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CITY OF OLIVE BRANCH, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2010



CITY OF OLIVE BRANCH, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Olive Branch, Mississippi (the "City"), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Olive Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Branch, Mississippi, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2011, on our consideration of the City of Olive Branch's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 14 and 42 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 statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
May 23, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2010

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, 2010. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the City's financial performance.

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

The City of Olive Branch is located in northwestern Mississippi along MS Highway 78, in northeastern DeSoto County (which borders the State of Tennessee to the north, the Mississippi River and Tunica County to the west and Tate County to the south). The City's population, during the 2000 census, was 21,054 and estimates indicate a population of approximately 32,838 as of 9/30/10. 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 9/30/10 the City had approximately 1342 active businesses (up from 1333 in '07, 1275 in '08, and 1223 in '09. Approximately 870 were commercial/industrial businesses and 472 were home businesses. Source – City of Olive Branch, Business Licenses

FINANCIAL HIGHLIGHTS

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

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

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.

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Total net assets increased \$2,250,907, which represents a .2% increase from the prior fiscal year. The City's ending cash balance increased by \$3,878,341, which represents an 8% increase from the prior fiscal year. The City had \$54,951,802 in total revenues. Tax revenues account for \$12,930,239 (or 23%) of total revenues. Sales of utilities totaled \$25,857,222 or 47% of total revenues.

The City had \$54,224,185 in total expenses. Expenses in the amount of \$5,356,534 were offset by grants, outside contributions or charges for services.

Among major funds, the General Fund had \$24,048,501 in revenues and \$23,613,662 in expenditures. As a result, the General Fund's fund balance increased \$434,839 over the prior year.

The Combined Water & Sewer System had \$12,079,474 in revenues and \$12,154,620 in expenditures. As a result the Combined Water & Sewer System's Fund balance decreased by \$75,146 over the prior year. The decrease in the fund balance is directly attributed to the delay in making the necessary rate adjustments to pass the increase in cost of treating the City's wastewater on to the customers as required by state law. A rate study was conducted prior to approval of the increase.

The Natural Gas System had \$15,541,616 in revenues and \$14,145,948 in expenditures. As a result the Natural Gas System's Fund balance increased by \$1,395,668 over the prior year. This increase can be attributed to a mild winter coupled with more careful review of the gas market and purchasing of natural gas at lower prices.

Capital assets, net of accumulated depreciation decreased by \$2,990,059.

Long-term debt decreased by \$1,109,724.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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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 16 and 17 of this report.

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

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 19 and 21, respectively.

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

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

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

Fund financial statements for the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of Olive Branch Natural Gas System and

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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 22 through 24 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 25 through 40 of this report.

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

The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on page 41 through 42 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – Net assets may serve over time as a useful indicator of government's financial position. In the case of City of Olive Branch, assets exceeded liabilities by \$91,803,609 as of September 30, 2010.

The largest portion of the City's net assets (82%) 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.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2010

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2010.

| | 2010 | | 2009 | |
|-----------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Government Activities | Business-type Activities |
| Current Assets | \$ 22,671,335 | \$ 14,393,213 | \$ 21,644,205 | \$ 12,953,923 |
| Capital Assets, Net | 106,752,133 | 29,890,985 | 107,916,246 | 31,716,931 |
| Total Assets | 129,423,468 | 44,284,198 | 129,560,451 | 44,670,854 |
| Current Liabilities | 16,213,441 | 3,416,910 | 18,664,706 | 2,630,461 |
| Long-term debt outstanding | 35,486,101 | 26,787,605 | 34,102,201 | 29,281,229 |
| Total Liabilities | 51,699,542 | 30,204,515 | 52,766,907 | 31,911,690 |
| Net Assets: | | | | |
| Invested in capital assets, | | | | |
| net of related debt | 72,256,116 | 3,908,639 | 74,468,561 | 2,581,250 |
| Restricted | 3,425,009 | 6,248,189 | 4,515,475 | 10,354,029 |
| Unrestricted | 2,042,801 | 3,922,855 | (2,190,495) | (176,118) |
| Total Net Assets | <u>\$ 77,723,926</u> | <u>\$ 14,079,683</u> | <u>\$76,793,541</u> | <u>\$ 12,759,161</u> |

Changes in Net Assets – City of Olive Branch total revenues for the fiscal year ended September 30, 2010 was \$54,951,802. The total cost for all services provided was \$54,224,185. The increase in net assets was \$2,250,907.

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2010

The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2010.

| | 2010 | | | 2009 | | |
|----------------------------------|---------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | General Fund | Business-type Activities | Totals | General Fund | Business-type Activities | Totals |
| Program Revenue: | | | | | | |
| Charges for Services | \$ 3,997,430 | \$ 25,857,222 | \$ 29,854,652 | \$ 3,915,271 | \$ 28,490,188 | \$ 32,405,459 |
| Operating Grants & Contributions | 566,884 | - | 566,884 | 196,396 | - | 196,396 |
| Capital Grants & Contributions | 792,220 | 725,879 | 1,518,099 | 36,349 | 1,553,441 | 1,589,790 |
| Transfers from/to other funds | (186,730) | 186,730 | - | (168,105) | 168,105 | - |
| Fee in Lieu of Tax | 744,114 | - | 744,144 | 622,953 | - | 622,953 |
| Intergovernmental | | | | | | |
| Taxes | 20,825,306 | - | 20,825,306 | 19,817,439 | - | 19,817,439 |
| Other | 664,429 | 778,318 | 1,442,747 | 1,224,878 | 1,647,026 | 2,871,904 |
| | <u>\$27,403,653</u> | <u>\$27,548,149</u> | <u>\$54,951,802</u> | <u>\$25,645,181</u> | <u>\$31,858,760</u> | <u>\$57,503,941</u> |
| Expenses: | | | | | | |
| General Government | \$ 2,751,570 | - | \$ 2,751,570 | \$ 2,583,972 | - | \$ 2,583,972 |
| Public Safety | 12,540,418 | - | 12,540,418 | 12,409,094 | - | 12,409,094 |
| Public Works | 8,059,881 | - | 8,059,881 | 7,721,093 | - | 7,721,093 |
| Culture & Recreation | 2,096,829 | - | 2,096,829 | 1,999,400 | - | 1,999,400 |
| Economic Development | 1,068,158 | - | 1,068,158 | 1,173,865 | - | 1,173,865 |
| Debt Services | 1,479,702 | 1,119,103 | 2,598,805 | 1,466,581 | 1,100,341 | 2,566,922 |
| Water System | - | 11,213,160 | 11,213,160 | - | 10,357,298 | 10,357,298 |
| Gas System | - | 13,895,364 | 13,895,364 | - | 16,587,754 | 16,587,754 |
| | <u>\$27,996,558</u> | <u>\$26,227,627</u> | <u>\$54,224,185</u> | <u>\$ 27,354,005</u> | <u>\$28,036,393</u> | <u>\$55,390,398</u> |
| Change in Net Assets | <u>\$ (592,905)</u> | <u>\$ 1,320,522</u> | <u>\$ 727,617</u> | <u>\$ (1,708,824)</u> | <u>\$ 3,822,367</u> | <u>\$ 2,113,543</u> |

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2010

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.

| | 2010 | | 2009 | |
|----------------------|---------------------|------------------------|---------------------|------------------------|
| | Total Costs | Net (Cost)/Revenues | Total Costs | Net (Cost)/Revenues |
| General Government | \$ 2,751,570 | \$ (1,132,436) | \$ 2,583,972 | \$ (2,159,131) |
| Public Safety | 12,540,418 | (10,289,401) | 12,409,094 | (10,182,031) |
| Public Works | 8,059,881 | (6,723,515) | 7,721,093 | (6,449,987) |
| Culture & Recreation | 2,096,829 | (1,880,529) | 1,999,400 | (1,744,394) |
| Economic Development | 1,068,158 | (1,068,158) | 1,173,865 | (1,173,865) |
| Debt Service | <u>1,479,702</u> | <u>(1,479,702)</u> | <u>1,466,581</u> | <u>(1,466,581)</u> |
| | <u>\$27,996,558</u> | <u>\$(22,573,741)</u> | <u>\$27,354,005</u> | <u>\$(23,175,989)</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 \$6,525,263, an increase of \$3,426,977.

The General Fund is the principal operating fund of the City. The increase in the fund balance of the General Fund for the fiscal year was \$434,839.

Business-type funds – Revenue from the City's Utility Funds decreased by 11% to \$26,359,913 and expenses decreased by 9½% to \$25,108,524.

BUDGETARY HIGHLIGHTS (of General Fund only)

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

Revenues

- Loan revenues were increased by \$2,015,000 due to receipt of proceeds from a Tax Anticipation Note (for the purpose of covering general fund expenses until receipt of ad valorem taxes in February of 2010). Said note was paid in full in March 2010 in accordance with state law.

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- Grant Revenues were increased by \$128,200 as a result of award of an American Recovery and Reinvestment grant through the Energy Efficiency Conservation Block Grant.
- Grant Revenues were increased by \$19,756 as a result of award of a JAG Grant.
- Miscellaneous Revenue was increased by \$150,000 due to a developer's letter of credit being drafted for the purpose of making improvements to Parkview Boulevard as a result of default by the developer.
- The budget for Sales Tax Revenues was reduced by \$185,460 as a result of Sale Tax Revenues being less than anticipated.
- Grant Revenues were increased by \$339,796 as a result of the award of an American Recovery and Reinvestment Act Grant for roadway improvements at Hwy 305 and Pigeon Roost (traffic signalization was included).
- Grant Revenues were increased by \$598,355 as a result of the award of an American Recovery and Reinvestment Act Grant for roadway improvements to widen Stateline Road.

Expenses:

- Expenses were increased by \$2,015,000 to cover anticipated payment of the Tax Anticipation Note (which was paid on 3/3/10).
- Capital outlay was increased by \$128,200 to cover the construction of a bike path. Said expenses were paid from with proceeds from an American Recovery and Reinvestment Grant from Energy Efficiency Conservation Block Grant through the Department of Energy.
- Capital Outlay was increased by \$19,756 to cover the purchase of tasers for the Police Department. This expense was paid from grant proceeds from a JAG Grant .
- Street Department Capital Outlay was increased by \$234,340 to cover various roadway projects. In particular, the ParkView Boulevard road repairs were offset by \$150,000 in proceeds from a local developer's letter of Credit.
- Street Department Capital Outlay was increased \$339,796 for roadway improvements at Hwy 305 and Pigeon Roost (traffic signalization was included). Expense was paid from ARRA Grant
- Street Department Capital Outlay was increased \$598,355 for widening Stateline road. Expense was paid from ARRA Grant
- Other Services in Seniors Department was increased \$181,900 to cover structure repairs needed after the tornado of 6/12/09

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- Other Services in Cemetery Department was increased \$9,700 to cover fence repairs needed after the tornado of 6/12/09

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, 2010, City of Olive Branch total capital assets were \$136,643,118, 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 \$2,990,059. Total accumulated depreciation as of September 30, 2010 was \$76,421,134, including \$7,477,327 of depreciation expense for the year.

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

Debt Administration – At September 30, 2010, City of Olive Branch had \$62,273,706 in long-term debt outstanding. This includes general obligation bonds, revenue bonds, Mississippi Business Investment Act notes and obligations under capital lease. Of this debt, \$4,946,890 is due within one year.

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

In March '10 the City's following bond issues matured:
\$2,290,000 General Obligation Refunding Bonds, Series 2003
\$2,995,000 Gas System Revenue Refunding Bonds, Series 1995
\$3,750,000 Combined Water & Sewer System Revenue Bonds, Series 2000

In April '10 the City issued \$2,035,000 in General Obligation Refunding Bonds. This issue refunded the City's Series 1998 G.O. Improvement Bonds, the City's Series 1998 G.O. Gas System Bonds and the City's Series 1999 G.O. Fire Protection Bonds. This refunding will result in a net savings of \$231,533 over the life of the bonds.

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

CURRENT/FUTURE ITEMS OF IMPACT

General Fund

In October of 2009 the Olive Branch Senior Center was approved as a county voting precinct for the 1st District of DeSoto County.

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In December of 2009 the Board of Aldermen amended city ordinance to authorize the retail sale of fireworks and to permit "Class B" fireworks displays in the City; but the discharge, shooting, or igniting of "Class C" fireworks is still prohibited in the city.

In February 2010 the Police Department moved into a new municipal building at 10470 Hwy 178. In March 2010 the Municipal Court Department moved into a new municipal building at 6900 Highland Street. The construction of both buildings was paid from General Obligation bond proceeds.

In March of 2010 the Mayor and Board of Aldermen voted to repeal the effective annexation Ordinance for enlarging the City's boundaries and directed counsel to dismiss the annexation complaint pending in Chancery Court.

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 has 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 MIF proceeds to McKesson and to the City of Olive Branch for various infrastructure improvements. DeSoto County and the City of Olive Branch also agreed to invest in infrastructure improvements, offer ad valorem tax exemptions and provide various other incentives.

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 has developed glass that switches from clear to tinted on demand, resulting in significant cost savings, environmental benefits and quality of life enhancements. Soladigm has 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.

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 will cover the expense of making roadway improvements to the intersection of Hwy 305 and Pigeon Roost Road (traffic signalization and intersection improvements), widening of Stateline Road and construction of bike paths. Said grants require no City matching funds.

Water & Sewer Fund

In October of 2009, as a result of increases in the cost of wastewater treatment, the city contracted The Prime Group to conduct a rate study for the Water & Sewer System. It was determined that the existing rates were insufficient to operate the water and sewer system. The city increased Water & Sewer rates in April, 2010. At that time the amended rates were submitted to The Public Service

CITY OF OLIVE BRANCH, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2010

Commission (PSC) for consideration for those customers in the service area more than 1 mile outside the city. The PSC approved the sewer rates for those customers, but asked the city to conduct further review of the water rates due to inconsistencies for a small number of customers in certain areas. After further review the city again revised water rates in December, 2010 to correct and clarify inconsistencies. The newly amended water rates were submitted to the PSC for consideration and those rates are still under review for customers in service areas beyond the one mile limit.

In February 2010 the city entered into agreement with MDOT to relocate Water and Sewer lines to allow the construction of I-269 from I-55 to State Road 305. In May 2010 the agreements were amended. The cost of relocating the water lines is estimated at \$119,699 and \$9,240 for relocating sewer lines. MDOT has agreed to pay 100% of said cost.

In June 2010, Argo Construction Co was awarded construction of Phase 2 of the Camp Creek Sewer Interceptor which will eventually be used for more efficient transportation of the City's wastewater to the DeSoto County Regional Utility Authority's treatment facility for treatment. The project will cost \$5,561,152 with 75% of said cost being covered by 592 proceeds through the US Army Corps of Engineers. The city is responsible for the 25% match of these proceeds to complete the project.

Natural Gas Fund

In February 2010 the city entered into agreement with MDOT to relocate Natural Gas lines to allow the construction of I-269 from I-55 to State Road 305. The agreement was amended in May, 2010. The cost of relocating the gas lines is estimated at \$725,358, with MDOT to pay 70.755% of said cost (\$513,227) and the city to pay 29.245% of the cost (\$212,131).

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets

September 30, 2010

| | Governmental Activities | Business-Type Activities | Total |
|-------------------------------------------------------------------------------|------------------------------------|-------------------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 2,710,482 | \$ 5,877,441 | \$ 8,587,923 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,099,194 | 2,884,240 | 2,416,922 | 5,301,162 |
| Intergovernmental receivable | 722,368 | 878,736 | 1,601,104 |
| Property tax receivable | 13,121,176 | - | 13,121,176 |
| Prepaid expense | 346,078 | 114,842 | 460,920 |
| Internal balances | (176,768) | 176,768 | - |
| Restricted assets: | | | |
| Cash in bank | 2,790,336 | 2,609,166 | 5,399,502 |
| Customer deposits | - | 1,674,635 | 1,674,635 |
| Bond issue costs, net | 273,423 | 644,703 | 918,126 |
| Capital assets, net of accumulated depreciation | 106,752,133 | 29,890,985 | 136,643,118 |
| Total Assets | 129,423,468 | 44,284,198 | 173,707,666 |
| Liabilities | | | |
| Accounts payable | 1,171,068 | 1,357,856 | 2,528,924 |
| Accrued expenses | 762,291 | 212,779 | 975,070 |
| Customer deposits | - | 1,846,275 | 1,846,275 |
| Deferred revenue | 13,121,176 | - | 13,121,176 |
| Warranty bonds | 1,158,906 | - | 1,158,906 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 2,621,596 | 2,325,294 | 4,946,890 |
| Due in more than one year: | | | |
| Capital debt | 32,147,844 | 24,301,755 | 56,449,599 |
| Non-capital debt | 716,661 | 160,556 | 877,217 |
| Total Liabilities | 51,699,542 | 30,204,515 | 81,904,057 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 72,256,116 | 3,908,639 | 76,164,755 |
| Restricted for: | | | |
| Capital projects | 1,084,419 | - | 1,084,419 |
| Debt service | 1,994,512 | 6,133,347 | 8,127,859 |
| Prepaid expense | 346,078 | 114,842 | 460,920 |
| Unrestricted | 2,042,801 | 3,922,855 | 5,965,656 |
| Total Net Assets | \$ 77,723,926 | \$ 14,079,683 | \$ 91,803,609 |

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, 2010

| | Program Revenues | | | | Net (Expenses) Revenue and Changes in Net Assets | | |
|--------------------------------|------------------|----------------------|------------------------------------|----------------------------------|--------------------------------------------------|--------------------------|----------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| | | | | | | | |
| Governmental Activities | | | | | | | |
| General government | \$ 2,751,570 | \$ 286,253 | \$ 476,975 | \$ 855,906 | \$ (1,132,436) | \$ - | \$ (1,132,436) |
| Public safety | 12,540,418 | 2,177,511 | 73,506 | - | (10,289,401) | - | (10,289,401) |
| Public works | 8,059,881 | 1,317,366 | 16,403 | 2,597 | (6,723,515) | - | (6,723,515) |
| Cultural and recreational | 2,096,829 | 216,300 | - | - | (1,880,529) | - | (1,880,529) |
| Economic development | 1,068,158 | - | - | - | (1,068,158) | - | (1,068,158) |
| Interest on long-term debt | 1,479,702 | - | - | - | (1,479,702) | - | (1,479,702) |
| Total Governmental Activities | 27,996,558 | 3,997,430 | 566,884 | 858,503 | (22,573,741) | - | (22,573,741) |
| Business-Type Activities | | | | | | | |
| Water & sewer | 11,213,160 | 10,678,461 | - | 709,892 | - | 175,193 | 175,193 |
| Gas system | 13,895,364 | 15,178,761 | - | 15,987 | - | 1,299,384 | 1,299,384 |
| Interest on long-term debt | 1,119,103 | - | - | - | - | (1,119,103) | (1,119,103) |
| Total Business-Type Activities | 26,227,627 | 25,857,222 | - | 725,879 | - | 355,474 | 355,474 |
| Total Government | \$ 54,224,185 | \$ 29,854,652 | \$ 566,884 | \$ 1,584,382 | (22,573,741) | 355,474 | (22,218,267) |
| General Revenues | | | | | | | |
| Property taxes | | | | | 12,930,239 | - | 12,930,239 |
| Intergovernmental | | | | | 744,114 | - | 744,114 |
| Sales tax | | | | | 6,537,833 | - | 6,537,833 |
| Franchise tax | | | | | 1,357,234 | - | 1,357,234 |
| Rents | | | | | 52,000 | 199,153 | 251,153 |
| Interest | | | | | 93,914 | 149,397 | 243,311 |
| Miscellaneous | | | | | 489,721 | 502,691 | 992,412 |
| Gain (loss) of sale of asset | | | | | (37,489) | (72,923) | (110,412) |
| Transfers other funds | | | | | (186,730) | 186,730 | - |
| Total General Revenues | | | | | 21,980,836 | 965,048 | 22,945,884 |
| Change in Net Assets | | | | | (592,905) | 1,320,522 | 727,617 |
| Net Assets-Beginning of Year | | | | | 76,793,541 | 12,759,161 | 89,552,702 |
| Prior Period Adjustment | | | | | 1,523,290 | - | 1,523,290 |
| Net Assets-End of Year | | | | | \$ 77,723,926 | \$ 14,079,683 | \$ 91,803,609 |

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Balance Sheet - Governmental Funds
September 30, 2010

| | <u>General Fund</u> | <u>Debt Service</u> | <u>\$4M G/O Bond Issue</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------------|-------------------------|-------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 2,710,482 | \$ - | \$ - | \$ - | \$ 2,710,482 |
| Due from other funds | 28,777 | 2,387 | - | - | 31,164 |
| Accounts receivable | 2,879,422 | - | - | 4,818 | 2,884,240 |
| Intergovernmental receivable | 722,368 | - | - | - | 722,368 |
| Property tax receivable | 13,121,176 | - | - | - | 13,121,176 |
| Prepaid expenses | 346,078 | - | - | - | 346,078 |
| Restricted cash | 1,357,888 | 255,777 | 809,408 | 367,263 | 2,790,336 |
| Total Assets | <u>\$ 21,166,191</u> | <u>\$ 258,164</u> | <u>\$ 809,408</u> | <u>\$ 372,081</u> | <u>\$ 22,605,844</u> |
| Liabilities | | | | | |
| Accounts payable | \$ 1,073,499 | \$ - | \$ 44,737 | \$ 52,833 | \$ 1,171,069 |
| Accrued expenses | 421,498 | - | - | - | 421,498 |
| Due to other funds | 207,932 | - | - | - | 207,932 |
| Deferred revenue | 13,121,176 | - | - | - | 13,121,176 |
| Warranty bonds | 1,158,906 | - | - | - | 1,158,906 |
| Total Liabilities | <u>15,983,011</u> | <u>-</u> | <u>44,737</u> | <u>52,833</u> | <u>16,080,581</u> |
| Fund Balances | | | | | |
| Reserved for: | | | | | |
| Capital projects | 500 | - | 764,671 | 319,248 | 1,084,419 |
| Debt service | 2,077,140 | 258,164 | - | - | 2,335,304 |
| Prepaid expenses | 346,078 | - | - | - | 346,078 |
| Unreserved | 2,759,462 | - | - | - | 2,759,462 |
| Total Fund Balances | <u>5,183,180</u> | <u>258,164</u> | <u>764,671</u> | <u>319,248</u> | <u>6,525,263</u> |
| Total Liabilities and Fund Balances | <u>\$ 21,166,191</u> | <u>\$ 258,164</u> | <u>\$ 809,408</u> | <u>\$ 372,081</u> | <u>\$ 22,605,844</u> |

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2010

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

Total Fund Balance - Governmental Funds \$ 6,525,263

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

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. These assets consist of:

| | | |
|----------------------------|----------------|-------------|
| Land | 7,690,675 | |
| Buildings and improvements | 25,943,851 | |
| Equipment and vehicles | 9,322,621 | |
| Infrastructure | 109,726,894 | |
| Construction in progress | 3,581,112 | |
| Accumulated depreciation | (49,513,020) | |
| Bond issue cost | <u>273,423</u> | |
| | | 107,025,556 |

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

| | | |
|--------------------------------------|------------------|---------------------|
| Leases payable | (269,376) | |
| General obligation and revenue bonds | (34,500,064) | |
| Compensated absences | (716,661) | |
| Accrued interest | <u>(340,792)</u> | |
| | | <u>(35,826,893)</u> |

Net Assets of Governmental Activities \$ 77,723,926

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2010

| | <u>General Fund</u> | <u>Debt Service</u> | <u>\$4M G/O Bond Issue</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|----------------------------------------------------------------------|-------------------------|-------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|
| Revenues | | | | | |
| General property taxes | \$ 9,634,233 | \$ 3,296,006 | \$ - | \$ - | \$ 12,930,239 |
| Intergovernmental | 7,281,947 | - | - | - | 7,281,947 |
| Charges for services | 3,997,430 | - | - | - | 3,997,430 |
| Franchise taxes | 1,357,234 | - | - | - | 1,357,234 |
| Interest | 51,032 | 18,737 | 18,875 | 5,270 | 93,914 |
| Miscellaneous | 477,876 | - | 11,845 | - | 489,721 |
| Total Revenues | <u>22,799,752</u> | <u>3,314,743</u> | <u>30,720</u> | <u>5,270</u> | <u>26,150,485</u> |
| Expenditures | | | | | |
| General government | 2,365,254 | 128 | 151,325 | 3,939 | 2,520,646 |
| Public safety | 11,892,400 | - | - | - | 11,892,400 |
| Public works | 4,071,705 | - | - | - | 4,071,705 |
| Culture & recreation | 1,887,176 | - | - | - | 1,887,176 |
| Economic development | 1,058,213 | - | - | - | 1,058,213 |
| Capital outlay | 1,560,089 | - | 705,132 | 88,779 | 2,354,000 |
| Debt service: | | | | | |
| Principal | 600,709 | 2,132,832 | - | - | 2,733,541 |
| Interest | 178,116 | 1,280,647 | - | - | 1,458,763 |
| Total Expenditures | <u>23,613,662</u> | <u>3,413,607</u> | <u>856,457</u> | <u>92,718</u> | <u>27,976,444</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(813,910)</u> | <u>(98,864)</u> | <u>(825,737)</u> | <u>(87,448)</u> | <u>(1,825,959)</u> |
| Other Financial Sources/ (Uses) | | | | | |
| Rents | 52,000 | - | - | - | 52,000 |
| Grant revenue | 1,359,104 | - | - | 66,283 | 1,425,387 |
| Interfund transfers | (186,730) | 17,306 | - | (17,306) | (186,730) |
| Transfer of asset | 1,547 | - | - | - | 1,547 |
| Bond proceeds | 1,610,296 | - | 4,000,000 | - | 5,610,296 |
| Loan proceeds | 2,015,000 | - | - | - | 2,015,000 |
| Tax anticipation loan payments | (2,015,000) | - | - | - | (2,015,000) |
| Payment to bond refunding escrow agent | (1,555,000) | - | - | - | (1,555,000) |
| Bond issue cost | (32,468) | - | (62,096) | - | (94,564) |
| Total Other Financing Sources/(Uses) | <u>1,248,749</u> | <u>17,306</u> | <u>3,937,904</u> | <u>48,977</u> | <u>5,252,936</u> |
| Net Change in Fund Balances | 434,839 | (81,558) | 3,112,167 | (38,471) | 3,426,977 |
| Fund Balance - Beginning of Year | 4,743,361 | 344,702 | (2,347,496) | 357,719 | 3,098,286 |
| Equity Transfers | 4,980 | (4,980) | - | - | - |
| Fund Balance - End of Year | <u>\$ 5,183,180</u> | <u>\$ 258,164</u> | <u>\$ 764,671</u> | <u>\$ 319,248</u> | <u>\$ 6,525,263</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, 2010

| | | |
|---------------------------------------------------------------|----|-----------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 3,426,977 |
|---------------------------------------------------------------|----|-----------|

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 \$4,793,045 exceeds capital outlays of \$2,144,680 in the current period. | | (2,648,365) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------|

| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------|
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds of \$7,625,296 and amortization of \$22,206 exceeded repayments of \$6,303,541 and bond issue cost of \$94,564 in the current period. | | (1,249,397) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------|

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 | | (62,145) |
| Sale of capital assets | | (39,038) |

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------|
| Accrued interest payable on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources, and therefore accrued interest is not reported as expenditures in governmental funds. | | (20,937) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------|

| | | |
|--------------------------------------------------------|----|-----------|
| Change in Net Assets of Governmental Activities | \$ | (592,905) |
|--------------------------------------------------------|----|-----------|

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Net Assets - Proprietary Funds
September 30, 2010

| | <u>Water & Sewer</u> | <u>Natural Gas</u> | <u>Total</u> |
|--------------------------------------------------------------------------|------------------------------|-----------------------------|-----------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 2,832,205 | \$ 3,045,236 | \$ 5,877,441 |
| Accounts receivable, net of allowance for doubtful accounts \$864,887 | 1,656,189 | 760,733 | 2,416,922 |
| Intergovernmental receivable | 862,749 | 15,987 | 878,736 |
| Prepaid expenses | 105,617 | 9,225 | 114,842 |
| Due from other funds | 225,676 | 26,696 | 252,372 |
| Total Current Assets | <u>5,682,436</u> | <u>3,857,877</u> | <u>9,540,313</u> |
| Noncurrent Assets | | | |
| Restricted assets: | | | |
| Cash | 1,866,738 | 742,428 | 2,609,166 |
| Customer deposits | 380,745 | 1,293,890 | 1,674,635 |
| Bond issue cost, net | 569,032 | 75,671 | 644,703 |
| Capital assets, net of accumulated depreciation | 25,352,202 | 4,538,783 | 29,890,985 |
| Total Noncurrent Assets | <u>28,168,717</u> | <u>6,650,772</u> | <u>34,819,489</u> |
| Total Assets | <u><u>\$ 33,851,153</u></u> | <u><u>\$ 10,508,649</u></u> | <u><u>\$ 44,359,802</u></u> |
| Liabilities and Net Assets | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 1,073,812 | \$ 284,044 | \$ 1,357,856 |
| Accrued expenses | 155,235 | 57,544 | 212,779 |
| Due to other funds | 7,446 | 68,158 | 75,604 |
| Total Current Liabilities | <u>1,236,493</u> | <u>409,746</u> | <u>1,646,239</u> |
| Current Liabilities Payable from Restricted Assets | | | |
| Customer deposits | 633,932 | 1,212,343 | 1,846,275 |
| Long-term liabilities due within one year: | | | |
| Capital debt | 2,042,567 | 282,727 | 2,325,294 |
| Total Current Liabilities Payable From Restricted Assets | <u>2,676,499</u> | <u>1,495,070</u> | <u>4,171,569</u> |
| Long-term liabilities due in more than one year: | | | |
| Capital debt | 19,770,750 | 4,531,005 | 24,301,755 |
| Non-capital debt | 97,064 | 63,492 | 160,556 |
| Total Long-Term Liabilities | <u>19,867,814</u> | <u>4,594,497</u> | <u>24,462,311</u> |
| Total Liabilities | <u>23,780,806</u> | <u>6,499,313</u> | <u>30,280,119</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 4,107,917 | (199,278) | 3,908,639 |
| Restricted for: | | | |
| Debt service | 3,307,206 | 2,826,141 | 6,133,347 |
| Prepaid expenses | 105,617 | 9,225 | 114,842 |
| Unrestricted | 2,549,607 | 1,373,248 | 3,922,855 |
| Total Net Assets | <u>10,070,347</u> | <u>4,009,336</u> | <u>14,079,683</u> |
| Total Liabilities and Net Assets | <u><u>\$ 33,851,153</u></u> | <u><u>\$ 10,508,649</u></u> | <u><u>\$ 44,359,802</u></u> |

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Revenues, Expenses and
Changes in Net Assets - Proprietary Funds
For the Year Ended September 30, 2010

| | <u>Water & Sewer</u> | <u>Natural Gas</u> | <u>Total</u> |
|------------------------------------------------|------------------------------|----------------------------|-----------------------------|
| Operating Revenues | | | |
| Sales | \$ 10,499,578 | \$ 15,080,998 | \$ 25,580,576 |
| Tap fees | 178,883 | 97,763 | 276,646 |
| Miscellaneous | 236,024 | 266,667 | 502,691 |
| Total Operating Revenues | <u>10,914,485</u> | <u>15,445,428</u> | <u>26,359,913</u> |
| Operating Expenses | | | |
| Cost of sales | - | 10,463,781 | 10,463,781 |
| Personnel | 2,738,096 | 2,096,384 | 4,834,480 |
| Depreciation and amortization | 2,207,158 | 626,731 | 2,833,889 |
| Material and supplies | 540,764 | 224,817 | 765,581 |
| Professional services | 4,261,803 | 915 | 4,262,718 |
| Other | 1,465,339 | 482,736 | 1,948,075 |
| Total Operating Expenses | <u>11,213,160</u> | <u>13,895,364</u> | <u>25,108,524</u> |
| Operating Income | <u>(298,675)</u> | <u>1,550,064</u> | <u>1,251,389</u> |
| Non-Operating Revenues (Expenses) | | | |
| Interest income | 86,235 | 63,162 | 149,397 |
| Interest expense | (868,519) | (250,584) | (1,119,103) |
| Rent | 199,153 | - | 199,153 |
| Proceeds from sale of capital asset | (72,941) | 18 | (72,923) |
| Interfund transfers | 169,709 | 17,021 | 186,730 |
| Grant proceeds | 709,892 | 15,987 | 725,879 |
| Total Non-Operating Revenues (Expenses) | <u>223,529</u> | <u>(154,396)</u> | <u>69,133</u> |
| Change in Net Assets | (75,146) | 1,395,668 | 1,320,522 |
| Net Assets - Beginning of Year | <u>10,145,493</u> | <u>2,613,668</u> | <u>12,759,161</u> |
| Net Assets - End of Year | <u><u>\$ 10,070,347</u></u> | <u><u>\$ 4,009,336</u></u> | <u><u>\$ 14,079,683</u></u> |

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2010

| | Water & Sewer | Natural Gas | Total |
|------------------------------------------------------------------------------------------------------|------------------------------|------------------------|----------------------|
| Cash Flows From Operating Activities | | | |
| Cash received from customers | \$ 10,517,047 | \$ 15,427,026 | \$ 25,944,073 |
| Cash payments for goods and services | (5,548,500) | (11,181,008) | (16,729,508) |
| Cash payments to employees | (2,720,927) | (2,098,545) | (4,819,472) |
| Net Cash Provided By (Used In) Operating Activities | <u>2,247,620</u> | <u>2,147,473</u> | <u>4,395,093</u> |
| Cash Flows From Non-Capital Financing Activities | | | |
| Interfund activity | 56,078 | 149,818 | 205,896 |
| Net Cash Provided By (Used In) Non-Capital Financing Activities | <u>56,078</u> | <u>149,818</u> | <u>205,896</u> |
| Cash Flows From Capital And Related Financing Activities | | | |
| Payments for capital acquisitions | (994,385) | (93,905) | (1,088,290) |
| Proceeds from long-term debt | - | 424,705 | 424,705 |
| Grant proceeds | 227,613 | - | 227,613 |
| Proceeds from sale of capital assets | 250,082 | - | 250,082 |
| Principal payments and bond issue cost | (2,125,567) | (966,083) | (3,091,650) |
| Interest payments | (868,519) | (250,584) | (1,119,103) |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | <u>(3,510,776)</u> | <u>(885,867)</u> | <u>(4,396,643)</u> |
| Cash Flows From Investing Activities | | | |
| Rent | 199,153 | - | 199,153 |
| Interest on investments | 86,235 | 63,162 | 149,397 |
| Net Cash Provided By (Used In) Investing Activities | <u>285,388</u> | <u>63,162</u> | <u>348,550</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (921,690) | 1,474,586 | 552,896 |
| Cash and Cash Equivalents-Beginning of Year | <u>6,001,378</u> | <u>3,606,968</u> | <u>9,608,346</u> |
| Cash and Cash Equivalents-End of Year | <u>\$ 5,079,688</u> | <u>\$ 5,081,554</u> | <u>\$ 10,161,242</u> |
| Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities | | | |
| Operating Income | \$ (298,675) | \$ 1,550,064 | \$ 1,251,389 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 2,207,158 | 626,731 | 2,833,889 |
| (Increase) decrease in customer receivables | (397,438) | (18,402) | (415,840) |
| (Increase) decrease in prepaids | 30,770 | 10,964 | 41,734 |
| Increase (decrease) in accounts payable | 676,865 | (17,307) | 659,558 |
| Increase (decrease) in accrued expenses | 11,771 | (2,416) | 9,355 |
| Increase (decrease) in compensated absences | 17,169 | (2,161) | 15,008 |
| Total adjustments | <u>2,546,295</u> | <u>597,409</u> | <u>3,143,704</u> |
| Net Cash Provided By (Used In) Operating Activities | <u>\$ 2,247,620</u> | <u>\$ 2,147,473</u> | <u>\$ 4,395,093</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, 2010

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. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14, *The Financial Reporting Entity*. Based on this criterion the Olive Branch Public Improvement Corporation is considered a component unit, since its Board of Directors is made up of the City's aldermen. The purpose of the Corporation is to acquire and hold title to real property, enter into leases, and lease real property for the purpose of constructing or acquiring public buildings and facilities. The Corporation had no activity in the current year and assets are excluded from the financial statements.

Basis of Presentation

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

The Statement of 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.

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

Fund Financial Statements

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

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

General Fund:

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

Debt Service Funds:

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

\$4 Million General Obligation Bond Issue Fund:

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

Proprietary Funds

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

Water and Sewer Fund:

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

Natural Gas Fund:

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

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

Measurement Focus/Basis of Accounting

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they both become measurable and available. "Measurable" means the amount of the

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other government fund revenues. Expenditures are recognized when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

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

Budgets and Budgetary Accounting

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

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

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

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

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

Cash and Cash Equivalents

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

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.

Interfund Transactions and Balances

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

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 |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

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.

Net Assets

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

Nature and Purpose of Reservations and Designations of Fund Equity

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

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

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

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

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.

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

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.

NOTE B – CASH AND CASH EQUIVALENTS

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

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2010, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2010, the carrying amount of the City's deposits was \$15,662,060 and the bank balances totaled \$15,760,628. Of the bank balances, \$750,000 was insured by the FDIC and \$15,010,628 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>Water and Sewer Fund</u> | <u>Gas Fund</u> |
|------------------------|-------------------------|---------------------------------|---------------------|
| Ad valorem | \$ 134,190 | \$ - | \$ - |
| Court fines assessment | 48,963 | - | - |
| Sales tax | 539,215 | - | - |
| Grant proceeds | - | 862,749 | 15,987 |
| Totals | <u>\$ 722,368</u> | <u>\$ 862,749</u> | <u>\$ 15,987</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

NOTE D – CAPITAL ASSETS

| | Balance at 9/30/2009 | Additions | Deletions | Transfers/ Adjustments | Balance at 9/30/2010 |
|-----------------------------------------------------|---------------------------------|---------------------|---------------------|-----------------------------------|---------------------------------|
| Governmental Activities | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 7,690,675 | \$ - | \$ - | \$ - | \$ 7,690,675 |
| Construction in progress | 10,617,170 | 903,326 | 7,939,384 | - | 3,581,112 |
| Total capital assets, not being depreciated | 18,307,845 | 903,326 | 7,939,384 | - | 11,271,787 |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 16,579,113 | 7,408,844 | 15,401 | 1,971,295 | 25,943,851 |
| Infrastructure | 108,195,071 | 1,531,823 | - | - | 109,726,894 |
| Equipment and vehicles | 9,428,280 | 240,071 | 369,198 | 23,468 | 9,322,621 |
| Total capital assets, being depreciated | 134,202,464 | 9,180,738 | 384,599 | 1,994,763 | 144,993,366 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 2,898,291 | 460,992 | 3,851 | 454,129 | 3,809,561 |
| Infrastructure | 34,739,752 | 3,838,587 | - | - | 38,578,339 |
| Equipment and vehicles | 6,956,020 | 493,466 | 341,710 | 17,344 | 7,125,120 |
| Total accumulated depreciation | 44,594,063 | 4,793,045 | 345,561 | 471,473 | 49,513,020 |
| Total capital assets, being depreciated, net | 89,608,401 | 4,387,693 | 39,038 | 1,523,290 | 95,480,346 |
| Governmental Activities Capital Assets, Net | \$ 107,916,246 | \$ 5,291,019 | \$ 7,978,422 | \$ 1,523,290 | \$ 106,752,133 |
| Business-Type Activities | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 275,784 | \$ - | \$ 65,683 | \$ - | \$ 210,101 |
| Construction in progress | 4,199,883 | 990,000 | 2,507,182 | - | 2,682,701 |
| Total capital assets, not being depreciated | 4,475,667 | 990,000 | 2,572,865 | - | 2,892,802 |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 324,529 | - | - | - | 324,529 |
| Infrastructure | 48,510,944 | 2,621,849 | 265,149 | - | 50,867,644 |
| Equipment and vehicles | 2,722,488 | 13,104 | 6,000 | (15,468) | 2,714,124 |
| Total capital assets, being depreciated | 51,557,961 | 2,634,953 | 271,149 | (15,468) | 53,906,297 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 60,191 | 7,747 | - | - | 67,938 |
| Infrastructure | 22,735,351 | 2,470,782 | 73,544 | - | 25,132,589 |
| Equipment and vehicles | 1,521,155 | 205,753 | 5,400 | (13,921) | 1,707,587 |
| Total accumulated depreciation | 24,316,697 | 2,684,282 | 78,944 | (13,921) | 26,908,114 |
| Total capital assets, being depreciated, net | 27,241,264 | (49,329) | 192,205 | (1,547) | 26,998,183 |
| Business-Type Activities Capital Assets, Net | \$ 31,716,931 | \$ 940,671 | \$ 2,765,070 | \$ (1,547) | \$ 29,890,985 |

No interest was capitalized during the year due to immateriality.

A \$1,523,290 adjustment was made to account for multiple fire stations that weren't recorded in the Governmental Fund.

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

Depreciation expense was charged to the following functions:

Governmental Activities:

| | |
|------------------------|------------|
| General government | \$ 201,136 |
| Public safety | 384,135 |
| Public works | 3,988,176 |
| Culture and recreation | 209,653 |
| Economic development | 9,945 |

| | |
|-----------------------------------------------------------|----------------------------|
| Total governmental activities depreciation expense | <u>\$ 4,793,045</u> |
|-----------------------------------------------------------|----------------------------|

| | |
|-----------------|--------------|
| Water and Sewer | \$ 2,110,939 |
| Natural Gas | 573,343 |

| | |
|------------------------------------------------------------|----------------------------|
| Total business-type activities depreciation expense | <u>\$ 2,684,282</u> |
|------------------------------------------------------------|----------------------------|

Commitments under construction contracts at September 30, 2010 are summarized as follows:

| Project | Contract Amount | Remaining Balance | Fund |
|--------------------------------------------------------|-----------------------------|----------------------------|------------|
| 2010 Street Asphalt Overlay | \$ 259,989 | \$ 259,989 | General |
| Alexander Road Widening | 78,735 | 15 | General |
| Cherokee Meadows Drainage Analysis | 25,400 | 63 | General |
| Craft Road North of 302 Widening | 223,118 | 10,228 | General |
| FedEx/ Nail Road | 3,204,317 | 152,693 | General |
| FEMA 100 Year Flood Plain Project Phase II | 41,600 | 6,899 | General |
| I-269 Construction Utility Relocation | 24,390 | 55 | General |
| McKesson Construction | 2,946,859 | 2,384,933 | General |
| Olive Branch Spray & Skate Park Professional Services | 33,330 | 10,528 | General |
| Police & Court Building | 1,007,307 | 197,815 | General |
| Signalization & Intersection Imp - Pigeon Roost/SR 305 | 377,469 | 10,812 | General |
| Stateline Road Improvements | 603,924 | 246,377 | General |
| US Xpress | 35,000 | 7,700 | General |
| Camp Creek Interceptor | 5,561,152 | 4,715,704 | Enterprise |
| Engineer Design of Sewer Interceptor (Hampton Inn) | 437,637 | 49,713 | Enterprise |
| St. Andrews Cove Drainage Improvements Project | 86,012 | 44,017 | Enterprise |
| Total | <u>\$ 14,946,239</u> | <u>\$ 8,097,541</u> | |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

NOTE E – 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 | \$ 207,932 | \$ 28,777 |
| Debt service | - | 2,387 |
| Water and sewer fund | 7,446 | 225,676 |
| Natural gas fund | 68,158 | 26,696 |
| Total Funds | <u>\$ 283,536</u> | <u>\$ 283,536</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 | \$ - | \$ 186,730 |
| Debt service | 17,306 | - |
| Other Governmental funds | - | 17,306 |
| Water and sewer fund | 169,709 | - |
| Natural gas fund | 17,021 | - |
| Total Funds | <u>\$ 204,036</u> | <u>\$ 204,036</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 F - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2010 was as follows:

| | <u>Balance at 9/30/2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2010</u> | <u>Amounts Due Within One Year</u> |
|-------------------------------------------------------|---------------------------------|---------------------|---------------------|---------------------------------|--------------------------------------------|
| Governmental Activities: | | | | | |
| General obligation bonds payable | \$ 31,169,600 | \$ 5,610,296 | \$ 3,867,832 | \$ 32,912,064 | \$ 2,242,999 |
| Revenue bonds payable | 1,869,000 | - | 281,000 | 1,588,000 | 291,400 |
| Tax anticipation loan | - | 2,015,000 | 2,015,000 | - | - |
| Leases payable | 409,085 | - | 139,709 | 269,376 | 87,197 |
| Compensated absences payable | 654,516 | 62,145 | - | 716,661 | - |
| Governmental Activities Long-Term Liabilities | <u>\$ 34,102,201</u> | <u>\$ 7,687,441</u> | <u>\$ 6,303,541</u> | <u>\$ 35,486,101</u> | <u>\$ 2,621,596</u> |
| Business-Type Activities: | | | | | |
| General obligation bonds payable | \$ 1,607,014 | \$ 424,704 | \$ 766,167 | \$ 1,265,551 | \$ 284,220 |
| Revenue bonds payable | 18,325,000 | - | 1,615,000 | 16,710,000 | 1,415,000 |
| Loans payable | 6,622,399 | - | 469,695 | 6,152,704 | 485,398 |
| Leases payable | 2,743,971 | - | 135,856 | 2,608,115 | 140,676 |
| Deferred loss on bond refunding | (162,703) | - | (53,382) | (109,321) | - |
| Compensated absences payable | 145,548 | 15,008 | - | 160,556 | - |
| Business-Type Activities Long-Term Liabilities | <u>\$ 29,281,229</u> | <u>\$ 439,712</u> | <u>\$ 2,933,336</u> | <u>\$ 26,787,605</u> | <u>\$ 2,325,294</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

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, 2010 are as follows:

| Description | | Interest Rate | Issue Date | Maturity Date | Amounts | |
|-------------------|-------------|---------------|------------|---------------|----------------------|----------------------|
| | | | | | Issued | Outstanding |
| General Long Term | | | | | | |
| | 1996 | 5.20% | 4/1/1996 | 4/1/2011 | \$ 290,000 | \$ 25,000 |
| | | 7.25% | | | | |
| | 2001 | 2.50% | 12/20/2001 | 9/1/2014 | 930,000 | 350,000 |
| | | 4.00% | | | | |
| | 2002 | 4.10% | 2/5/2002 | 3/1/2022 | 2,500,000 | 1,775,000 |
| | | 5.75% | | | | |
| | 2003 | 1.10% | 11/1/2003 | 5/1/2011 | 2,290,000 | 195,000 |
| | | 3.00% | | | | |
| | 2003 | 3.00% | 6/1/2003 | 6/1/2023 | 9,000,000 | 6,695,000 |
| | | 4.13% | | | | |
| | 2004 | 4.50% | 6/9/2004 | 6/1/2019 | 4,800,000 | 3,250,000 |
| | | 6.40% | | | | |
| | 2004 | 2.50% | 5/12/2004 | 10/1/2015 | 1,850,000 | 1,120,000 |
| | | 5.20% | | | | |
| | 2004 | 3.50% | 12/14/2004 | 9/30/2020 | 2,200,000 | 1,690,000 |
| | | 4.00% | | | | |
| | 2005 | 3.50% | 3/29/2005 | 9/30/2020 | 2,200,000 | 1,625,000 |
| | | 4.00% | | | | |
| | 2007 | 4.38% | 9/1/2007 | 9/1/2027 | 12,000,000 | 10,830,000 |
| | | | | | | |
| | 2009 | 3.00% | 10/1/2009 | 10/1/2024 | 4,000,000 | 4,000,000 |
| | | 3.63% | | | | |
| | 2010 | 2.00% | 4/15/2010 | 8/1/2019 | 1,610,296 | 1,357,064 |
| | | 3.38% | | | | |
| | | | | | <u>43,670,296</u> | <u>32,912,064</u> |
| Enterprise Funds | | | | | | |
| | MBIA - 1995 | 0.00% | 7/5/1995 | 9/1/2015 | 750,000 | 187,500 |
| | | | | | | |
| | MBIA - 1998 | 2.00% | 11/1/1998 | 11/1/2013 | 2,000,000 | 720,115 |
| | | | | | | |
| | 2010 | 2.00% | 4/15/2010 | 8/1/2019 | 424,704 | 357,936 |
| | | 3.38% | | | | |
| | | | | | <u>3,174,704</u> | <u>1,265,551</u> |
| Total | | | | | <u>\$ 46,845,000</u> | <u>\$ 34,177,615</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

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, 2010 are as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amounts | |
|----------------------------------|----------------|------------|---------------|----------------------|----------------------|
| | | | | Issued | Outstanding |
| 2001 General Fund | 5.68% | 8/6/2002 | 5/1/2017 | \$ 94,000 | \$ 53,000 |
| 2007 General Fund | 3.85% | 7/1/2007 | 10/1/2014 | 2,080,000 | 1,535,000 |
| | | | | <u>2,174,000</u> | <u>1,588,000</u> |
| Enterprise Funds | | | | | |
| Natural Gas System 1999 | 4.90% 6.75% | 8/1/1999 | 9/1/2024 | 3,000,000 | 2,140,000 |
| Combined Water & Sewer 2001 | 4.25% 6.00% | 2/1/2001 | 2/1/2026 | 2,500,000 | 1,975,000 |
| 2001A Refunding | 2.60% 4.40% | 12/1/2001 | 3/1/2012 | 1,905,000 | 450,000 |
| Combined Water & Sewer 2002A | 4.25% 6.00% | 2/1/2002 | 3/1/2022 | 4,500,000 | 3,225,000 |
| Combined Water & Sewer - 2003 | 1.10% 3.45% | 7/1/2003 | 3/1/2014 | 2,100,000 | 845,000 |
| 2004 Refunding | 2.35% 4.20% | 11/9/2004 | 3/1/2017 | 2,410,000 | 1,620,000 |
| Combined Water & Sewer - 2005 | 3.75% 5.25% | 5/26/2005 | 3/1/2020 | 2,200,000 | 1,625,000 |
| Natural Gas System 2007 | 4.80% 5.25% | 6/1/2007 | 6/1/2027 | 2,500,000 | 2,255,000 |
| Combined Water & Sewer - 2008 | 3.76% 4.36% | 9/23/2008 | 3/1/2020 | 2,625,000 | 2,575,000 |
| | | | | <u>23,740,000</u> | <u>16,710,000</u> |
| Total | | | | <u>\$ 25,914,000</u> | <u>\$ 18,298,000</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

Loans. The City also uses loans to finance its projects. Loans outstanding as of September 30, 2010 are as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amounts | |
|--------------------------------------------|---------------|------------|---------------|--------------|--------------|
| | | | | Issued | Outstanding |
| Enterprise Funds | | | | | |
| MS Dept. of Environmental Quality SRF Loan | 4.50% | 8/14/1998 | 11/15/2019 | \$ 2,068,909 | \$ 1,140,900 |
| MS Dept. of Environmental Quality SRF Loan | 2.00% | 11/1/2006 | 6/1/2026 | 1,011,918 | 840,796 |
| DWSIRLF Loan - DWI-H280007-01 | 4.50% | 4/1/2005 | 10/1/2016 | 1,935,359 | 496,866 |
| DWSIRLF Loan - DWI-H280049-01/02 | 3.00% | 10/1/2001 | 7/1/2021 | 1,940,384 | 1,245,920 |
| DWSIRLF Loan - DWI-H280049-03 | 4.00% | 11/10/2003 | 9/1/2025 | 1,350,535 | 1,166,564 |
| DWSIRLF Loan- DWI-H280049-05 | 2.00% | 6/7/2005 | 1/1/2026 | 1,443,899 | 1,261,658 |
| Total | | | | \$ 9,751,004 | \$ 6,152,704 |

Annual debt service requirements to maturity of general obligation bonds, revenue bonds, and loans for the years subsequent to September 30, 2010 are as follows:

| Year Ending September 30 | General Long-Term Debt | | Enterprise Fund Debt | |
|-----------------------------|------------------------|----------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 2,534,399 | \$ 1,366,349 | \$ 2,185,359 | \$ 1,140,463 |
| 2012 | 2,633,655 | 1,263,888 | 2,270,794 | 919,490 |
| 2013 | 2,741,968 | 1,164,318 | 2,137,952 | 838,204 |
| 2014 | 2,635,586 | 1,068,587 | 2,105,965 | 757,517 |
| 2015 | 2,665,043 | 970,731 | 1,758,383 | 679,543 |
| 2016-2020 | 11,804,413 | 3,419,366 | 8,538,131 | 2,348,179 |
| 2121-2025 | 7,735,000 | 1,383,350 | 4,309,624 | 833,036 |
| 2026-2029 | 1,750,000 | 234,287 | 822,047 | 87,551 |
| Total | <u>\$ 34,500,064</u> | <u>\$ 10,870,876</u> | <u>\$ 24,128,255</u> | <u>\$ 7,603,983</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

Leases. Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2010 are as follows:

| Year Ending September 30 | Governmental Activities | | Business-Type Activities | |
|----------------------------------------------------|-------------------------|------------------|--------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 87,197 | \$ 7,922 | \$ 140,674 | \$ 89,451 |
| 2012 | 89,777 | 5,342 | 145,663 | 84,462 |
| 2013 | 92,402 | 2,718 | 150,828 | 79,297 |
| 2014 | - | - | 156,177 | 73,948 |
| 2015 | - | - | 161,715 | 68,410 |
| 2016-2020 | - | - | 898,775 | 251,851 |
| 2121-2025 | - | - | 954,283 | 81,283 |
| Present Value of Minimum Lease Payments | \$ 269,376 | \$ 15,982 | \$ 2,608,115 | \$ 728,702 |

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 \$25,605,727 (the smaller of the two computed margins) as of September 30, 2010.

| | 15% Test | 20% Test |
|--------------------------------------------------------------------|----------------------|----------------------|
| Assessed value as of September 30, 2010: | | |
| \$375,316,166 times applicable percentage | \$ 60,105,791 | \$ 80,141,055 |
| Less present debt subject to debt limits as of September 30, 2010: | | |
| Total bonds outstanding (exclude proprietary) | (34,500,064) | (34,500,064) |
| Margin for additional debt | <u>\$ 25,605,727</u> | <u>\$ 45,640,991</u> |

Advance Refunding – On April 15, 2010, the City issued \$2,035,000 in general obligation refunding bonds with an average interest rate of 2.66% to advance refund \$1,965,000 of the following outstanding bond issues:

| Issue | Average Interest Rate | Outstanding Amount Refunded |
|---------------------------|--------------------------------------|--------------------------------------------|
| 1998 Park G/O Bond | 4.62% | \$ 545,000 |
| 1998 Gas Bond | 4.11% | 410,000 |
| 1999 Fire Protection Bond | 4.96% | 1,010,000 |
| Total | | <u>\$ 1,965,000</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

The City advance refunded the above bonds to reduce its total debt service payments over the next 10 years by almost \$328,668 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$231,533.

NOTE G– DEFINED BENEFIT PENSION PLAN

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

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, 2010, the current rate is 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Olive Branch's contributions to PERS for the years ending September 30, 2010, 2009, and 2008 were \$1,693,798, \$1,680,105 and \$1,590,714 respectively, equal to the required contributions for each year.

NOTE H – DEFICIT FUND BALANCE

A deficit unreserved fund balance of \$3,000 exists in the McKesson Project fund.

NOTE I – EQUITY TRANSFERS

The following is a summary of equity transfers made for the year ended September 30, 2010:

| Statements of Revenues, Expenditures and Changes in Net Assets | Transfer In |
|---------------------------------------------------------------------------|--------------------|
| Major funds: | |
| General fund | \$ 4,980 |
| Debt service fund | (4,980) |
| | <u>\$ -</u> |

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2010

NOTE J – PRIOR PERIOD ADJUSTMENT

A summary of prior period adjustments is as follows:

| <u>Statement of Activities</u> | <u>Amount</u> |
|--------------------------------|---------------------|
| To correct capital assets | <u>\$ 1,523,290</u> |

NOTE K - 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 L- 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 M- SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 23, 2011, which is the date the financial statements were available to be issued.

In November 2010, the City also signed a Series 2010 Tax Anticipation Note in the amount of \$3,215,000 with an interest rate of 1.27%, which was repaid in full in March 2011.

In December 2010, the City issued and sold \$5,500,000 Series 2010 Water and Sewer System Revenue Refunding Bonds to be repaid over 15 years with a variable rate to refund the remaining balances of the Water and Sewer System Revenue Bonds, Series 2001 and the Water and Sewer System Revenue Bonds, Series 2002A.

In May 2011, the City passed a bond resolution for the issuance of \$4,600,000 General Obligation Refunding Bonds.

In May 2011, the City entered into a loan agreement to purchase two ladder trucks for \$291,896 at 2.15% interest, to be repaid over a five year period beginning in April 2012.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OLIVE BRANCH, MISSISSIPPI
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with |
|--------------------------------------------------------------|-------------------------|-----------------------|------------------------|----------------------|
| | Original | Final | Budgetary Basis | Final Budget |
| Revenues | | | | |
| General property taxes | \$ 9,906,998 | \$ 9,906,998 | \$ 9,646,868 | \$ (260,130) |
| Intergovernmental | 7,329,568 | 7,285,241 | 7,261,353 | (23,888) |
| Charges for services | 3,572,800 | 3,518,459 | 3,741,824 | 223,365 |
| Franchise taxes | 1,000,000 | 1,141,870 | 1,181,435 | 39,565 |
| Interest | 90,000 | 47,215 | 51,032 | 3,817 |
| Miscellaneous | 166,735 | 452,356 | 480,827 | 28,471 |
| Total Revenues | 22,066,101 | 22,352,139 | 22,363,339 | 11,200 |
| Expenditures | | | | |
| General government | 2,342,069 | 2,550,723 | 2,275,313 | 275,410 |
| Public safety | 11,726,200 | 12,303,558 | 11,432,376 | 871,182 |
| Public works | 3,985,125 | 4,468,795 | 3,907,457 | 561,338 |
| Culture & recreation | 1,769,166 | 1,940,423 | 1,887,176 | 53,247 |
| Economic development | 1,115,449 | 1,127,481 | 1,058,213 | 69,268 |
| Capital outlay | 441,208 | 1,725,706 | 1,560,089 | 165,617 |
| Debt service | | | | |
| Principal | 565,021 | 595,714 | 600,709 | (4,995) |
| Interest | 183,476 | 253,267 | 178,116 | 75,151 |
| Total Expenditures | 22,127,714 | 24,965,667 | 22,899,449 | 2,066,218 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (61,613) | (2,613,528) | (536,110) | 2,077,418 |
| Other Financing Sources (Uses) | | | | |
| Grant revenue | 19,053 | 1,341,676 | 1,359,104 | 17,428 |
| Rents | 48,000 | 51,650 | 52,000 | 350 |
| Bond proceeds | - | - | 1,610,296 | 1,610,296 |
| Loan proceeds | - | 2,015,000 | 2,015,000 | - |
| Tax anticipation loan payments | - | (2,015,000) | (2,015,000) | - |
| Interfund transfers | - | 34,280 | (186,730) | (221,010) |
| Payment to bond refunding escrow agent | - | - | (1,555,000) | (1,555,000) |
| Bond issue cost | - | (34,337) | (32,468) | 1,869 |
| Total Other Financing Sources (Uses) | 67,053 | 1,393,269 | 1,247,202 | (146,067) |
| Net Change in Fund Balances | \$ 5,440 | \$ (1,220,259) | 711,092 | \$ 1,931,351 |
| Fund Balance - Beginning of Year | | | 4,743,361 | |
| Equity Transfer | | | 4,980 | |
| Fund Balance - End of Year | | | 5,459,433 | |
| Adjustments to conform with GAAP: | | | | |
| Revenues | | | 437,960 | |
| Expenditures | | | (714,213) | |
| Fund Balance - End of Year (GAAP Basis) | | | \$ 5,183,180 | |

SUPPLEMENTARY INFORMATION

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA Number | Pass-through Number | Federal Expenditures |
|-----------------------------------------------------------------------------------------------|------------------------------------|--------------------------------|---------------------------------|
| US Department of Justice | | | |
| Passed-through Mississippi Development Authority | | | |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | 2009-DB-BX-1465 | \$ 18,039 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | 2009-SB-B9-2077 | 66,666 |
| Total US Department of Justice | | | <u>84,705</u> |
| US Department of Transportation | | | |
| Passed-through Mississippi Development Authority | | | |
| Highway Planning and Construction Cluster | | | |
| ARRA - Highway Planning and Construction | 20.205 | 7904-00(001) | 329,036 |
| Highway Planning and Construction | 20.205 | 0029-02(013) | 23,691 |
| ARRA - Highway Planning and Construction | 20.205 | 7862-00(003) | 357,547 |
| Total Highway Planning and Construction Cluster | | | <u>710,274</u> |
| Highway Safety Cluster | | | |
| State and Community Highway Safety | 20.600 | 09-TA-318-1 | 35,367 |
| State and Community Highway Safety | 20.600 | 10-TA-318-1 | 28,191 |
| Total Highway Safety Cluster | | | <u>63,558</u> |
| Total US Department of Transportation | | | <u>773,832</u> |
| US Environmental Protection Agency | | | |
| Passed-through Department of the Army | | | |
| Construction Grants for Wastewater Treatment Works (B) | 66.418 | WRDA Section 592 Funds | <u>697,420</u> |
| US Department of Energy | | | |
| Direct Program: | | | |
| ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) | 81.128 | | <u>103,040</u> |
| US Department of Homeland Security | | | |
| Passed-through Mississippi Emergency Management | | | |
| Homeland Security Grant Program | 97.067 | | <u>4,499</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,663,496</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

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

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Property Tax Rates and Assessments
September 30, 2010

| <u>Year</u> | <u>Millage Rate</u> | <u>Assessed Property Value</u> |
|-------------|-------------------------|----------------------------------------|
| 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 | 13,219,511 |
| 1988 | 30 | 11,244,420 |
| 1987 | 30 | 8,379,634 |
| 1986 | 30 | 9,099,051 |
| 1985 | 30 | 8,370,366 |
| 1984 | 30 | 13,790,500 |

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2010

| <u>Name</u> | <u>Position</u> | <u>Company</u> | <u>Bond</u> |
|-------------------------|-----------------------|------------------------------|-------------|
| Samuel Rikard | Mayor | Zurich North American Surety | \$ 100,000 |
| Judy Herrington | City Clerk | Zurich North American Surety | 50,000 |
| Tina Griffith | Asst. City Clerk | Zurich North American Surety | 50,000 |
| Public Employees | | | |
| Blanket Bond | Per employee | Zurich North American Surety | 250,000 |
| Donald Gammage | Police Chief | Zurich North American Surety | 50,000 |
| Dishonesty Bond | Per Police Officer | Zurich North American Surety | 50,000 |
| Paula May | City Administrator | Zurich North American Surety | 50,000 |
| George Collins | Alderman | Zurich North American Surety | 100,000 |
| Dale Dickerson | Alderman | Zurich North American Surety | 100,000 |
| David Wallace | Alderman | Zurich North American Surety | 100,000 |
| Don Tullos | Alderman | Zurich North American Surety | 100,000 |
| Pat Hamilton | Alderman | Zurich North American Surety | 100,000 |
| Harold Henderson | Alderman | Zurich North American Surety | 100,000 |
| Susan Johnson | Alderman | Zurich North American Surety | 100,000 |
| Steve Bigelow | Engineer | Zurich North American Surety | 50,000 |
| Charlotte Johnson | Director of Finance | Zurich North American Surety | 50,000 |
| Johnny Eason | Fire Chief | Zurich North American Surety | 50,000 |
| Bryan Dye | City Attorney | Zurich North American Surety | 50,000 |
| Timothy Lafleur | Public Works Director | Zurich North American Surety | 50,000 |
| Judy Jeans | Court Clerk | Zurich North American Surety | 50,000 |

SPECIAL REPORTS



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mayor and Board of Aldermen
City of Olive Branch, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Branch, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City of Olive Branch, Mississippi's basic financial statements and have issued our report thereon dated May 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

A handwritten signature in black ink that reads "Williams, Pitts & Beard, PLLC". The script is cursive and fluid.

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
May 23, 2011



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

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

Compliance

We have audited the compliance of the City of Olive Branch, Mississippi, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The City of Olive Branch, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Olive Branch, Mississippi's management. Our responsibility is to express an opinion on the City of Olive Branch, Mississippi's compliance based on our audit.

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

In our opinion, the City of Olive Branch, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

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

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

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
May 23, 2011



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Branch, Mississippi, as of and for the year ended September 30, 2010, and have issued our report dated May 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental Auditing Standards*.

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

The results of those procedures and our audit of the general financial statements disclosed no material instance of noncompliance with state laws and regulations. The prior year finding has been corrected.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
May 23, 2011

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | |
|-----------------------------------------------------------------------------------------------|----------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major programs: | |
| a. Material weakness (es) identified? | <u>No</u> |
| b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | <u>None reported</u> |
| 6. Any audit finding(s) reported as required by OMB Circular A-133? | <u>No</u> |
| 7. Federal programs identified as major programs: | |
| a. Highway Planning and Construction Cluster | <u>CFDA # 20.205</u> |
| b. Construction Grants for Wastewater Treatment Works | <u>CFDA # 66.418</u> |
| c. ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG) | <u>CFDA # 81.128</u> |

CITY OF OLIVE BRANCH, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 8. The dollar threshold used to distinguish between types A and type B programs: | \$300,000 |
| <hr/> | |
| 9. Auditee qualified as a low-risk auditee? | No |
| <hr/> | |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? | No |
| <hr/> | |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs.

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