | <u>Total Governmental Funds</u> |
|--|-------------------------|-------------------------|---|---|
| | <u>General Fund</u> | <u>Debt Service</u> | <u>Other Governmental Funds</u> | |
| Assets | | | | |
| Cash and cash equivalents | \$ 4,565,234 | \$ 1,850,375 | \$ 364,877 | \$ 6,780,486 |
| Cash with fiscal agents | 347,513 | 287,291 | - | 634,804 |
| Due from other funds | 1,640,944 | - | - | 1,640,944 |
| Accounts receivable, net of allowance for uncollectibles of \$3,139,413 | 1,308,261 | - | - | 1,308,261 |
| Intergovernmental receivables | 896,829 | 32,061 | - | 928,890 |
| Property tax receivable | 9,822,080 | 2,897,956 | - | 12,720,036 |
| Prepaid expenses | 537,827 | - | - | 537,827 |
| Total Assets | \$ 19,118,688 | \$ 5,067,683 | \$ 364,877 | \$ 24,551,248 |
| Liabilities | | | | |
| Accounts payable | \$ 506,066 | \$ 6,000 | \$ 4,329 | \$ 516,395 |
| Accrued expenses | 641,044 | - | - | 641,044 |
| Due to other funds | 437,720 | 1,719,955 | 43 | 2,157,718 |
| Unearned revenue | 9,822,080 | 2,897,956 | - | 12,720,036 |
| Warranty bonds | 1,346,782 | - | - | 1,346,782 |
| Total Liabilities | 12,753,692 | 4,623,911 | 4,372 | 17,381,975 |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Prepaid expenses | 537,827 | - | - | 537,827 |
| Restricted for: | | | | |
| Debt service | - | 443,769 | - | 443,769 |
| Public safety | 66,268 | - | - | 66,268 |
| Capital projects | 14,130 | - | 360,548 | 374,678 |
| Unassigned | 5,746,771 | 3 | (43) | 5,746,731 |
| Total Fund Balances | 6,364,996 | 443,772 | 360,505 | 7,169,273 |
| Total Liabilities and Fund Balances | \$ 19,118,688 | \$ 5,067,683 | \$ 364,877 | \$ 24,551,248 |

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 Position
September 30, 2013

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

Total Fund Balance - Governmental Funds \$ 7,169,273

Amounts reported for governmental activities in the statement of net position 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 | 26,368,827 | |
| Equipment and vehicles | 10,784,879 | |
| Infrastructure | 116,339,877 | |
| Construction in progress | 1,702,957 | |
| Accumulated depreciation | <u>(63,242,844)</u> | |
| | | 99,657,371 |

Deferred charges - bond issuance costs 469,227

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

| | | |
|--------------------------------------|------------------|---------------------|
| Loans payable | (178,849) | |
| General obligation and revenue bonds | (26,911,489) | |
| Compensated absences | (883,722) | |
| Accrued interest | <u>(180,737)</u> | |
| | | <u>(28,154,797)</u> |

Net Position of Governmental Activities \$ 79,141,074

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2013

| | <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 | \$ 10,119,365 | \$ 3,490,960 | \$ - | \$ 13,610,325 |
| Intergovernmental | 8,541,335 | - | 44,533 | 8,585,868 |
| Charges for services | 5,318,705 | - | - | 5,318,705 |
| Franchise taxes | 1,823,756 | - | - | 1,823,756 |
| Forfeitures | - | - | - | - |
| Interest | 6,685 | 571 | 816 | 8,072 |
| Miscellaneous | 558,923 | - | - | 558,923 |
| Total Revenues | <u>26,368,769</u> | <u>3,491,531</u> | <u>45,349</u> | <u>29,905,649</u> |
| Expenditures | | | | |
| General government | 2,624,333 | 44 | - | 2,624,377 |
| Public safety | 14,634,536 | - | - | 14,634,536 |
| Public works | 4,432,845 | - | - | 4,432,845 |
| Culture and recreation | 1,765,388 | - | - | 1,765,388 |
| Economic development | 1,056,361 | - | - | 1,056,361 |
| Capital outlay | 2,168,335 | - | 110,770 | 2,279,105 |
| Debt service: | | | | |
| Principal | 644,774 | 2,381,326 | - | 3,026,100 |
| Interest | 75,454 | 909,385 | - | 984,839 |
| Total Expenditures | <u>27,402,026</u> | <u>3,290,755</u> | <u>110,770</u> | <u>30,803,551</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(1,033,257)</u> | <u>200,776</u> | <u>(65,421)</u> | <u>(897,902)</u> |
| Other Financial Sources (Uses) | | | | |
| Capital contributions | 46,267 | - | - | 46,267 |
| Rents | 10,175 | - | - | 10,175 |
| Grant revenue | 671,421 | - | - | 671,421 |
| Interfund transfers | (501,296) | - | (9,250) | (510,546) |
| Total Other Financing Sources (Uses) | <u>226,567</u> | <u>-</u> | <u>(9,250)</u> | <u>217,317</u> |
| Net Change in Fund Balances | <u>(806,690)</u> | <u>200,776</u> | <u>(74,671)</u> | <u>(680,585)</u> |
| Fund Balances - Beginning | <u>7,171,686</u> | <u>242,996</u> | <u>435,176</u> | <u>7,849,858</u> |
| Fund Balance - End of Year | <u>\$ 6,364,996</u> | <u>\$ 443,772</u> | <u>\$ 360,505</u> | <u>\$ 7,169,273</u> |

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, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (680,585)

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 \$4,874,338 exceeds capital outlays of \$2,242,063 in the current period. (2,632,275)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds of \$0 are less than repayments of \$3,031,495 and bond amortization of \$5,395. 3,026,100

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 | (62,807) |
| Disposal of capital assets | (29,536) |
| Bond issue cost | (64,373) |
| | (156,716) |

Change in Net Position of Governmental Activities \$ (443,476)

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Net Position - Proprietary Funds
September 30, 2013

| | <u>Water & Sewer</u> | <u>Natural Gas</u> | <u>Total</u> |
|---|------------------------------|------------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 6,427,469 | \$ 6,943,883 | \$ 13,371,352 |
| Accounts receivable, net of allowance for uncollectibles \$987,619 | 2,202,886 | 650,867 | 2,853,753 |
| Intergovernmental receivable | 22,524 | - | 22,524 |
| Prepaid expenses | 37,416 | 750 | 38,166 |
| Due from other funds | 352,343 | 164,431 | 516,774 |
| Total Current Assets | <u>9,042,638</u> | <u>7,759,931</u> | <u>16,802,569</u> |
| Noncurrent Assets | | | |
| Restricted assets | 1,709,131 | 416,186 | 2,125,317 |
| Deferred charges - bond issuance cost | 585,929 | 96,760 | 682,689 |
| Capital assets, net of accumulated depreciation | 31,056,815 | 5,170,812 | 36,227,627 |
| Total Noncurrent Assets | <u>33,351,875</u> | <u>5,683,758</u> | <u>39,035,633</u> |
| Total Assets | <u>42,394,513</u> | <u>13,443,689</u> | <u>55,838,202</u> |
| Liabilities and Net Position | | | |
| Current Liabilities | | | |
| Accounts payable | 273,447 | 378,328 | 651,775 |
| Accrued expenses | 144,358 | 77,142 | 221,500 |
| Customer deposits | 793,388 | 1,626,847 | 2,420,235 |
| Total Current Liabilities | <u>1,211,193</u> | <u>2,082,317</u> | <u>3,293,510</u> |
| Current Liabilities Payable from Restricted Assets | | | |
| Long-term liabilities due within one year: | | | |
| Capital debt | 2,041,642 | 268,854 | 2,310,496 |
| Total Current Liabilities Payable From Restricted Assets | <u>2,041,642</u> | <u>268,854</u> | <u>2,310,496</u> |
| Long-term liabilities due in more than one year: | | | |
| Capital debt | 18,502,421 | 3,650,931 | 22,153,352 |
| Non-capital debt | 96,273 | 74,680 | 170,953 |
| Total Long-Term Liabilities | <u>18,598,694</u> | <u>3,725,611</u> | <u>22,324,305</u> |
| Total Liabilities | <u>21,851,529</u> | <u>6,076,782</u> | <u>27,928,311</u> |
| Net Position | | | |
| Net investment in capital assets | 10,512,752 | 1,251,027 | 11,763,779 |
| Restricted for: | | | |
| Debt service | 1,709,131 | 416,186 | 2,125,317 |
| Unrestricted | 8,321,101 | 5,699,694 | 14,020,795 |
| Total Net Position | <u>\$ 20,542,984</u> | <u>\$ 7,366,907</u> | <u>\$ 27,909,891</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 Position - Proprietary Funds
For the Year Ended September 30, 2013

| | <u>Water & Sewer</u> | <u>Natural Gas</u> | <u>Total</u> |
|--|------------------------------|------------------------|----------------------|
| Operating Revenues | | | |
| Charges for services | \$ 12,073,423 | \$ 12,219,918 | \$ 24,293,341 |
| Miscellaneous | 297,035 | 222,264 | 519,299 |
| Total Operating Revenues | <u>12,370,458</u> | <u>12,442,182</u> | <u>24,812,640</u> |
| Operating Expenses | | | |
| Cost of sales | - | 7,296,246 | 7,296,246 |
| Personnel | 2,698,396 | 2,486,990 | 5,185,386 |
| Depreciation and amortization | 1,749,284 | 249,508 | 1,998,792 |
| Material and supplies | 1,135,083 | 979,361 | 2,114,444 |
| Professional services | 4,051,024 | 21,305 | 4,072,329 |
| Other | 1,520,214 | 469,871 | 1,990,085 |
| Total Operating Expenses | <u>11,154,001</u> | <u>11,503,281</u> | <u>22,657,282</u> |
| Operating Income | <u>1,216,457</u> | <u>938,901</u> | <u>2,155,358</u> |
| Non-Operating Revenues (Expenses) | | | |
| Interest income | 33,229 | 15,852 | 49,081 |
| Interest expense | (612,759) | (157,422) | (770,181) |
| Rent | 212,951 | - | 212,951 |
| Grant proceeds | 792,835 | 111,808 | 904,643 |
| Total Non-Operating Revenues (Expenses) | <u>426,256</u> | <u>(29,762)</u> | <u>396,494</u> |
| Net Income Before Capital Contributions and Transfers | <u>1,642,713</u> | <u>909,139</u> | <u>2,551,852</u> |
| Capital contributions | 500,000 | - | 500,000 |
| Interfund transfers | 474,684 | 35,862 | 510,546 |
| Change in Net Position | <u>2,617,397</u> | <u>945,001</u> | <u>3,562,398</u> |
| Net Position - Beginning of Year | <u>17,925,587</u> | <u>6,421,906</u> | <u>24,347,493</u> |
| Net Position - End of Year | <u>\$ 20,542,984</u> | <u>\$ 7,366,907</u> | <u>\$ 27,909,891</u> |

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CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2013

| | <u>Water & Sewer</u> | <u>Natural Gas</u> | <u>Total</u> |
|--|------------------------------|------------------------|----------------------|
| Cash Flows From Operating Activities | | | |
| Cash received from customers | \$ 12,061,198 | \$ 12,843,182 | \$ 24,904,380 |
| Cash payments for goods and services | (6,559,769) | (8,654,555) | (15,214,324) |
| Cash payments to employees | <u>(2,699,127)</u> | <u>(2,483,425)</u> | <u>(5,182,552)</u> |
| Net Cash Provided By (Used In) Operating Activities | <u>2,802,302</u> | <u>1,705,202</u> | <u>4,507,504</u> |
| Cash Flows From Non-Capital Financing Activities | | | |
| Interfund activity | 393,161 | 464,885 | 858,046 |
| Net Cash Provided By (Used In) Non-Capital Financing Activities | <u>393,161</u> | <u>464,885</u> | <u>858,046</u> |
| Cash Flows From Capital And Related Financing Activities | | | |
| Payments for capital acquisitions | (3,707,382) | (305,342) | (4,012,724) |
| Proceeds from long-term debt | 4,936,361 | - | 4,936,361 |
| Grant proceeds | 1,101,923 | 111,808 | 1,213,731 |
| Principal payments and bond issue cost | (5,110,566) | (1,216,707) | (6,327,273) |
| Interest payments | <u>(612,759)</u> | <u>(157,422)</u> | <u>(770,181)</u> |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | <u>(3,392,423)</u> | <u>(1,567,663)</u> | <u>(4,960,086)</u> |
| Cash Flows From Investing Activities | | | |
| Rent | 212,951 | - | 212,951 |
| Interest on investments | 33,229 | 15,852 | 49,081 |
| Net Cash Provided By (Used In) Investing Activities | <u>246,180</u> | <u>15,852</u> | <u>262,032</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 49,220 | 618,276 | 667,496 |
| Cash and Cash Equivalents-Beginning of Year | <u>8,087,380</u> | <u>6,741,793</u> | <u>14,829,173</u> |
| Cash and Cash Equivalents-End of Year | <u>\$ 8,136,600</u> | <u>\$ 7,360,069</u> | <u>\$ 15,496,669</u> |
| Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities | | | |
| Operating Income | \$ 1,216,457 | \$ 938,901 | \$ 2,155,358 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,749,284 | 249,508 | 1,998,792 |
| (Increase) decrease in customer receivables | (309,260) | 401,000 | 91,740 |
| (Increase) decrease in prepaids | 88,721 | 27,361 | 116,082 |
| Increase (decrease) in accounts payable | 58,480 | 81,284 | 139,764 |
| Increase (decrease) in accrued expenses | (649) | 3,583 | 2,934 |
| Increase (decrease) in compensated absences | <u>(731)</u> | <u>3,565</u> | <u>2,834</u> |
| Total adjustments | <u>1,585,845</u> | <u>766,301</u> | <u>2,352,146</u> |
| Net Cash Provided By (Used In) Operating Activities | <u>\$ 2,802,302</u> | <u>\$ 1,705,202</u> | <u>\$ 4,507,504</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, 2013

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 Position 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 Position 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.

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

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 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 Position. 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.

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

Natural Gas Fund:

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

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

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 Position, "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.

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CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

Interfund Transactions and Balances

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

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

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 Position. 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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

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 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 position and displayed in the categories:

Net investment in capital assets – 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 position – Consists of net position 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 position – All other net position not meeting the definition of “restricted” or “net investment in capital assets.”

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. There were no amounts assigned at year end.
- **Unassigned** – All amounts not included in other spendable classifications.

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

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 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.

Changes in Accounting Standards

City of Olive Branch, Mississippi adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, during the fiscal year changing the source of guidance for accounting and financial reporting. They also adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during the year ended September 30, 2013. Statement No. 63 added new classifications on the statements of position and changed net assets to net position. These statements did not significantly impact any amounts reported in the financial statements.

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

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, 2013, the City's bank balance was not exposed to custodial credit risk. As of September 30, 2013, the carrying amount of the City's deposits was \$22,277,155 and the bank balances totaled \$22,266,076. Of the bank balances, \$431,235 was insured by the FDIC and \$21,834,841 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>Debt Service Fund</u> | <u>Water and Sewer Fund</u> |
|------------------------|---------------------|--------------------------|-----------------------------|
| Court fines assessment | \$ 66,007 | \$ - | \$ - |
| Sales tax | 634,723 | 32,061 | - |
| Ad valorem tax | 110,983 | - | - |
| Grant proceeds | 85,116 | - | 22,524 |
| Totals | <u>\$ 896,829</u> | <u>\$ 32,061</u> | <u>\$ 22,524</u> |

NOTE D – NOTES RECEIVABLES

Methodist LeBonheur Healthcare agrees to pay \$500,000 plus associated interest to the City of Olive Branch as reimbursement of debt service requirements for the \$1,700,000 Capital Improvement Revolving Loan issued by MDA to the City of Olive Branch. As of September 30, 2013, the balance on the note is \$470,779.

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CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

NOTE E – CAPITAL ASSETS

| | <u>Balance at 9/30/2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2013</u> |
|---|---------------------------------|---------------------|-----------------------|---------------------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 7,703,675 | \$ - | \$ - | \$ 7,703,675 |
| Construction in progress | 2,589,119 | 1,012,315 | (1,898,477) | 1,702,957 |
| Total capital assets, not being depreciated | <u>10,292,794</u> | <u>1,012,315</u> | <u>(1,898,477)</u> | <u>9,406,632</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 26,348,232 | 20,595 | - | 26,368,827 |
| Infrastructure | 114,213,851 | 2,126,026 | - | 116,339,877 |
| Equipment and vehicles | 10,083,318 | 981,604 | (280,043) | 10,784,879 |
| Total capital assets, being depreciated | <u>150,645,401</u> | <u>3,128,225</u> | <u>(280,043)</u> | <u>153,493,583</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 5,034,489 | 420,120 | - | 5,454,609 |
| Infrastructure | 46,577,425 | 3,915,543 | - | 50,492,968 |
| Equipment and vehicles | 7,007,099 | 538,675 | (250,507) | 7,295,267 |
| Total accumulated depreciation | <u>58,619,013</u> | <u>4,874,338</u> | <u>(250,507)</u> | <u>63,242,844</u> |
| Total capital assets, being depreciated, net | <u>92,026,388</u> | <u>(1,746,113)</u> | <u>(29,536)</u> | <u>90,250,739</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 102,319,182</u> | <u>\$ (733,798)</u> | <u>\$ (1,928,013)</u> | <u>\$ 99,657,371</u> |
| | | | | |
| | <u>Balance at 9/30/2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2013</u> |
| Business-Type Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 210,101 | \$ - | \$ - | \$ 210,101 |
| Construction in progress | 2,723,681 | 3,108,122 | (3,089,361) | 2,742,442 |
| Total capital assets, not being depreciated | <u>2,933,782</u> | <u>3,108,122</u> | <u>(3,089,361)</u> | <u>2,952,543</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 324,529 | 624 | - | 325,153 |
| Infrastructure | 60,179,416 | 3,224,065 | - | 63,403,481 |
| Equipment and vehicles | 2,869,252 | 811,840 | (42,566) | 3,638,526 |
| Total capital assets, being depreciated | <u>63,373,197</u> | <u>4,036,529</u> | <u>(42,566)</u> | <u>67,367,160</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 82,064 | 6,394 | - | 88,458 |
| Infrastructure | 30,144,942 | 1,655,199 | - | 31,800,141 |
| Equipment and vehicles | 2,030,172 | 211,614 | (38,309) | 2,203,477 |
| Total accumulated depreciation | <u>32,257,178</u> | <u>1,873,207</u> | <u>(38,309)</u> | <u>34,092,076</u> |
| Total capital assets, being depreciated, net | <u>31,116,019</u> | <u>2,163,322</u> | <u>(4,257)</u> | <u>33,275,084</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 34,049,801</u> | <u>\$ 5,271,444</u> | <u>\$ (3,093,618)</u> | <u>\$ 36,227,627</u> |

No interest was capitalized during the year due to immaturity.

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

Depreciation expense was charged to the following functions:

| | |
|--|----------------------------|
| Governmental Activities: | |
| General government | \$ 156,868 |
| Public safety | 475,921 |
| Public works | 4,080,650 |
| Culture and recreation | 159,605 |
| Economic development | 1,294 |
| Total governmental activities depreciation expense | <u><u>\$ 4,874,338</u></u> |
| | |
| Water and Sewer | \$ 1,644,357 |
| Natural Gas | 228,850 |
| Total business-type activities depreciation expense | <u><u>\$ 1,873,207</u></u> |

Commitments under construction contracts at September 30, 2013 are summarized as follows:

| <u>Project</u> | <u>Contract Amount</u> | <u>Remaining Balance</u> | <u>Fund</u> |
|---|----------------------------|------------------------------|-------------|
| Craft Road North of 302 Widening | \$ 2,223,118 | \$ 2,007,149 | General |
| Polk Lane and Kirk Road Improvements | 650,399 | 591,619 | General |
| Fox Run Subdivision Detention Pond | 162,600 | 154,496 | General |
| Helen of Troy Traffic Signal | 150,000 | 139,733 | General |
| Traffic Signal 302 & Polk Roads | 422,744 | 48,463 | General |
| Stateline Road Improvements | 603,924 | 38,241 | General |
| McKesson Construction | 204,060 | 22,737 | General |
| Trinity Park B Roadway Repairs | 16,708 | 16,708 | General |
| Trinity Park A Roadway Repairs | 9,398 | 9,398 | General |
| Alexander Road Widening | 781,749 | 3,420 | General |
| Alexander Area Sewer Project | 600,000 | 600,000 | Enterprise |
| Interceptor Connection Project with DCRUA | 350,000 | 350,000 | Enterprise |
| High Point and Itasca Pump Station | 347,047 | 347,047 | Enterprise |
| Pleasant Hill - Bridgetown Waterline | 335,203 | 335,203 | Enterprise |
| Utilities Methodist Hospital | 540,066 | 124,341 | Enterprise |
| Old Craft Road Water Line Improvements | 97,845 | 97,845 | Enterprise |
| Hwy 305 Utility Relocation | 2,138,200 | 37,115 | Enterprise |
| SCADA System | 193,037 | 32,582 | Enterprise |
| Elevated Tank Methodist Hospital | 85,300 | 18,436 | Enterprise |
| Hacks Cross Waterline Expansion | 28,800 | 4,818 | Enterprise |
| Bethel Park Pumping Station Upgrade | 14,750 | 987 | Enterprise |
| Total | <u><u>\$ 9,954,948</u></u> | <u><u>\$ 4,980,338</u></u> | |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

NOTE F – INTERFUND TRANSFERS AND BALANCES

The following is a summary of interfund transactions and balances:

| | <u>Due To</u> | <u>Due From</u> |
|--------------------------|---------------------|---------------------|
| Major Funds: | | |
| General fund | \$ 437,720 | \$ 1,640,944 |
| Debt service | 1,719,955 | - |
| Other Governmental funds | 43 | - |
| Water and sewer fund | - | 352,343 |
| Natural gas fund | - | 164,431 |
| Total Funds | <u>\$ 2,157,718</u> | <u>\$ 2,157,718</u> |

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

| | <u>Transfers In</u> | <u>Transfer Out</u> |
|--------------------------|---------------------|---------------------|
| Major Funds: | | |
| General fund | \$ - | \$ 501,296 |
| Other governmental funds | - | 9,250 |
| Water and sewer fund | 474,684 | - |
| Natural gas fund | 35,862 | - |
| Total Funds | <u>\$ 510,546</u> | <u>\$ 510,546</u> |

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

NOTE G - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2013 was as follows:

| | <u>Balance at 9/30/2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2013</u> | <u>Amounts Due Within One Year</u> |
|---|---------------------------------|---------------------|---------------------|---------------------------------|--|
| Governmental Activities: | | | | | |
| General obligation bonds payable | \$ 28,847,110 | \$ - | \$ 2,569,868 | \$ 26,277,242 | \$ 2,433,087 |
| Revenue bonds payable | 994,900 | - | 312,100 | 682,800 | 327,500 |
| Loans payable | 235,974 | - | 57,125 | 178,849 | 58,383 |
| Leases payable | 92,402 | - | 92,402 | - | - |
| Deferred gain (loss) on bond refunding | (392,632) | - | (39,263) | (353,369) | - |
| Bond premium | 338,684 | - | (33,868) | 304,816 | - |
| Compensated absences payable | 820,915 | 62,807 | - | 883,722 | - |
| Governmental Activities Long-Term Liabilities | <u>\$ 30,937,353</u> | <u>\$ 62,807</u> | <u>\$ 2,958,364</u> | <u>\$ 27,974,060</u> | <u>\$ 2,818,970</u> |
| Business-Type Activities: | | | | | |
| General obligation bonds payable | \$ 692,579 | \$ 2,905,000 | \$ 482,881 | \$ 3,114,698 | \$ 361,354 |
| Revenue bonds payable | 17,215,000 | - | 1,525,000 | 15,690,000 | 1,585,000 |
| Loans payable | 5,162,362 | 1,667,502 | 3,255,434 | 3,574,430 | 207,965 |
| Leases payable | 2,321,776 | - | 150,827 | 2,170,949 | 156,177 |
| Deferred loss on bond refunding | (182,255) | (48,015) | (37,073) | (193,197) | - |
| Bond premium | 26,890 | 85,506 | 5,428 | 106,968 | - |
| Compensated absences payable | 168,119 | 2,834 | - | 170,953 | - |
| Business-Type Activities Long-Term Liabilities | <u>\$ 25,404,471</u> | <u>\$ 4,612,827</u> | <u>\$ 5,382,497</u> | <u>\$ 24,634,801</u> | <u>\$ 2,310,496</u> |

A \$720,000 reclassification was made between general obligation bonds payable and deferred gain(loss) on refunding as of beginning of year.

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

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, 2013 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 | \$ 85,000 |
| 2004 | 2.50-5.20% | 5/12/2004 | 10/1/2015 | 1,850,000 | 600,000 |
| 2007 | 4.38% | 9/1/2007 | 9/1/2027 | 12,000,000 | 9,470,000 |
| 2009 | 3.00-3.63% | 10/1/2009 | 10/1/2024 | 4,000,000 | 3,570,000 |
| 2010 | 2.00-3.38% | 4/15/2010 | 8/1/2019 | 1,610,296 | 522,242 |
| 2011 | 2.00-3.13% | 6/29/2011 | 3/1/2022 | 1,650,000 | 1,475,000 |
| 2011 | 2.00-3.00% | 6/29/2011 | 6/1/2019 | 2,800,000 | 2,375,000 |
| 2012 | 1.00-2.75% | 4/4/2012 | 3/1/2023 | 8,255,000 | 8,180,000 |
| | | | | <u>33,095,296</u> | <u>26,277,242</u> |
| Enterprise Funds | | | | | |
| MBIA - 1995 | 0.00% | 7/5/1995 | 9/1/2015 | 750,000 | 75,000 |
| MBIA - 1998 | 2.00% | 11/1/1998 | 11/1/2013 | 2,000,000 | - |
| 2010 | 2.00-3.38% | 4/15/2010 | 8/1/2019 | 424,704 | 134,698 |
| 2013 | 2.00% | 6/1/2013 | 6/1/2022 | 2,905,000 | 2,905,000 |
| | | | | <u>6,079,704</u> | <u>3,114,698</u> |
| Total | | | | <u>\$ 39,175,000</u> | <u>\$ 29,391,940</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, 2013 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 | \$ 32,800 |
| 2007 General Fund | 3.85% | 7/1/2007 | 10/1/2014 | 2,080,000 | 650,000 |
| | | | | <u>2,174,000</u> | <u>682,800</u> |
| Enterprise Funds | | | | | |
| Combined Water & Sewer 2003 | 1.10-3.45% | 7/1/2003 | 3/1/2014 | 2,100,000 | 225,000 |
| 2004 Refunding | 2.35-4.20% | 11/9/2004 | 3/1/2017 | 2,410,000 | 1,030,000 |
| Combined Water & Sewer 2005 | 3.75-5.25% | 5/26/2005 | 3/1/2020 | 2,200,000 | 1,210,000 |
| Natural Gas System 2007 | 4.80-5.25% | 6/1/2007 | 6/1/2027 | 2,500,000 | 1,970,000 |
| Combined Water & Sewer 2008 | 3.76-4.36% | 9/23/2008 | 3/1/2020 | 2,625,000 | 1,910,000 |
| Combined Water & Sewer Refund 2010 | 2.00-3.50% | 10/27/2010 | 3/1/2026 | 5,260,000 | 4,440,000 |
| Combined Water & Sewer 2011 | 3.50-3.63% | 7/1/2011 | 3/1/1931 | 3,200,000 | 3,005,000 |
| Natural Gas System 2011 | 2.00-3.38% | 10/27/2011 | 9/1/2024 | 2,090,000 | 1,900,000 |
| | | | | <u>22,385,000</u> | <u>15,690,000</u> |
| Total | | | | <u>\$ 24,559,000</u> | <u>\$ 16,372,800</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

Loans. The City also uses loans to finance its projects. Loans outstanding as of September 30, 2013 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 | \$ 178,849 |
| Enterprise Funds | | | | | |
| MS Dept. of Environmental Quality SRF Loan | 2.00% | 11/1/2006 | 6/1/2026 | 1,011,918 | 696,337 |
| DWSIRLF Loan - DWI-H280007-01 | 4.50% | 4/1/2005 | 10/1/2016 | 1,935,359 | 140,240 |
| DWSIRLF Loan - DWI-H280049-05 | 2.00% | 6/7/2005 | 1/1/2026 | 1,443,899 | 1,070,351 |
| Methodist CAP Revolving Loan | 3.00% | 5/14/2012 | 3/1/2034 | 1,667,502 | 1,667,502 |
| | | | | <u>6,058,678</u> | <u>3,574,430</u> |
| Total | | | | <u>\$ 6,350,574</u> | <u>\$ 3,753,279</u> |

Annual debt service requirements to maturity of general obligation bonds, revenue bonds, and loans for the years subsequent to September 30, 2013 are as follows:

| Year Ending September 30 | General Long-Term Debt | | Business-Type | |
|-----------------------------|------------------------|---------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| | 2014 | \$ 2,818,970 | \$ 865,079 | \$ 2,154,319 |
| 2015 | 2,839,650 | 781,550 | 2,012,897 | 618,710 |
| 2016 | 2,586,332 | 701,825 | 2,046,272 | 558,558 |
| 2017 | 2,389,900 | 630,852 | 2,089,512 | 495,223 |
| 2018 | 2,447,043 | 513,520 | 1,869,927 | 434,142 |
| 2019-2023 | 9,967,043 | 1,813,038 | 7,434,710 | 1,361,531 |
| 2024-2028 | 4,089,953 | 422,653 | 3,546,088 | 478,964 |
| 2029-2033 | - | - | 1,218,190 | 85,126 |
| 2034-2038 | - | - | 7,213 | 348 |
| Total | <u>\$ 27,138,891</u> | <u>\$ 5,728,517</u> | <u>\$ 22,379,128</u> | <u>\$ 4,689,723</u> |

Leases. Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2013 are as follows:

| Year Ending September 30 | Governmental Activities | | Business-Type Activities | |
|--|-------------------------|-------------|--------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| | 2014 | \$ - | \$ - | 156,177 |
| 2015 | - | - | 161,715 | 68,410 |
| 2016 | - | - | 167,450 | 62,675 |
| 2017 | - | - | 173,388 | 56,737 |
| 2018 | - | - | 179,537 | 50,588 |
| 2019-2023 | - | - | 997,824 | 152,803 |
| 2024-2025 | - | - | 334,858 | 10,329 |
| Present Value of Minimum Lease Payments | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,170,949</u> | <u>\$ 475,490</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

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 \$34,452,035 (the smaller of the two computed margins) as of September 30, 2013.

| | 15% Test | 20% Test |
|--|-----------------|-----------------|
| Assessed value as of September 30, 2013: | | |
| \$409,413,849 times applicable percentage | \$ 61,412,077 | \$ 81,882,770 |
| Less present debt subject to debt limits as of September 30, 2013: | | |
| Total bonds outstanding | (30,074,740) | (30,074,740) |
| Margin for additional debt | \$ 31,337,337 | \$ 51,808,030 |

Advance Refunding - Enterprise – In May 2013, the City issued \$2,905,000 in general obligation refunding bonds with an average interest rate of 2.20% to advance refund \$2,905,000 of the following outstanding bond issues:

| Issue | Outstanding Amount Refunded |
|---|--|
| MS Dept. of Environmental Quality SRF Loan | \$ 855,440 |
| MS Dept. of Health Drinking Water Imp. Revolving Loan | 412,695 |
| MS Dept. of Health Drinking Water Imp. Revolving Loan | 572,764 |
| MS Dept. of Health Drinking Water Imp. Revolving Loan | 1,017,929 |
| Total | \$ 2,858,828 |

The City advance refunded the above bonds to reduce its total debt service payments over the next 12 years by \$336,511 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$46,172.

NOTE H- DEFINED BENEFIT PENSION PLAN

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

Funding Policy. PERS members are required to contribute 9% of their annual covered salary and the City is required to contribute at an actuarially determined rate. At September 30, 2013, the current rate is 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Olive Branch's contributions to PERS for the years ending September 30, 2013, 2012, and 2011 were \$2,305,521, \$1,933,542 and \$1,685,371 respectively, equal to the required contributions for each year.

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CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2013

NOTE I – DEFICIT FUND BALANCE

A deficit unreserved fund balance of \$43 exists in the McKesson Project Fund.

NOTE J - 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 K - 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 L - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position 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 Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in accompanying notes. Management of the City evaluated the activity of the City through August 19, 2014, (the date the financial statements were available to be issued), and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OLIVE BRANCH, MISSISSIPPI
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> <u>Budgetary Basis</u> | <u>Variance with</u> <u>Final Budget</u> |
|--|-------------------------|-----------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| General property taxes | \$ 9,944,677 | \$ 9,944,677 | \$ 9,653,638 | \$ (291,039) |
| Intergovernmental | 7,854,214 | 8,122,299 | 8,541,335 | 419,036 |
| Charges for services | 4,263,900 | 4,461,445 | 5,177,171 | 715,726 |
| Franchise taxes | 1,535,000 | 1,495,000 | 1,049,887 | (445,113) |
| Interest | 115,962 | 48,904 | 6,685 | (42,219) |
| Miscellaneous | 274,235 | 604,468 | 558,923 | (45,545) |
| Total Revenues | <u>23,987,988</u> | <u>24,676,793</u> | <u>24,987,639</u> | <u>310,846</u> |
| Expenditures | | | | |
| General government | 3,320,755 | 3,499,248 | 2,643,028 | 856,220 |
| Public safety | 14,969,964 | 15,839,977 | 14,634,536 | 1,205,441 |
| Public works | 4,301,793 | 4,706,129 | 4,432,845 | 273,284 |
| Culture & recreation | 1,737,148 | 1,837,719 | 1,765,388 | 72,331 |
| Economic development | 1,279,268 | 1,259,918 | 1,056,361 | 203,557 |
| Capital outlay | 829,485 | 2,550,100 | 2,201,422 | 348,678 |
| Debt service | | | | |
| Principal | 641,627 | 576,627 | 641,626 | (64,999) |
| Interest | 75,457 | 75,457 | 75,454 | 3 |
| Bond issue cost | - | - | 147,653 | 147,653 |
| Total Expenditures | <u>27,155,497</u> | <u>30,345,175</u> | <u>27,598,313</u> | <u>3,042,168</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(3,167,509)</u> | <u>(5,668,382)</u> | <u>(2,610,674)</u> | <u>3,353,014</u> |
| Other Financing Sources (Uses) | | | | |
| Grant revenue | 265,108 | 716,656 | 695,810 | (20,846) |
| Rents | 10,000 | 10,175 | 10,175 | - |
| Interfund transfers | 2,757,486 | 2,757,486 | - | (2,757,486) |
| Total Other Financing Sources (Uses) | <u>3,032,594</u> | <u>3,484,317</u> | <u>705,985</u> | <u>(2,778,332)</u> |
| Net Change in Fund Balances | <u>\$ (134,915)</u> | <u>\$ (2,184,065)</u> | <u>(1,904,689)</u> | <u>\$ 574,682</u> |
| Fund Balances - Beginning | | | <u>7,171,686</u> | |
| Fund Balance - End of Year | | | 5,266,997 | |
| Adjustments to conform with GAAP: | | | | |
| Revenues | | | 901,712 | |
| Expenditures | | | <u>196,287</u> | |
| Fund Balance - End of Year (GAAP Basis) | | | <u>\$ 6,364,996</u> | |

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 Property Tax Rates and Assessments
September 30, 2013

| <u>Year</u> | <u>Millage Rate</u> | <u>Assessed Property Value</u> |
|-------------|-------------------------|--|
| 2013 | 34.5 | \$ 409,413,849 |
| 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, 2013

| <u>Name</u> | <u>Position</u> | <u>Company</u> | <u>Bond</u> |
|--------------------------------|----------------------------|------------------------------|-------------|
| Scott B. Phillips, Jr | Mayor | Zurich North American Surety | \$ 100,000 |
| Judy Herrington | City Clerk | Zurich North American Surety | 50,000 |
| Tina Griffith | Deputy Clerk | Zurich North American Surety | 50,000 |
| <u>Public Employees</u> | | | |
| Mark Aldridge | Alderman | Zurich North American Surety | 100,000 |
| George Collins | Alderman | Zurich North American Surety | 100,000 |
| Dale Dickerson | Alderman | Zurich North American Surety | 100,000 |
| John Gilbert Earhart II | Alderman | Zurich North American Surety | 100,000 |
| Patricia Hamilton | Alderman | Zurich North American Surety | 100,000 |
| Harold Henderson | Alderman | Zurich North American Surety | 100,000 |
| David Wallace | Alderman | Zurich North American Surety | 100,000 |
| Paula May | Director of Admin Services | Zurich North American Surety | 50,000 |
| B.J. Page | Director of Planning | Zurich North American Surety | 50,000 |
| Cole Fesmire | Public Works Director | Zurich North American Surety | 50,000 |
| Bryan Dye | Attorney | Zurich North American Surety | 50,000 |
| Steve Bigelow | Engineer | Zurich North American Surety | 50,000 |
| Johnny Eason | Fire Chief | Zurich North American Surety | 50,000 |
| Don Gammage | Police Chief | Zurich North American Surety | 50,000 |
| Judy Jeans | Court Clerk | Zurich North American Surety | 50,000 |
| Blanket Bond | Clerks Handling Funds | Zurich North American Surety | 50,000 each |
| Dishonesty Bond | Police Officers | Zurich North American Surety | 50,000 each |

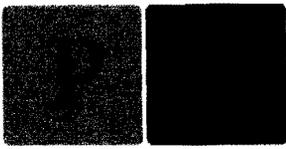
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SPECIAL REPORTS

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WILLIAMS - PEELS - BEARD, PLLC
 CERTIFIED PUBLIC ACCOUNTANTS

| | |
|----------------------|----------------------------------|
| JANNA E. WILSON | 2012 M.P.L. Fall Road, Suite 100 |
| IRVIN W. PEELS | HERNANDO, MISSISSIPPI 38632 |
| REBECCA A. BEARD | 662-929-4456 |
| KRISTOPHER A. WILSON | 662-929-4454 |

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, in accordance with the 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, 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, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Olive Branch, Mississippi's basic financial statements and have issued our report thereon dated August 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Olive Branch, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Olive Branch, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Olive Branch, Mississippi's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. [2013-1, 2013-2, 2013-3, 2013-4, and 2013-5]

Compliance and Other Matters

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



City of Olive Branch, Mississippi's Response to Findings

City of Olive Branch, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Olive Branch, Mississippi's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
August 19, 2014

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CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2013

Section 1: Summary of Auditors' Results

Financial Statements:

1. Type of auditor's report issued on the general purpose
 Financial statements:

| | |
|--------------------------|------------|
| Governmental activities | Unmodified |
| Business-type activities | Unmodified |
| General fund | Unmodified |
| Debt fund | Unmodified |
| Other governmental fund | Unmodified |
| Water & sewer fund | Unmodified |
| Natural gas fund | Unmodified |

2. Material noncompliance relating to the general purpose
 Financial statements?

No

3. Internal control over financial reporting:

- a. Material weakness(es) identified:

Yes

- b. Significant deficiency(ies) identified that are
 not considered to be material weaknesses:

None Reported

Section 2: Financial Statement Findings

Material Weaknesses

13-1 Criteria: Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles ("GAAP"). Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Condition: The City relies on external auditors for assistance with the preparation of external financial statements and related note disclosures in conformity with GAAP. Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered part of the City's internal control structure. The City does not have documented procedures in place that prevent or detect material misstatements in the external financial statements. However, the City's management reviewed and approved all adjustments.

Cause: The City has not designated internal control procedures or provided staffing to prepare external financial statements and, consequently, relies on its external auditors for this function.

Effect: Due to this oversight, the external auditors discovered and proposed material adjusting journal entries to the financial statements. Also, the lack of effective internal control over financial statements could result in misstatements of accounts on the City's financial statements.

Recommendation: Management should ensure that the financial statements are being prepared in accordance with GAAP.

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2013

Response: The City will ensure that the financial statements are being prepared in accordance with GAAP.

13-2 Criteria: Bank accounts should be reconciled in a timely manner.

Condition: The City had numerous bank accounts with material reconciling items that were not recorded in the city's accounting records. Bank reconciliations showing outstanding checks were provided for accounts that had been closed. Balances in the pooled cash fund do not accurately reflect cash balances of the city's funds.

Cause: Accounting staff did not have the proper training to reconcile bank accounts to the general ledger in a timely manner. Pooled cash fund is not being used appropriately.

Effect: Monthly reports of expenditures and liabilities incurred against the budget which are required to be presented to the governing authorities by Section 21-35-11, MS Code Ann. (1972) may have material errors or omissions.

Recommendation: The City should properly reconcile all bank accounts before budget and actual reports are presented to the board. Pooled cash should be reviewed to ensure it appropriately represents all reconciled cash accounts of the city. Management should review the monthly reconciliations for errors, omissions, unusual reconciling items and for the timeliness of the procedure. The reviewer should sign and date the reconciliation, noting the date of the review.

Response: The City will properly reconcile all bank accounts. Management will review the monthly reconciliations, and sign and date the reconciliations.

13-3 Criteria: Accounts payable should accurately represent amounts owed by the city at any point in time.

Condition: Accounts payable required material adjustments at year end.

Cause: Accounts payable was not reviewed on a timely manner to ensure its accuracy and was not reconciled to detailed subsidiary ledgers.

Effect: Monthly reports of expenditures and liabilities incurred against the budget which are required to be presented to the governing authorities by Section 21-35-11, MS Code Ann. (1972) may have material errors or omissions.

Recommendation: The City should properly reconcile all accounts payable control accounts to subsidiary ledgers before budget to actual reports are presented to the board.

Response: The City will properly reconcile all accounts payable control accounts, correct any errors, and review accounts payable control accounts.

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2013

13-4 Criteria: Capital assets should be presented in accordance with governmental accounting standards and guidance provided by the Mississippi Office of the State Auditor.

Condition: Construction costs on completed jobs were not moved to infrastructure and depreciated. Capital asset reports were not reconciled to prior year audited capital asset schedules.

Cause: Staff did not present fixed assets in accordance with governmental accounting standards or guidance provided by the MS Office of the State Auditor. Additionally, the process was not being monitored by management to ensure it was properly performed.

Effect: Material errors or omissions may exist and not be detected.

Recommendation: Construction in progress should be evaluated for completed projects and added to capital asset records before the city-wide capital asset schedules are considered complete. Training on capital asset software will help staff generate reports that can be used to prepare capital asset schedules. Capital asset schedules should be maintained by the City that track beginning balances, additions, deletions, and ending balances. Additions and deletions should be reconciled to the city's accounting records.

Response: Construction in progress will be evaluated, reviewed, and updated for completed projects. Additions and deletions will be reconciled to the city's accounting records.

13-5 Criteria: Long-term Debt should be presented in accordance with governmental accounting standards and guidance provided by the MS Office of the State Auditor.

Condition: Long-term debt schedules are not maintained by the City.

Cause: Staff did not present long-term debt in accordance with governmental accounting standards or guidance provided by the MS Office of the State Auditor. Additionally, the process was not being monitored by management to ensure it was properly performed.

Effect: Material errors or omissions may exist and not be detected.

Recommendation: Long-term debt schedules should be maintained by the City that track beginning debt balances, additions, deletions and ending balances. Additions and deletions should be reconciled to the City's accounting records.

Response: The City will maintain and reconcile the long-term debt schedule to the City's accounting records.

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