

CITY OF STARKVILLE, MISSISSIPPI

AUDIT REPORT

SEPTEMBER 30, 2012

**CITY OF STARKVILLE, MISSISSIPPI
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FINANCIAL SECTION



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INDEPENDENT AUDITORS’ REPORT

Honorable Mayor and Board of Aldermen
City of Starkville
Starkville, 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 the City of Starkville, Mississippi, as of and for the year ended September 30, 2012, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Starkville, Mississippi’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In connection with our audit, nothing came to our attention that caused us to believe that the municipality is not in compliance with the requirements of the State Department of Audit, as set forth in the Municipal Compliance Questionnaire.

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 Starkville, Mississippi, as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2013, on our consideration of the City of Starkville, Mississippi’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 15 and 45 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Starkville, Mississippi's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Starkville, Mississippi. The combining and individual non-major fund financial statements 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.

Starkville, Mississippi
April 29, 2013

Watkins Ward and Stafford, PLLC

MANAGEMENT DISCUSSION AND ANALYSIS



CITY OF STARKVILLE

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2012

INTRODUCTION

The discussion and analysis of the City of Starkville's financial performance provides a narrative review of the municipality's financial activities for the fiscal year ended September 30, 2012. The intent of this discussion and analysis is to view the City's performance as a whole. Readers should also review the notes to the basic financial statements as well as the financial statements to fully develop their understanding of the City's overall financial performance and condition.

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 mandated as part of the presentation.

The City of Starkville is located in Oktibbeha County which is in the northeastern portion of the State of Mississippi, approximately 37 miles from the Alabama state line along U.S Highway 82. The population, according to the recent 2010 United States census, is 23,888. The official census records show that the population has continued to grow incrementally to have passed the previously larger neighboring city, Columbus, Mississippi. The local economic base is driven by retail, manufacturing, healthcare and Mississippi State University with some emphasis on transportation and sciences research.

FINANCIAL HIGHLIGHTS

The City of Starkville is financially sound and has a stable economic base that evidences continued expansion in retail, commercial and residential arenas. The City has committed itself to financial conservatism for many years and has developed a highly efficient operation which is supported by exercising sound financial planning, budgeting and strong internal controls. The City is committed to maintaining a quality fiscal management structure. The City's desire is to foster progressive, responsible growth that will ensure its future and reflect positively on that of the University, the County and the Golden Triangle region as well.

As the Nation emerges from four years of recession, the City of Starkville continues to benefit from a relatively stable economic base. Though the sales tax figures have been showing consistent acceptable though minimal growth, the contrasting regions have had significant reductions in their revenue sources. The Board of Aldermen have recognized the potential volatility of sales tax as a revenue source and have committed to increasing fund balances to insure the strength and dependability of the City's financial ability to meet its commitments.

City leaders understand the need for maintenance and improvement in the infrastructure that services the municipality. The Board of Aldermen has committed significant resources to new roads and improvements to existing roads and drainage as well as the infrastructure supporting commercial development through increased access to upgraded and expanded water lines. To minimize the impact on available cash many of these improvements have been funded with through State and Federal Grants.

The City has increased its service area for utilities to the industrial area, Cornerstone Park, in order to insure that future development will not be hindered from considering sites within the City due to a lack of adequate utilities to support industrial growth opportunities. At every turn the City considers its opportunities for growth in all quadrants of the City and the needs that accompany any site development prospects.

Near the end of Fiscal Year 2012 the City, along with the economic development arm of Oktibbeha County began negotiations with two neighboring counties to enter into a regional economic development partnership. This projected retail and industrial growth of the alliance offers the community increased numbers of residential and commercial projects to be presented to the development review process for the City. Revenue growth associated with these activities promises a sustainable source of funding for the quality of life initiatives that have been undertaken by the Board of Aldermen.

The Mississippi Horse Park as a joint venture between the City, Oktibbeha County and Mississippi State University has consistently increased the number and type of events that it hosts. Most recently there has been an 8% increase in spectator and participant activity which has had a positive impact on the influx of recognition nationwide. The projection is that this success story will continue and the economic impact will grow along with the improvement to be expected in the economy as a whole. Through this unique partnership, the City and its partners set a regional tone of cooperation that creates a positive atmosphere for the future.

There is currently one hotel under construction, two in the permitting process and a \$20M multi-family complex is being considered by the Planning and Zoning Commission. The City has recently had a significant retailer open their doors for business and there is ongoing activity related to retail development on both the east and west sides of town along the state highway corridors. This increased construction activity and focus on hotel and restaurant construction is reasonably attributed to the additional activities at the Mississippi Horse Park, the increased success of the University's sports programs, the incremental growth of the special events including state wide soccer and baseball tournaments and activities utilizing the vast park system that is available through a joint agreement between the University and the City and the City school system.

Both the Starkville George M. Bryan field and the Golden Triangle Regional Airport have been and continue to be the beneficiaries of significant Federal Aviation Administration grants that have provided additional space for lease revenue opportunities while also increasing potential flight capacity with commercial carriers and private aviation participation. The Golden Triangle Regional Airport is the only airport in the State of Mississippi that has increased its capacity and had an increase in service to the area in sharp contrast to the reduction and loss of service noted in other surrounding commuter localities.

Total net assets increased \$3,046,104 which represents a 6.62% increase from the prior fiscal year. The City's ending cash balance increased by \$721,100 which represents a 8.58% increase from the prior fiscal year.

The City had \$68,362,398 in total revenues. Tax revenues account for \$10,946,781 or 16.01% of total revenues. Intergovernmental revenues in the form of reimbursements, shared revenue or grants, account for \$2,323,919 or 3.40% of total revenues.

The City had \$65,214,115 in total expenses, which represents a decrease of \$356,234 or 0.54% decrease over the prior fiscal year. Expenses in the amount of \$51,636,467 were offset by charges for services, grants or outside contributions. General revenues of \$16,926,158 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$17,072,416 in revenues and \$15,753,599 in expenditures. The General Fund's fund balance increased \$1,099,061 from the prior year.

Among major funds, the Road Maintenance Bond Fund had \$792,763 in revenues and \$1,252,270 in expenditures. The Road Maintenance Bond Fund balance decreased by \$459,507 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$1,887,635.

Long-term debt decreased by \$1,250,203.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of 3 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.

Figure 1 – Required Components of the City's Annual Report

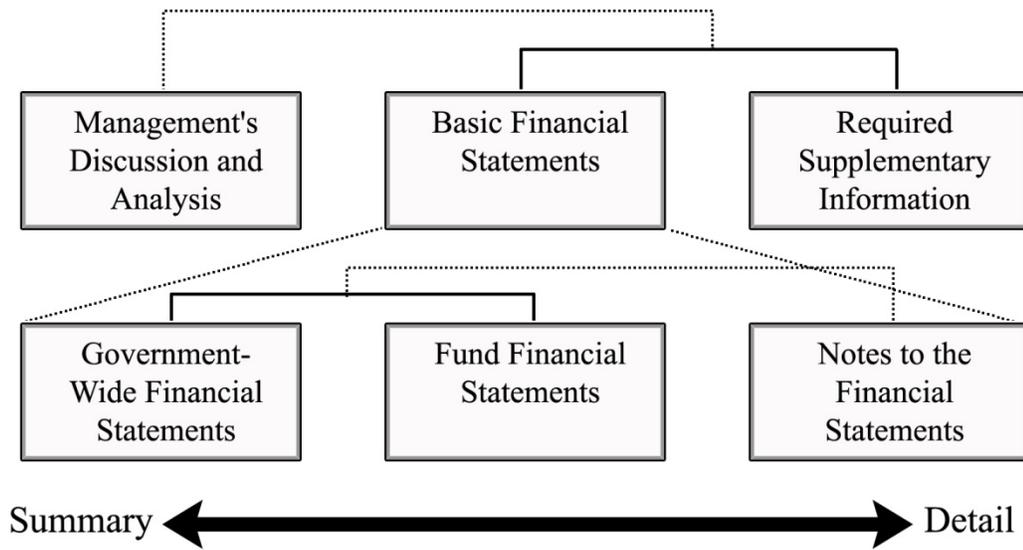


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City’s government they cover and the types of information they contain. The remainder of this section of Management’s Discussion and Analysis explains the structure and content of each of the statements.

Figure 2 – Major Features of the City’s Government-Wide and Fund Financial Statements

	Government -Wide Financial Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and component units	All activities of the City that are not business-type or fiduciary in nature	The City is the trustee or agent for someone else’s resources

Required financial statements	<ul style="list-style-type: none"> ● Statement of net assets ● Statement of activities 	<ul style="list-style-type: none"> ● Balance sheet ● Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> ● Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short and long term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

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

The **statement of net assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs

through user fees and charges (business-type activities). However, the city had no business-type activities. The governmental activities of the City include general government; public safety; public services (infrastructure); utilities; parks and recreation; sanitation; and interest on long-term debt.

The Government-wide Financial Statements can be found on pages 18 and 19 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 fiduciary 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. Both 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 22 and 24, respectively.

The City maintains individual governmental funds. 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 21 and 23 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accrual basis of accounting is used for fiduciary funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 28 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 30 through 44 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 46 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 79 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 the City of Starkville, assets exceeded liabilities by \$49,057,285 as of September 30, 2012

By far, the largest portion of the City’s net assets (71%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The City uses these capital assets to provide services to its citizens.

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

The following table presents a summary of the City’s net assets for the fiscal year ended September 30, 2012.

	<u>2012</u>
Current assets	\$ 25,939,112
Capital assets, net	<u>60,739,275</u>
Total assets	<u>\$ 86,678,387</u>
Current liabilities	\$ 14,364,690
Long-term debt outstanding	<u>23,256,412</u>
Total liabilities	<u>\$ 37,621,102</u>
Net assets:	
Invested in capital assets, net of related debt	35,181,289
Nonspendable	7,555,967
Restricted	1,750,827
Committed	55,000

Unassigned	<u>4,514,202</u>
Total net assets	<u>\$ 49,057,285</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- \$2,366,665 of long-term debt principal was retired.

Changes in Net Assets – The City’s total revenues for the fiscal year ended September 30, 2012 was \$68,362,398. The total cost for all services provided was \$65,214,115. The increase in net assets was \$3,148,283. The following table presents a summary of the change in net assets for the fiscal year ended September 30, 2012.

	<u>Current Year Amount</u>
Revenues:	
Program revenues	
Charges for services	\$ 49,112,321
Operating grants & contributions	1,211,305
Capital grants & contributions	1,112,614
General revenues	
Property taxes	4,078,057
Sales and Use taxes	6,400,146
Other taxes	468,578
Interest income	87,153
Transfers	(44,203)
Miscellaneous	<u>5,936,427</u>
Total Revenues	<u>\$ 68,362,398</u>
Expenses:	
General government	3,259,345
Public safety	8,660,621
Highways and streets	2,556,787
Health and sanitation	222,957
Culture and recreation	1,500,401
Other	1,827,247
Utilities	43,597,247
Sanitation	3,001,504
Interest on long-term debt	<u>588,006</u>
Total Expenses	<u>\$ 65,214,115</u>
 Increase in Net Assets	 <u>\$ 3,148,283</u>

Governmental Activities – The following table presents the cost of five major functional activities of the City: General Government, Public Safety, Public Services, Parks & Recreation and Utilities.

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 City of Starkville taxpayers by each of these functions.

	Total Costs	Net Costs
General Government	\$ 3,259,345	\$ 1,926,991
Public Safety	8,660,621	8,071,348
Public Services	2,779,744	1,941,277
Culture and Recreation	1,500,401	1,500,401
Utilities	43,597,247	(2,419,973)

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

Governmental funds – At the close of the fiscal year, the City of Starkville’s governmental funds reported a combined fund balance of \$4,119,128, an increase of \$508,962. The primary reasons for this decrease are highlighted in the analysis of governmental activities.

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 \$1,099,061 which is primarily due to increased grants.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

- Over the course of the year, the City of Starkville revised its annual operating budget on several occasions.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2012, the City of Starkville’s total capital assets were \$157,230,486. This includes infrastructure, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and construction in progress. This amount represents an increase over the previous year of \$1,091,392.

Total accumulated depreciation as of September 30, 2012 was \$96,491,211 including \$4,842,770 of depreciation expense for the year. The balance in total net capital assets was \$60,739,275 at year-end.

Additional information on the City of Starkville's capital assets can be found in note 4 on pages 39 and 40 of this report.

Debt Administration – At September 30, 2012, the City of Starkville had \$25,557,986 in long-term debt outstanding. This includes general obligation bonds, other loans and obligations under capital lease. Of this debt \$2,301,574 is due within one year.

The State of Mississippi limits the amount of debt a City can issue to generally 15% of total assessed value. The City's outstanding debt is significantly below its current limit.

Additional information on City of Starkville's long-term debt can be found in note 5 on pages 40 and 41 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

The City of Starkville's future growth continues to be encouraging. The developments that are in progress include residential and commercial projects. These projects will be of significance in not only the economic impact but also the quality of life. The City of Starkville Fire Station #5 is complete and provides additional support for future growth on the west side of the City. That same area of town is seeing a development of 72 homes that are providing needed housing at a price point that fits with the demands of the existing market.

There continue to be strong economic forces investing in the region. The County owned local hospital has completed the construction on the twenty seven million dollar addition and renovation to the existing hospital. This increased investment in healthcare substantially increases the presence of healthcare as a dynamic economic influence in the region.

The Golden Triangle Region continues to be marketed and considered as a participant in several large projects that would impact research and development that plays to the strengths of Mississippi State University and the regional airport.

Development projects continue to be planned for Starkville on the new Highway 82 and Highway 25 Bypass and the Highway 82 and Highway 12 bypass.

The final figures for the 2010 census numbers reflect an ongoing and steady increase in the population. This growth is in part indicated by the increase in ad valorem and sales tax revenues. In the fiscal year under consideration there was not an increase in the ad valorem tax rate.

Oktibbeha County has an unemployment rate of 10.0% with Rankin County being 1st with a rate of 6.2% and Clay County being the 82nd or highest with a rate of 19.0%. Oktibbeha County compares on a par or marginally better with the state average rate of 10.4%.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 City of Starkville City Clerk's office at 101 Lampkin Street, Starkville, Mississippi 39759.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
 - Governmental funds
 - Proprietary (enterprise) funds
 - Fiduciary funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,964,031	4,976,303	7,940,334
Cash - restricted	1,185,273	-	1,185,273
Accounts receivable, net	646,169	7,053,983	7,700,152
Other receivables, net	100,478	54,801	155,279
Notes receivable, net	41,699	-	41,699
Due from other departments	35,839	196,843	232,682
Due from other funds	231,104	3,440	234,544
Prepaid expense	-	6,688,336	6,688,336
Inventory	82,330	831,675	914,005
Capital assets:			
Land and construction in progress	1,247,782	2,389,778	3,637,560
Property and equipment	61,916,868	91,676,058	153,592,926
Less: accumulated depreciation	(54,883,248)	(41,607,963)	(96,491,211)
Other assets	-	846,808	846,808
Total assets	<u>13,568,325</u>	<u>73,110,062</u>	<u>86,678,387</u>
<u>LIABILITIES</u>			
Accounts payable	830,688	6,742,004	7,572,692
Accrued liabilities	34,851	343,143	377,994
Due to other departments	298,285	1,386,217	1,684,502
Due to other funds	108,477	4,603	113,080
Customer deposits	-	2,179,346	2,179,346
Other liabilities	-	135,502	135,502
Long-term liabilities:			
Due within one year	1,058,556	1,243,018	2,301,574
Due in more than one year	10,178,618	13,077,794	23,256,412
Total liabilities	<u>12,509,475</u>	<u>25,111,627</u>	<u>37,621,102</u>
<u>NET ASSETS</u>			
Nonspendable net assets -			
Invested in capital assets, net of related debt	(2,955,772)	38,137,061	35,181,289
Nonspendable net assets - other	35,956	7,520,011	7,555,967
Restricted net assets	1,750,827	-	1,750,827
Committed net assets	55,000	-	55,000
Unassigned net assets	2,172,839	2,341,363	4,514,202
Total net assets	<u>\$ 1,058,850</u>	<u>47,998,435</u>	<u>49,057,285</u>

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) / Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities					
General government	\$ 3,259,345	172,086	650,173	274,147	(2,162,939)
Public safety					
Police	4,335,136	-	154,163	-	(4,180,973)
Fire	4,059,158	-	406,969	-	(3,652,189)
Public inspection	213,367	28,141	-	-	(185,226)
Civil defense	52,960	-	-	-	(52,960)
Highways and streets	2,556,787	-	-	838,467	(1,718,320)
Health and sanitation	222,957	-	-	-	(222,957)
Culture and recreation	1,500,401	-	-	-	(1,500,401)
Other	1,827,247	-	-	-	(1,827,247)
Interest on long-term debt	588,006	-	-	-	(588,006)
Total governmental activities	<u>18,615,364</u>	<u>200,227</u>	<u>1,211,305</u>	<u>1,112,614</u>	<u>(16,091,218)</u>
Business-type Activities					
Electric utilities	37,653,572	40,429,641	-	-	2,776,069
Water and sewer utilities	5,943,675	5,587,579	-	-	(356,096)
Sanitation and waste	2,690,627	2,741,391	-	-	50,764
Sanitary landfill	310,877	153,483	-	-	(157,394)
Total business-type activities	<u>46,598,751</u>	<u>48,912,094</u>	<u>-</u>	<u>-</u>	<u>2,313,343</u>
Total primary government	<u>\$ 65,214,115</u>	<u>49,112,321</u>	<u>1,211,305</u>	<u>1,112,614</u>	<u>(13,777,875)</u>
			Governmental Activities	Business-type Activities	Total
Changes in Net Assets:					
Net (expense) / revenue			\$ (16,091,218)	2,313,343	(13,777,875)
General revenues					
Taxes					
Property taxes			4,078,057	-	4,078,057
Sales and use taxes			6,400,146	-	6,400,146
Other taxes			468,578	-	468,578
Investment income			47,630	39,523	87,153
Other			5,512,612	423,815	5,936,427
Transfers			(44,203)	-	(44,203)
Total general revenues and transfers			<u>16,462,820</u>	<u>463,338</u>	<u>16,926,158</u>
Change in net assets			371,602	2,776,681	3,148,283
Net assets, October 1, 2011			687,248	45,323,933	46,011,181
Prior period adjustment			-	(102,179)	(102,179)
Net assets, September 30, 2012			<u>\$ 1,058,850</u>	<u>47,998,435</u>	<u>49,057,285</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

**CITY OF STARKVILLE, MISSISSIPPI
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	<u>General</u>	<u>Road Maintenance Bond Fund</u>	<u>Park Commission</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 2,522,658	471,276	25,523	28,208	3,047,665
Cash - restricted	99,305	-	87,978	997,990	1,185,273
Receivables (Net)					
Accounts	645,514	-	655	-	646,169
Other	12,124	-	-	88,354	100,478
Notes receivable (Net)	-	-	-	41,699	41,699
Due from other departments	35,823	-	-	-	35,823
Due from other funds	231,104	-	-	-	231,104
Inventory	35,956	-	-	-	35,956
	<u>3,582,484</u>	<u>471,276</u>	<u>114,156</u>	<u>1,156,251</u>	<u>5,324,167</u>
Total Assets	<u>\$ 3,582,484</u>	<u>471,276</u>	<u>114,156</u>	<u>1,156,251</u>	<u>5,324,167</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 485,095	222,685	64,811	42,968	815,559
Other liabilities	-	-	375	22,782	23,157
Due to other departments	295,174	-	-	-	295,174
Due to other funds	71,149	-	-	-	71,149
	<u>851,418</u>	<u>222,685</u>	<u>65,186</u>	<u>65,750</u>	<u>1,205,039</u>
Total Liabilities	<u>851,418</u>	<u>222,685</u>	<u>65,186</u>	<u>65,750</u>	<u>1,205,039</u>
<u>FUND BALANCES</u>					
Fund balances - nonspendable	35,956	-	-	-	35,956
Fund balances - restricted					
Restricted for fire protection	42,641	-	-	-	42,641
Restricted for police protection	53,351	-	-	3,264	56,615
Restricted for airport projects	621,208	-	-	-	621,208
Restricted for parks and recreation	(291,223)	-	32,978	-	(258,245)
Restricted for debt service	-	-	-	585,048	585,048
Restricted for capital projects	-	248,591	-	454,969	703,560
Fund balances - committed	-	-	55,000	-	55,000
Fund balances - unassigned	2,269,133	-	(39,008)	47,220	2,277,345
	<u>2,731,066</u>	<u>248,591</u>	<u>48,970</u>	<u>1,090,501</u>	<u>4,119,128</u>
Total Fund Balances	<u>2,731,066</u>	<u>248,591</u>	<u>48,970</u>	<u>1,090,501</u>	<u>4,119,128</u>
Total Liabilities and Fund Balances	<u>\$ 3,582,484</u>	<u>471,276</u>	<u>114,156</u>	<u>1,156,251</u>	<u>5,324,167</u>

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

Fund Balances - total governmental funds		\$ 4,119,128
Amounts reported for governmental activities in Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	63,022,921	
Less accumulated depreciation	<u>(54,794,034)</u>	8,228,887
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
		(11,237,174)
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are reported with the governmental activities.		
		<u>(51,991)</u>
Net Assets of Governmental Activities		<u><u>\$ 1,058,850</u></u>

See accompanying notes to the basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Road Maintenance Bond Fund	Park Commission	Non-Major Governmental Funds	Total Governmental Funds
<u>REVENUES</u>					
General property taxes	\$ 4,078,057	-	-	-	4,078,057
Licenses and permits	309,297	-	-	-	309,297
Intergovernmental:					
Federal	882,423	789,173	-	-	1,671,596
State of Mississippi	7,181,146	-	-	601,539	7,782,685
Oktibbeha County and Mississippi State	775,615	-	-	-	775,615
Fines and forfeits	1,561,541	-	-	-	1,561,541
Interest income	43,637	3,590	150	253	47,630
Penalties and interest	187,422	-	-	-	187,422
Other revenues	2,053,278	-	306,332	85,630	2,445,240
Total Revenues	<u>17,072,416</u>	<u>792,763</u>	<u>306,482</u>	<u>687,422</u>	<u>18,859,083</u>
<u>EXPENDITURES</u>					
General government	3,202,230	-	-	-	3,202,230
Public safety:					
Police	4,065,567	-	-	-	4,065,567
Fire	3,791,278	-	-	-	3,791,278
Public inspection	193,108	-	-	-	193,108
Civil defense	32,701	-	-	-	32,701
Highways and streets	1,309,159	-	-	-	1,309,159
Health and sanitation	202,698	-	-	-	202,698
Culture and recreation	1,064,800	-	263,904	-	1,328,704
Other	62,263	-	-	27,403	89,666
Capital outlay	513,719	1,252,270	-	411,496	2,177,485
Debt service:					
Principal	1,088,931	-	-	243,662	1,332,593
Interest	227,145	-	-	386,269	613,414
Total Expenditures	<u>15,753,599</u>	<u>1,252,270</u>	<u>263,904</u>	<u>1,068,830</u>	<u>18,338,603</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,318,817</u>	<u>(459,507)</u>	<u>42,578</u>	<u>(381,408)</u>	<u>520,480</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	44,976	-	-	10,000	54,976
Transfers out	(41,928)	-	-	(13,048)	(54,976)
Inception of capital leases	32,685	-	-	-	32,685
Proceeds of bond issuance	-	-	-	-	-
Transfers from other departments	25,000	-	-	211,286	236,286
Transfers to other departments	(280,489)	-	-	-	(280,489)
Net other financing sources (uses)	<u>(219,756)</u>	<u>-</u>	<u>-</u>	<u>208,238</u>	<u>(11,518)</u>
Net change in fund balances	1,099,061	(459,507)	42,578	(173,170)	508,962
Fund balances, October 1, 2011	<u>1,632,005</u>	<u>708,098</u>	<u>6,392</u>	<u>1,263,671</u>	<u>3,610,166</u>
Fund balances, September 30, 2012	<u>\$ 2,731,066</u>	<u>248,591</u>	<u>48,970</u>	<u>1,090,501</u>	<u>4,119,128</u>

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

Net change in Fund Balances - total governmental funds \$ 508,962

Amounts reported for governmental activities in Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets	416,786	
Less current year depreciation	<u>(1,847,716)</u>	(1,430,930)

Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of borrowed 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 exceeded repayments:

Issuance of bonds, notes and capital leases	(33,750)	
Principal payments	<u>1,359,066</u>	1,325,316

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund:

Change in long-term compensated absence		(1,238)
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Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net income of the Internal Service Fund is reported with the governmental activities.

		<u>(30,508)</u>
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Change in Net Assets of Governmental Funds		<u><u>\$ 371,602</u></u>
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See accompanying notes to the basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	<u>June 30, 2012</u>	<u>September 30, 2012</u>			<u>Total Enterprise Funds</u>	<u>September 30, 2012</u>
	<u>Electric Department</u>	<u>Water & Sewer Department</u>	<u>Sanitation and Waste Fund</u>	<u>Non-major Enterprise Funds</u>		<u>Internal Service Fund</u>
<u>ASSETS</u>						
Current assets:						
Cash and cash equivalents	\$ 1,672,137	3,145,490	118,477	40,199	4,976,303	(83,634)
Accounts receivables, net	5,289,777	1,308,554	410,266	45,386	7,053,983	-
Other receivables, net	54,085	-	-	716	54,801	-
Due from other funds	-	3,440	-	-	3,440	-
Due from other departments	52,804	144,039	-	-	196,843	16
Interest receivable	-	-	-	-	-	-
Prepaid expense	6,688,336	-	-	-	6,688,336	-
Inventory	646,647	185,028	-	-	831,675	46,374
Total current assets	<u>14,403,786</u>	<u>4,786,551</u>	<u>528,743</u>	<u>86,301</u>	<u>19,805,381</u>	<u>(37,244)</u>
Restricted assets:						
Cash - restricted	-	-	-	-	-	-
Total restricted assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current assets:						
Other assets	846,808	-	-	-	846,808	-
Capital assets:						
Fixed assets, net of depreciation	29,698,320	21,027,833	1,547,592	184,128	52,457,873	52,515
Total non-current assets	<u>30,545,128</u>	<u>21,027,833</u>	<u>1,547,592</u>	<u>184,128</u>	<u>53,304,681</u>	<u>52,515</u>
Total Assets	<u>44,948,914</u>	<u>25,814,384</u>	<u>2,076,335</u>	<u>270,429</u>	<u>73,110,062</u>	<u>15,271</u>
<u>LIABILITIES</u>						
Current liabilities:						
Accounts payable	6,401,939	196,277	35,106	108,682	6,742,004	15,129
Accrued liabilities	97,439	185,123	54,490	6,091	343,143	11,694
Due to other departments	1,383,429	2,788	-	-	1,386,217	3,111
Due to other funds	-	2,270	49	2,284	4,603	37,328
Accrued interest - long-term debt	38,678	-	-	-	38,678	-
Bonds payable, current	545,000	-	-	-	545,000	-
Notes payable, current	33,097	458,638	206,283	-	698,018	-
Other current liabilities	46,585	-	-	-	46,585	-
Total current liabilities	<u>8,546,167</u>	<u>845,096</u>	<u>295,928</u>	<u>117,057</u>	<u>9,804,248</u>	<u>67,262</u>
Non-current liabilities:						
Bonds payable, non-current	5,245,000	-	-	-	5,245,000	-
Notes payable, non-current	189,332	7,037,192	606,270	-	7,832,794	-
Customer deposits	1,884,127	295,219	-	-	2,179,346	-
Other liabilities	50,239	-	-	-	50,239	-
Total non-current liabilities	<u>7,368,698</u>	<u>7,332,411</u>	<u>606,270</u>	<u>-</u>	<u>15,307,379</u>	<u>-</u>
Total Liabilities	<u>15,914,865</u>	<u>8,177,507</u>	<u>902,198</u>	<u>117,057</u>	<u>25,111,627</u>	<u>67,262</u>
<u>NET ASSETS</u>						
Nonspendable net assets -						
Invested in capital assets, net of related debt	23,685,891	13,532,003	735,039	184,128	38,137,061	52,515
Nonspendable net assets - other	7,334,983	185,028	-	-	7,520,011	-
Unassigned net assets	(1,986,825)	3,919,846	439,098	(30,756)	2,341,363	(104,506)
Total Net Assets	<u>\$ 29,034,049</u>	<u>17,636,877</u>	<u>1,174,137</u>	<u>153,372</u>	<u>47,998,435</u>	<u>(51,991)</u>

See accompanying notes to the basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>June 30, 2012</u>	<u>September 30, 2012</u>			<u>Total Enterprise Funds</u>	<u>September 30, 2012</u>
	<u>Electric Department</u>	<u>Water & Sewer Department</u>	<u>Sanitation and Waste Fund</u>	<u>Non-Major Enterprise Funds</u>		<u>Internal Service Fund</u>
<u>OPERATING REVENUES</u>						
Charges for services	\$ 40,429,641	5,587,579	2,741,391	153,483	48,912,094	303,397
Total operating revenues	40,429,641	5,587,579	2,741,391	153,483	48,912,094	303,397
<u>OPERATING EXPENSES</u>						
Purchased power	31,930,421	-	-	-	31,930,421	-
Operating and maintenance	3,832,295	4,525,061	2,413,016	284,221	11,054,593	330,125
Depreciation	1,609,006	1,098,590	265,921	21,537	2,995,054	2,295
Total operating expenses	37,371,722	5,623,651	2,678,937	305,758	45,980,068	332,420
Operating income (loss)	3,057,919	(36,072)	62,454	(152,275)	2,932,026	(29,023)
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Other revenue	-	197,713	226,102	-	423,815	-
Interest on investments	39,523	-	-	-	39,523	-
Amortization expense	(24,507)	-	-	-	(24,507)	-
Interest and fiscal charges	(213,707)	(190,762)	(10,259)	-	(414,728)	-
Other expenses	(43,636)	(129,262)	(1,431)	(5,119)	(179,448)	(1,482)
Total non-operating revenues (expenses)	(242,327)	(122,311)	214,412	(5,119)	(155,345)	(1,482)
Income (loss) before transfers	2,815,592	(158,383)	276,866	(157,394)	2,776,681	(30,505)
Transfers in	-	-	130,000	178,213	308,213	-
Transfers out	-	-	(178,213)	(130,000)	(308,213)	-
Change in net assets	2,815,592	(158,383)	228,653	(109,181)	2,776,681	(30,505)
Total net assets, beginning	26,218,457	17,889,149	945,484	270,843	45,323,933	(21,486)
Prior period adjustment	-	(93,889)	-	(8,290)	(102,179)	-
Total net assets, ending	\$ 29,034,049	17,636,877	1,174,137	153,372	47,998,435	(51,991)

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	June 30, 2012	September 30, 2012			September 30, 2012	
	Electric Department	Water & Sewer Department	Sanitation and Waste Fund	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Fund
<u>Cash Flows from Operating Activities</u>						
Cash received from customers	\$ 40,632,024	5,795,489	2,542,322	140,464	49,110,299	-
Cash received from other funds	-	-	-	-	-	338,918
Cash paid to employees	(2,276,303)	(1,488,172)	(915,998)	(79,150)	(4,759,623)	(74,978)
Cash paid to suppliers	(33,009,003)	(3,234,459)	(1,776,757)	(246,273)	(38,266,492)	(320,129)
Other receipts (payments)	(3,033,686)	(104,129)	3,457	-	(3,134,358)	3,504
Net Cash Flows from Operating Activities	2,313,032	968,729	(146,976)	(184,959)	2,949,826	(52,685)
<u>Cash Flows from Noncapital Financing Activities</u>						
Transfers in	-	-	130,000	178,213	308,213	-
Transfers out	-	-	(178,213)	(130,000)	(308,213)	-
Net Cash Flows from Noncapital Financing Activities	-	-	(48,213)	48,213	-	-
<u>Cash Flows from Capital and Related Financing Activities</u>						
Proceeds from issuance of debt	250,217	-	894,689	-	1,144,906	-
Payment of debt	(552,788)	(447,204)	(82,136)	-	(1,082,128)	-
Payment of interest	(210,795)	(190,762)	(10,259)	-	(411,816)	-
Purchase of capital assets	(1,948,294)	(1,303)	(632,338)	-	(2,581,935)	-
Other receipts (payments)	445,536	71,746	224,672	(8,534)	733,420	-
Net Cash Flows from Capital and Related Financing Activities	(2,016,124)	(567,523)	394,628	(8,534)	(2,197,553)	-
<u>Cash Flows from Investing Activities</u>						
Receipt of interest	39,523	-	-	-	39,523	-
Net Cash Flows from Investing Activities	39,523	-	-	-	39,523	-
Net Change in Cash	336,431	401,206	199,439	(145,280)	791,796	(52,685)
Cash and Cash Equivalents, October 1, 2011	1,335,706	2,744,284	(80,962)	185,479	4,184,507	(30,949)
Cash and Cash Equivalents, September 30, 2012	\$ 1,672,137	3,145,490	118,477	40,199	4,976,303	(83,634)
<u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u>						
Operating Income (Loss)	\$ 3,057,919	(36,072)	62,454	(152,275)	2,932,026	(29,023)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	1,609,006	1,098,590	265,921	21,537	2,995,054	2,295
Amortization	10,470	-	-	-	10,470	-
Changes in operating assets and liabilities:						
(Increase) decrease in receivables	202,383	114,433	(199,069)	(13,019)	104,728	-
(Increase) decrease in due from other funds	-	(3,440)	33,500	-	30,060	32,817
(Increase) decrease in inventory	57,788	(20,702)	-	-	37,086	(33,170)
(Increase) decrease in other assets	(3,288,508)	(93,477)	-	-	(3,381,985)	1,875
Increase (decrease) in payables	419,622	(176,868)	(279,739)	(7,097)	(44,082)	(31,812)
Increase (decrease) in due to other funds	-	(7,165)	(30,043)	(34,105)	(71,313)	2,704
Increase (decrease) in accrued liabilities	-	(47)	-	-	(47)	-
Increase (decrease) in customer deposits	231,039	93,477	-	-	324,516	-
Increase (decrease) in other liabilities	13,313	-	-	-	13,313	1,629
Total adjustments	(744,887)	1,004,801	(209,430)	(32,684)	17,800	(23,662)
Net cash provided (used) by operating activities	\$ 2,313,032	968,729	(146,976)	(184,959)	2,949,826	(52,685)

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
SEPTEMBER 30, 2012**

	Employee Benefit Trust Fund	Agency Funds
<u>ASSETS</u>		
Cash and cash equivalents	\$ -	250,957
Cash - restricted	57,820	1,071,653
Due from other funds	-	71,050
Total Assets	57,820	1,393,660
<u>LIABILITIES</u>		
Due to other funds	-	192,514
Due to outside entities	-	434,892
Total Liabilities	-	627,406
<u>NET ASSETS</u>		
Restricted net assets - held in trust	\$ 57,820	766,254

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Employee Benefit Trust Fund
ADDITIONS	
Investment earnings	
Interest	\$ -
Total investment earnings	-
Total Additions	-
DEDUCTIONS	
Transfers out	
Total Deductions	-
Change in Net Assets	-
Net Assets, October 1, 2011	57,820
Net Assets, September 30, 2012	\$ 57,820

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Starkville, Mississippi's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 - Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. REPORTING ENTITY

The citizens of Starkville, Mississippi, have elected to operate under a Code Charter as permitted by Mississippi Statutes 21-3-3, which prescribes a Mayor and Board of Aldermen form of government.

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 GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Included within the reporting entity:

Starkville Park Commission. The Starkville Park Commission's governing board is appointed by the City's governing body.

City of Starkville Electric Department. The Electric Department's governing board is the City's governing body. The rates for user charges and bond issuance authorizations are determined by the government's governing body.

Excluded from the reporting entity:

Starkville Public Schools. The Starkville Public Schools' governing board is appointed primarily by the City's governing body (four of the five members). The City does not hold title to any of the school's assets, nor does it have any right to the school's surpluses. The City does not have the ability to exercise influence over the daily operations or approve budgets.

Starkville Public Library. The Starkville Public Library's governing board is appointed jointly by various entities. The City's governing body appoints five of the ten members but does not have the ability to exercise influence over the daily operations or approve budgets. Additionally, the City does not hold title to any of the library's assets, nor does it have any right to the library's surpluses.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks and recreation, public works, and general administrative services are classified as governmental activities. The City's electric, water and sewer, sanitation, and landfill services are classified as business-type activities.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in five classifications – nonspendable net assets, restricted net assets, committed net assets, assigned net assets and unassigned net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, fire, etc.) or a business-type activity. Operating revenues include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or use taxes, intergovernmental revenues, interest income, etc.).

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

1. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- a. General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund includes General Activities, Parks and Recreation Activities, Multi-Unit Drug Task Force Operations, Airport Activities, Restricted Police Activities, and Restricted Fire Activities.

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- b. Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds are the CDBG Rehabilitation Loan Program Fund, the CDBG Henderson Street Area Redevelopment Project Fund, the TVA Ivy Guest House Loan Fund, TVA Hewlett Wood Products, Inc. Loan Fund, the Computer Assessments Fund, and the Law Enforcement Grants Fund.
- c. Debt Service Funds** are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs. The Debt Service Funds are the City Bond and Interest Fund and the School Bond and Interest Fund.
- d. Capital Projects Funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Capital Projects Funds are the Road Maintenance Bond Fund, Middleton Marketplace TIF Bond Fund, Fire Station #5 Fund, American Recovery Reinvestment Fund and the Parks and Recreation Tourism Fund.

2. Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

- a. Enterprise Funds** are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Funds are the Electric Department Fund, the Water and Sewer Department Fund, the Sanitation Fund, and the Sanitary Landfill Fund.
- b. Internal Service Funds** are used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. The Internal Service Fund is the City Vehicle Maintenance Shop Fund.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds. The City's fiduciary fund is the Employee Benefit Trust Fund.

The City's fiduciary funds are presented in the fiduciary fund financial statement by type (employee benefit and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

For purposes of the statement of cash flows for the proprietary funds, the City defines cash equivalents as short-term, highly liquid investments with original maturity dates of three months or less.

2. Inventory:

Inventory is valued at the lower of cost (first-in, first-out) or market.

3. Capital Assets:

Capital assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 – 50 years
Water and sewer system	30 – 50 years
Machinery and equipment	5 – 10 years
Improvements	10 – 20 years
Other infrastructure	10 – 50 years

4. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Expenditures:

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

6. Compensated Absences:

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

7. Interfund Activity:

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

8. Basis of Budgeting

The City prepares its governmental fund type budgets in accordance with state statutes, which require the cash basis of accounting for revenues. Expenditures are budgeted and reported on the modified accrual basis of accounting. For purposes of budgetary comparisons in the financial statements, the City has elected to compare GAAP basis revenue to budget. This presentation provides a reasonable basis of comparison because the difference in beginning and ending receivables is immaterial.

9. Net Assets

GASB 54 requires the classification of net assets into five components – nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- a. Nonspendable net assets** - amounts that cannot be spent due to form such as inventories, prepaid amounts, etc...

The City has the following nonspendable net assets: capital assets, net of related debt, inventory and prepaid expenses.

- b. Restricted net assets** - amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation.

The City has the following restricted net assets: restricted for fire protection, restricted for police protection, restricted for airport activities, restricted for parks and recreation, restricted for debt service and restricted for capital projects.

- c. Committed net assets** - amounts constrained for a specific purpose by an entity using its highest level of decision-making authority. It would require the same group to remove or change the constraints placed on the resources.

The City's committed net asset is the cash balance in a private donation account that is to be used at the discretion of the Starkville Park Commission.

- d. Assigned net assets** - for all funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed.

The City does not have any assigned net assets.

- e. Unassigned net assets** - for the general fund, any remaining amounts not classified as nonspendable, restricted or committed.

The City has the following unassigned net assets: cash and cash equivalents, accounts receivable, other receivables, notes receivable and other assets.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 2: CASH, OTHER DEPOSITS, AND INVESTMENTS

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

The carrying amount of the City's deposits with financial institutions was \$7,537,104 on September 30, 2012, and the bank balance was \$9,085,440.

The balances do not reflect cash or other deposits held in the name of Starkville Electric Department which are separately secured.

NOTE 3: INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at September 30, 2012, are:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental Funds:		
General Fund	\$ 231,104	71,149
 Proprietary Funds:		
Water & Sewer Department	3,440	2,270
Sanitation and Waste	-	49
Landfill	-	2,284
Internal Service	-	37,328
 Fiduciary Funds:		
Payroll Clearing Fund	71,050	100,000
A/P Clearing Fund	-	829
Tax Collectors Fund	-	91,685
	<u>\$ 305,594</u>	<u>305,594</u>

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Balance</u>				<u>Balance</u>
	<u>October 1, 2011</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2012</u>
Governmental Activities					
Non-depreciable: Land	\$ 1,247,782	-	-	-	1,247,782
Depreciable:					
Buildings	4,223,741	-	-	-	4,223,741
Building Improvements	-	-	-	-	-
Improvements other than buildings	49,669,603	-	-	-	49,669,603
Vehicles	4,019,536	20,930	395,844	(197,191)	4,239,119
Machinery and equipment	3,598,616	-	44,060	-	3,642,676
Total	<u>61,511,496</u>	<u>20,930</u>	<u>439,904</u>	<u>(197,191)</u>	<u>61,775,139</u>
Less accumulated depreciation					
Buildings	(1,530,063)	-	(103,654)	-	(1,633,717)
Building Improvements	-	-	-	-	-
Improvements other than buildings	(45,332,492)	-	(1,272,204)	-	(46,604,696)
Vehicles	(2,973,036)	(20,930)	(278,826)	174,070	(3,098,722)
Machinery and equipment	(3,263,867)	-	(193,032)	-	(3,456,899)
Total	<u>(53,099,458)</u>	<u>(20,930)</u>	<u>(1,847,716)</u>	<u>174,070</u>	<u>(54,794,034)</u>
Net book value	<u>8,412,038</u>	<u>-</u>	<u>(1,407,812)</u>	<u>(23,121)</u>	<u>6,981,105</u>
Internal Service Fund					
Total depreciable assets	141,729	-	-	-	141,729
Less accumulated depreciation	(86,919)	-	(2,295)	-	(89,214)
Internal Service Fund, net	<u>54,810</u>	<u>-</u>	<u>(2,295)</u>	<u>-</u>	<u>52,515</u>
Governmental Activities Capital Assets, net	<u>\$ 9,714,630</u>	<u>-</u>	<u>(1,410,107)</u>	<u>(23,121)</u>	<u>8,281,402</u>
Business-type Activities					
Non-depreciable					
Land - Starkville Electric	\$ 680,426	-	7,273	(338,213)	349,486
Land - Landfill	16,800	-	-	-	16,800
Land - Water	105,623	-	-	-	105,623
Construction in progress - Stk Elec	1,901,165	(248,764)	265,468	-	1,917,869
Total	<u>2,704,014</u>	<u>(248,764)</u>	<u>272,741</u>	<u>(338,213)</u>	<u>2,389,778</u>
Depreciable					
Starkville Electric Property & equipment	40,395,019	-	1,675,553	(518,787)	41,551,785
Sanitation property & equipment	3,363,398	-	632,336	-	3,995,734
Landfill property & equipment	923,291	14,141	-	(19,501)	917,931
Water property & equipment	45,852,365	35,071	1,303	(678,131)	45,210,608
Total	<u>90,534,073</u>	<u>49,212</u>	<u>2,309,192</u>	<u>(1,216,419)</u>	<u>91,676,058</u>
Less accumulated depreciation					
Starkville Electric Property & Equipment	(13,078,350)	(95,588)	(1,623,454)	676,572	(14,120,820)
Sanitation property & equipment	(2,182,221)	-	(265,921)	-	(2,448,142)
Landfill property & equipment	(729,551)	(14,141)	(21,537)	14,626	(750,603)
Water property & equipment	(23,735,685)	(35,071)	(1,098,590)	580,948	(24,288,398)
Total	<u>(39,725,807)</u>	<u>(144,800)</u>	<u>(3,009,502)</u>	<u>1,272,146</u>	<u>(41,607,963)</u>
Net book value	<u>50,808,266</u>	<u>(95,588)</u>	<u>(700,310)</u>	<u>55,727</u>	<u>50,068,095</u>
Business-type Activities Capital Assets, net	<u>\$ 53,512,280</u>	<u>(344,352)</u>	<u>(427,569)</u>	<u>(282,486)</u>	<u>52,457,873</u>

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 4: CAPITAL ASSETS (CONTINUED)

The City of Starkville updated its fixed assets subsidiary records and the adjustment column reports the appropriate corrections to the various classes of fixed assets.

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 55,877
Public safety - Police	205,930
Public safety - Fire	227,361
Highways and streets	1,207,110
Culture and recreation	<u>151,438</u>
Total governmental activities depreciation expense	<u><u>\$ 1,847,716</u></u>
Business-type activities:	
Electric	\$ 1,609,006
Water and sewer	1,098,590
Sanitation	265,921
Landfill	<u>21,537</u>
Total business-type activities depreciation expense	<u><u>\$ 2,995,054</u></u>

NOTE 5: LONG-TERM LIABILITIES

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

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amount Due</u>
	<u>October 1, 2011</u>			<u>September 30, 2012</u>	<u>Within One</u>
					<u>Year</u>
Governmental Activities					
General obligation bonds					
Parks and Recreation, Series 2007	\$ 4,665,000	-	200,000	4,465,000	215,000
Public Improvement, Series 2007	195,000	-	195,000	-	-
Public Improvement, Series 2009	5,225,000	-	535,000	4,690,000	550,000
TIF Revenue Bonds, Series 2011	510,000	-	24,000	486,000	28,000
Notes payable					
Capital Improvements Revolving Loan	209,466	-	38,335	171,131	40,562
Capital Improvements Revolving Loan	195,643	-	39,433	156,210	41,528
Capital Improvements - Police Comm	99,018	-	28,388	70,630	29,498
Capital Improvements - Fire Comm	56,546	-	18,131	38,415	18,839
Capital Improvements - Fire Truck	457,171	-	83,467	373,704	87,273
Capital Improvements - Police Vehicles	106,059	-	106,059	-	-
Capital Improvements - Excavator	20,053	-	20,053	-	-
Capital Improvements - Pub Safety Info Sys	111,517	-	70,135	41,382	41,382
Capital Improvements - Dump Truck	-	33,750	1,065	32,685	6,474
Compensated absences	710,779	1,238	-	712,017	-
Total	<u>\$ 12,561,252</u>	<u>34,988</u>	<u>1,359,066</u>	<u>11,237,174</u>	<u>1,058,556</u>

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

	Balance			Balance September 30, 2012	Amount Due Within One Year
	October 1, 2011	Additions	Reductions		
Business-type Activities					
Bonds and notes payable					
Electric System Bonds, Series 2001	2,550,000	-	110,000	2,440,000	230,000
Electric System Revenue Bonds, Series 2004	2,055,000	-	185,000	1,870,000	195,000
Electric System Revenue Bonds, Series 2006	1,595,000	-	115,000	1,480,000	120,000
Drinking Water Improvements Revolving Loan	400,364	-	30,637	369,727	31,578
Drinking Water Improvements Revolving Loan	979,932	-	62,080	917,852	64,288
Drinking Water Improvements Revolving Loan	1,357,108	-	62,252	1,294,856	64,789
Drinking Water Improvements Revolving Loan	748,258	-	41,919	706,339	42,979
Water Pollution Control Revolving Loan	2,832,010	-	177,715	2,654,295	180,850
Water Pollution Control Revolving Loan	249,852	-	11,410	238,442	11,728
CAT D6R Lease	114,257	-	31,868	82,389	35,871
MDA Capital Improvements Loan	458,811	-	20,266	438,545	20,675
MDA Capital Improvements Loan	916,698	-	40,925	875,773	41,751
2011 International 7400 Trucks Lease	262,352	-	46,754	215,598	52,586
3 Garbage Trucks Lease	-	506,337	30,335	476,002	123,054
Grapple Truck Lease	-	126,000	5,047	120,953	30,643
Electric Department - Digger Truck Lease	-	102,375	12,025	90,350	13,565
Electric Department - Bucket Truck Lease	-	147,842	15,763	132,079	19,532
Compensated absences	106,042	-	8,603	97,439	-
Total	<u>\$ 14,625,684</u>	<u>882,554</u>	<u>1,007,599</u>	<u>14,500,639</u>	<u>1,278,889</u>

All liabilities of The City of Starkville are secured by the full faith and credit of the municipality.

The three outstanding issues of General Obligation Bonds are due in annual installments ranging from \$190,000 to \$400,000 each through various dates, the last of which is the year 2027. Interest rates range from 3.0% to 4.1%.

On March 8, 2011, the City entered into a bond purchase agreement with BancorpSouth Bank to issue and sell \$510,000 Tax Increment Financing Revenue Bonds, Series 2011 (Middleton Market Place Project). The principal of the bonds is due in annual installments of \$24,000 to \$48,000 through May 1, 2025 and bearing interest at 4.0% to 5.0%. The Series 2011 Bonds were issued for the purpose of constructing various infrastructure improvements to support the project. The City's tax increment financing bond indebtedness is recorded as a liability of the City to match revenue streams to the related debt for which they have been pledged. The obligation of the City to pay principal and interest on these bonds is limited solely to the tax increment financing (TIF) revenues generated from the project. Should TIF revenues not be sufficient to meet the required debt service obligations, the City is not obligated to make such bond payments from any other sources of its revenues. However, the City intends to annually appropriate funds sufficient to make all payments required by the bonds for the next fiscal year. Management does not anticipate that any of the City's general funds will be required to make up any deficiency in bond payments during the next fiscal year.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 6: UNEMPLOYMENT COMPENSATION FUND

The City has elected to establish a revolving fund for unemployment compensation which is to be maintained in the amount of 2% of the first \$6,000 of employee wages paid in the preceding calendar year. The Unemployment Compensation Fund is fully funded at September 30, 2012.

NOTE 7: DEFINED BENEFIT PENSION PLAN

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 14.26% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2012, 2011, and 2010 were \$1,109,312, \$999,641, and \$982,100, respectively, which equaled the required contributions for each year.

NOTE 8: JOINT VENTURES

The City of Starkville entered into an agreement with the Golden Triangle Solid Waste Management Authority. This Authority was organized under laws of the State of Mississippi (Section 17-17-301 et seq. Miss. Code of 1972 as amended). The Authority's purpose is to operate and maintain a landfill facility. The project was permitted by DEQ in December, 1994. The City of Starkville's share of expense and liability is based on a pro rata share of waste tonnage. The City's portion of this expense was \$350,099 in 2012. The members, in addition to the City of Starkville, are Noxubee County, City of West Point, Clay County, City of Columbus, Lowndes County, City of Macon, Oktibbeha County, Webster County, City of Eupora, Choctaw County, and the Town of Ackerman. Because of the nature of the Authority's operations there is no determinable equity interest of the City of Starkville. The Authority is designed to generate revenues from its members in an amount adequate only to cover its operating costs. The Authority is audited separately and financial statements are available upon request.

NOTE 9: 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; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE 10: PROPERTY TAX

Numerous statutes exist under which the Mayor and Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Mayor and Board of Aldermen, 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 become a lien and are due in the month that coincides with the month of original purchase. The City taxes are collected and remitted to the City by the Oktibbeha County Tax Collector.

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 original purchase occurs.

The distribution of taxes to funds was made in accordance with prescribed tax levies, and uncollected taxes were properly handled.

Delinquent taxes are not recorded as assets.

NOTE 11: ECONOMIC DEVELOPMENT, TOURISM AND CONVENTION TAX

In 2004, the Legislature of the State of Mississippi passed a local and private bill on behalf of the City of Starkville authorizing a 2 % tax on the gross income of restaurants derived from the sale of prepared food and alcoholic and nonalcoholic beverages until June 30, 2015. The tax is collected by the Mississippi State Tax Commission in the same manner that sales taxes are collected. The proceeds of the tax less 3 % are paid monthly to the City of Starkville to be distributed to the appropriate entities as follows:

- Economic Development Authority – 15%
- Visitor and Convention Council – 15%
- Starkville Park Commission – 40%
- Mississippi State University – 20%
- Used for economic and community development projects, initiatives or opportunities – 10%

The distribution of the tax is audited in the course of this audit.

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 12: CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

On October 23, 2012, the United States Environmental Protection Agency (EPA) initiated an investigation to determine whether or not the municipal Wastewater Collection and Transmission System (WCTS) owned and operated by the City was in compliance with both the Clean Water Act (CWA) and the associated federal wastewater discharge permit held by the City. While EPA is the lead agency in this action, the Mississippi Department of Environmental Quality (MDEQ) is participating as the co-regulator for the system. EPA and MDEQ conducted an inspection of the Starkville WCTS on January 29, 2013 and rendered its Compliance Evaluation Inspection Report on April 18, 2013. The report found that there have been sewage overflows from the WCTS, which are violations of both the CWA and the associated wastewater discharge permit held by the City. As of the date of the financial statement issuance, the enforcement action is being managed by EPA at the Regional Level (i.e. Region IV), and the City attorney does not anticipate an EPA referral of the matter to the Department of Justice (DOJ) for ultimate resolution. Rather, the City intends to work in good faith with Region IV and MDEQ to negotiate a settlement, which will take form of an Agreed Order on Consent (AOC). The terms and condition of the AOC will subsequently be enforceable by EPA, MDEQ, or both. In the opinion of the City attorney, it is probable that total costs attributable to this EPA enforcement action will exceed \$100,000, although the actual amount of such total costs is indeterminable at the date of the financial statement issuance.

NOTE 13: SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 29, 2013, which is the date the financial statements were issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>					
General property taxes	\$ 3,965,000	12,500	3,977,500	4,078,057	100,557
Licenses and permits	159,753	-	159,753	309,297	149,544
Intergovernmental					
Federal	633,278	557,644	1,190,922	882,423	(308,499)
State of Mississippi	6,538,674	510,419	7,049,093	7,181,146	132,053
Oktribbeha County and Mississippi State	793,960	-	793,960	775,615	(18,345)
Fines and forfeits	1,200,530	103,625	1,304,155	1,561,541	257,386
Interest income	60,000	-	60,000	43,637	(16,363)
Penalties and interest	110,000	-	110,000	187,422	77,422
Other revenues	1,993,859	64,100	2,057,959	2,053,278	(4,681)
Total Revenues before Prior Year Fund Balance	<u>15,455,054</u>	<u>1,248,288</u>	<u>16,703,342</u>	<u>17,072,416</u>	<u>369,074</u>
Prior year fund balance:					
Appropriated for current year budget	<u>1,168,779</u>	<u>350,000</u>	<u>1,518,779</u>		<u>(1,518,779)</u>
Total Revenues and Prior Year Fund Balance	<u>16,623,833</u>	<u>1,598,288</u>	<u>18,222,121</u>	<u>17,072,416</u>	<u>(1,149,705)</u>
<u>EXPENDITURES</u>					
General government	2,758,914	920,124	3,679,038	3,202,230	476,808
Public safety:					
Police	4,180,085	4,600	4,184,685	4,065,567	119,118
Fire	3,615,513	313,542	3,929,055	3,791,278	137,777
Public inspection	188,937	4,500	193,437	193,108	329
Civil defense	30,700	2,200	32,900	32,701	199
Highways and streets	1,448,707	59,810	1,508,517	1,309,159	199,358
Health and sanitation	236,163	800	236,963	202,698	34,265
Culture and recreation	1,064,800	-	1,064,800	1,064,800	-
Other	82,724	(10,000)	72,724	62,263	10,461
Capital outlay	449,239	378,295	827,534	513,719	313,815
Debt service:					
Principal	1,074,591	13,086	1,087,677	1,088,931	(1,254)
Interest	211,547	50,251	261,798	227,145	34,653
Total Expenditures	<u>15,341,920</u>	<u>1,737,208</u>	<u>17,079,128</u>	<u>15,753,599</u>	<u>1,325,529</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,281,913</u>	<u>(138,920)</u>	<u>1,142,993</u>	<u>1,318,817</u>	<u>175,824</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	52,928	-	52,928	44,976	(7,952)
Transfers out	(31,928)	-	(31,928)	(41,928)	(10,000)
Other financing sources (uses)	(301,911)	(50,000)	(351,911)	(222,804)	129,107
Net other financing sources (uses)	<u>(280,911)</u>	<u>(50,000)</u>	<u>(330,911)</u>	<u>(219,756)</u>	<u>111,155</u>
Excess of revenues and other sources over and other uses	<u>1,001,002</u>	<u>(188,920)</u>	<u>812,082</u>	<u>1,099,061</u>	<u>286,979</u>
Fund balances, October 1, 2011 (Non-GAAP budgetary basis)	819,163		819,163	1,632,005	812,842
Less budgeted fund balance	-	-	-	-	-
Fund balances, September 30, 2012 (Non-GAAP budgetary basis)	<u>\$ 1,820,165</u>	<u></u>	<u>1,631,245</u>	<u>2,731,066</u>	<u>1,099,821</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF STARKVILLE, MISSISSIPPI
COMBINING BALANCE SHEET BY ACTIVITY
GENERAL FUND
SEPTEMBER 30, 2012

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Task Force Operations	Airport Activities	Subtotal	Eliminating Entries	Total General Fund
<u>Assets</u>									
Cash and cash equivalents	\$ 1,871,202	-	-	2,815	25,937	622,704	2,522,658		2,522,658
Cash - restricted	-	56,384	42,921	-	-	-	99,305		99,305
Receivables (Net)									
Accounts	644,153	-	-	1,136	-	225	645,514		645,514
Other	12,124	-	-	-	-	-	12,124		12,124
Due from other departments	35,823	-	-	-	-	-	35,823		35,823
Due from other funds	231,104	-	-	-	-	-	231,104		231,104
Inventory	35,956	-	-	-	-	-	35,956		35,956
Total Assets	<u>\$ 2,830,362</u>	<u>56,384</u>	<u>42,921</u>	<u>3,951</u>	<u>25,937</u>	<u>622,929</u>	<u>3,582,484</u>	<u>-</u>	<u>3,582,484</u>
<u>Liabilities</u>									
Accounts payable	\$ 454,124	28,970	280	-	-	1,721	485,095		485,095
Due to other departments	-	-	-	295,174	-	-	295,174		295,174
Due to other funds	71,149	-	-	-	-	-	71,149		71,149
Total Liabilities	<u>525,273</u>	<u>28,970</u>	<u>280</u>	<u>295,174</u>	<u>-</u>	<u>1,721</u>	<u>851,418</u>	<u>-</u>	<u>851,418</u>
<u>Fund Equity</u>									
Fund balances - nonspendable	35,956	-	-	-	-	-	35,956		35,956
Fund balances - restricted									
Restricted for fire protection	-	-	42,641	-	-	-	42,641		42,641
Restricted for police protection	-	27,414	-	-	25,937	-	53,351		53,351
Restricted for airport projects	-	-	-	-	-	621,208	621,208		621,208
Restricted for parks and recreation	-	-	-	(291,223)	-	-	(291,223)		(291,223)
Fund balances - unassigned	2,269,133	-	-	-	-	-	2,269,133		2,269,133
Total Fund Equity	<u>2,305,089</u>	<u>27,414</u>	<u>42,641</u>	<u>(291,223)</u>	<u>25,937</u>	<u>621,208</u>	<u>2,731,066</u>	<u>-</u>	<u>2,731,066</u>
Total Liabilities and Fund Equity	<u>\$ 2,830,362</u>	<u>56,384</u>	<u>42,921</u>	<u>3,951</u>	<u>25,937</u>	<u>622,929</u>	<u>3,582,484</u>	<u>-</u>	<u>3,582,484</u>

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Revenues							
Taxes							
General property taxes	4,078,057						4,078,057
Licenses and permits							
Privilege license	39,189						39,189
Permits and inspections	224,870						224,870
Franchise fees	45,238						45,238
Intergovernmental							
Federal							
DUI	99,323						99,323
FAA						266,163	266,163
Safe routes grant	49,294						49,294
Childcare grant	183,312						183,312
Homeland security grant	284,331						284,331
State of Mississippi							
General sales tax	5,723,315						5,723,315
Liquor licenses	56,250						56,250
Municipal aid - gas tax	19,042						19,042
Law enforcement assistance grants	54,841						54,841
Fire protection grants			124,488				124,488
Municipal aid	11,960						11,960
Homestead	146,196						146,196
Tennessee Valley Authority	495,313						495,313
Housing Authority	8,273						8,273
MDOT grant	-					472,994	472,994
Miscellaneous	68,474						68,474
Oktribbeha County and Mississippi State							
Road maintenance	510,815						510,815
Airport support	1,399					31,928	33,327

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Fire control	215,992						215,992
Lieu of tax	15,481						15,481
Fines and forfeits	1,561,541						1,561,541
Interest income	43,622		15				43,637
Penalties and interest	187,422						187,422
Miscellaneous							
Administration/Electric	1,265,000						1,265,000
Mississippi Valley Gas	63,337						63,337
Rents	180					53,905	54,085
TV Cable Franchise	188,352						188,352
Administration/Water	135,000						135,000
Administration/Sanitation	105,000						105,000
Inception of Capital Lease							-
Other	209,415	20,091				12,998	242,504
Total Revenues	16,089,834	20,091	124,503	-	-	837,988	17,072,416
<u>Expenditures</u>							
General government:							
Legislative							
Personal services	131,228						131,228
Other services and charges	30,004						30,004
Total Legislative	161,232	-	-	-	-	-	161,232

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Judicial							
Personal services	368,219						368,219
Supplies	9,410						9,410
Other services and charges	19,166						19,166
Total Judicial	396,795	-	-	-	-	-	396,795
Executive							
Personal services	425,809						425,809
Supplies	6,524						6,524
Other services and charges	63,264						63,264
Capital outlay	2,365						2,365
Total Executive	497,962	-	-	-	-	-	497,962
Election							
Personal services	25						25
Supplies	3,167						3,167
Other services and charges	330						330
Total Election	3,522	-	-	-	-	-	330
City Clerk and Tax Collector							
Personal services	322,572						322,572
Other services and charges	157,909						157,909
Total City Clerk and Tax Collector	480,481	-	-	-	-	-	480,481
Legal							
Personal services	79,007						79,007
Other services and charges	164,872						164,872
Total Legal	243,879	-	-	-	-	-	243,879
City Planner							
Personal services	154,445						154,445
Supplies	3,089						3,089
Other services and charges	21,265						21,265

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Capital outlay	2,759						2,759
Total City Planner	181,558	-	-	-	-	-	181,558
Other Administrative							
Supplies	14,594						14,594
Other services and charges	647,476						647,476
Total Other Administrative	662,070	-	-	-	-	-	662,070
City Hall							
Personal services	27,965						27,965
Supplies	2,515						2,515
Other services and charges	48,798						48,798
Total City Hall	79,278	-	-	-	-	-	79,278
Other Miscellaneous							
Personal services	162,072					38,039	200,111
Supplies	2,316					4,542	6,858
Other services and charges	122,995					37,245	160,240
Capital outlay	-					128,244	128,244
Total Other Miscellaneous	287,383	-	-	-	-	208,070	495,453
 Total General Government	 2,994,160	 -	 -	 -	 -	 208,070	 3,202,230
Public Safety							
Public Safety - Police and E911							
Personal services	3,103,814						3,103,814
Supplies	428,235	5,129					433,364
Other services and charges	441,452						441,452
Capital outlay	58,494	28,443					86,937
Total Public Safety - Police and E911	4,031,995	33,572	-	-	-	-	4,065,567

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Public Safety - Fire							
Personal services	3,028,980						3,028,980
Supplies	100,554		1,729				102,283
Other services and charges	271,190		23				271,213
Capital outlay	388,802						388,802
Total Public Safety - Fire	<u>3,789,526</u>	<u>-</u>	<u>1,752</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,791,278</u>
Public Safety - Public Inspection							
Personal services	172,155						172,155
Supplies	9,383						9,383
Other services and charges	11,570						11,570
Total Public Safety - Public Inspection	<u>193,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,108</u>
Public Safety - Civil Defense							
Other services and charges	7,966						7,966
Capital outlay	24,735						24,735
Total Public Safety - Civil Defense	<u>32,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,701</u>
Total Public Safety	<u>8,047,330</u>	<u>33,572</u>	<u>1,752</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,082,654</u>
Highways and Streets							
City Streets							
Personal services	510,424						510,424
Supplies	172,744						172,744
Other services and charges	77,762						77,762
Capital outlay	81,979						81,979
Total City Streets	<u>842,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>842,909</u>
Street Lights							
Other services and charges	466,250						466,250
Total Street Lights	<u>466,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>466,250</u>
Total Highways and Streets	<u>1,309,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,309,159</u>

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Health and Sanitation							
Health and welfare - animals							
Personal services	78,537						78,537
Supplies	1,649						1,649
Other services and charges	16,512						16,512
Transfer to Humane Society	106,000						106,000
Total Health and Welfare - Animals	<u>202,698</u>	-	-	-	-	-	<u>202,698</u>
Total Health and Sanitation	<u>202,698</u>	-	-	-	-	-	<u>202,698</u>
Culture and Recreation							
Parks and Recreation							
Other services and charges	50,000						50,000
Library	170,400						170,400
Transfer to Parks and Rec	844,400						844,400
Total Parks and Recreation	<u>1,064,800</u>	-	-	-	-	-	<u>1,064,800</u>
Total Culture and Recreation	<u>1,064,800</u>	-	-	-	-	-	<u>1,064,800</u>
Debt Service							
Principal	1,005,464		83,467				1,088,931
Interest	206,298		20,847				227,145
Total Debt Service	<u>1,211,762</u>	-	<u>104,314</u>	-	-	-	<u>1,316,076</u>
Miscellaneous							
Capital outlay - street improvements	513,719						513,719
Other miscellaneous	62,263						62,263
Total Miscellaneous	<u>575,982</u>	-	-	-	-	-	<u>575,982</u>
Total Expenditures	<u>15,405,891</u>	<u>33,572</u>	<u>106,066</u>	-	-	<u>208,070</u>	<u>15,753,599</u>
Excess (Deficiency) of Revenues							
Over (Under) Expenditures	<u>683,943</u>	<u>(13,481)</u>	<u>18,437</u>	-	-	<u>629,918</u>	<u>1,318,817</u>

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
<u>Other Financing Sources (Uses)</u>							
Operating transfers in	13,048					31,928	44,976
Transfers from other departments	25,000						25,000
Operating transfers out	(41,928)						(41,928)
Transfers to other departments	(280,489)						(280,489)
Inception of capital leases	32,685						
Total Other Financing Sources (Uses)	<u>(251,684)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,928</u>	<u>(252,441)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	432,259	(13,481)	18,437	-	-	661,846	1,099,061
<u>Fund Balances</u>							
September 30, 2011	<u>1,872,830</u>	<u>40,895</u>	<u>24,204</u>	<u>(291,223)</u>	<u>25,937</u>	<u>(40,638)</u>	<u>1,632,005</u>
September 30, 2012	<u>\$ 2,305,089</u>	<u>27,414</u>	<u>42,641</u>	<u>(291,223)</u>	<u>25,937</u>	<u>621,208</u>	<u>2,731,066</u>

**CITY OF STARKVILLE, MISSISSIPPI
BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 25,550	-	2,658	28,208
Cash - restricted	3,264	498,684	496,042	997,990
Receivables (Net)				
Other	95	86,364	1,895	88,354
Notes receivable (Net)	41,699	-	-	41,699
	<u>70,608</u>	<u>585,048</u>	<u>500,595</u>	<u>1,156,251</u>
Total Assets	<u>\$ 70,608</u>	<u>585,048</u>	<u>500,595</u>	<u>1,156,251</u>
<u>LIABILITIES</u>				
Accounts payable	-	-	42,968	42,968
Other liabilities	22,782	-	-	22,782
	<u>22,782</u>	<u>-</u>	<u>42,968</u>	<u>65,750</u>
Total Liabilities	<u>22,782</u>	<u>-</u>	<u>42,968</u>	<u>65,750</u>
<u>FUND BALANCES</u>				
Fund balances - restricted				
Restricted for police protection	3,264	-	-	3,264
Restricted for debt service	-	585,048	-	585,048
Restricted for capital projects	-	-	454,969	454,969
Fund balances - unassigned	44,562	-	2,658	47,220
	<u>47,826</u>	<u>585,048</u>	<u>457,627</u>	<u>1,090,501</u>
Total Fund Balances	<u>47,826</u>	<u>585,048</u>	<u>457,627</u>	<u>1,090,501</u>
Total Liabilities and Fund Balances	<u>\$ 70,608</u>	<u>585,048</u>	<u>500,595</u>	<u>1,156,251</u>

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<u>Revenues</u>				
Intergovernmental:				
Special 2% Tax	\$ -	-	601,539	601,539
Property tax revenue	-	736,286		736,286
Interest income	8	238	7	253
Miscellaneous income	85,630	-		85,630
Total Revenues	<u>85,638</u>	<u>736,524</u>	<u>601,546</u>	<u>1,423,708</u>
<u>Expenditures</u>				
Debt Service:				
Principal	43,662	525,000	200,000	768,662
Interest	2,465	205,386	178,418	386,269
Capital outlay	111,027	-	300,469	411,496
Miscellaneous	19,563	5,900	1,940	27,403
Total Expenditures	<u>176,717</u>	<u>736,286</u>	<u>680,827</u>	<u>1,593,830</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(91,079)</u>	<u>238</u>	<u>(79,281)</u>	<u>(170,122)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	10,000	-	-	10,000
Operating transfers out	<u>(13,048)</u>	<u>-</u>	<u>-</u>	<u>(13,048)</u>
Total Other Financing Sources (Uses)	<u>(3,048)</u>	<u>-</u>	<u>-</u>	<u>(3,048)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(94,127)</u>	<u>238</u>	<u>(79,281)</u>	<u>(173,170)</u>
<u>Fund Balances</u>				
September 30, 2011	<u>141,953</u>	<u>584,810</u>	<u>536,908</u>	<u>1,263,671</u>
September 30, 2012	<u>\$ 47,826</u>	<u>\$ 585,048</u>	<u>\$ 457,627</u>	<u>1,090,501</u>

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF NET ASSETS – NON-MAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2012

	<u>Sanitary Landfill Fund</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 40,199
Accounts receivables, net	45,386
Other receivables, net	716
Total current assets	<u>86,301</u>
Non-current assets:	
Capital assets:	
Fixed assets, net of depreciation	<u>184,128</u>
Total non-current assets	<u>184,128</u>
Total Assets	<u>270,429</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	108,682
Accrued liabilities	6,091
Due to other funds	2,284
Total current liabilities	<u>117,057</u>
Total Liabilities	<u>117,057</u>
<u>NET ASSETS</u>	
Nonspendable net assets -	
Invested in capital assets, net of related debt	184,128
Unassigned net assets	<u>(30,756)</u>
Total net assets	<u><u>\$ 153,372</u></u>

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS –
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Sanitary Landfill Fund</u>
<u>OPERATING REVENUES</u>	
Charges for services	\$ 153,483
Total operating revenues	<u>153,483</u>
<u>OPERATING EXPENSES</u>	
Operating and maintenance	284,221
Depreciation	<u>21,537</u>
Total operating expenses	<u>305,758</u>
Operating income	<u>(152,275)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Miscellaneous	<u>(5,119)</u>
Total non-operating revenues (expenses)	<u>(5,119)</u>
Income before transfers	(157,394)
Transfers in	178,213
Transfers out	(130,000)
Change in net assets	(109,181)
Total net assets, beginning	270,843
Prior period adjustment	<u>(8,290)</u>
Total net assets, ending	<u><u>\$ 153,372</u></u>

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CASH FLOWS – NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Sanitary Landfill Fund
<u>Cash Flows From Operating Activities</u>	
Cash received from customers	\$ 140,464
Cash paid to employees	(79,150)
Cash paid to suppliers	(246,273)
Net cash flows from operating activities	(184,959)
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers in	178,213
Transfers out	(130,000)
Net cash flows from noncapital financing activities	48,213
<u>Cash Flows from Capital and Related Financing Activities</u>	
Purchase of capital assets	-
Other receipts (expenses)	(8,534)
Net cash flows from capital and related financing activities	(8,534)
<u>Cash Flows from Investing Activities</u>	
Receipt of interest	-
Net cash flows from investing activities	-
Net change in cash	(145,280)
Cash and cash equivalents, October 1, 2011	185,479
Cash and cash equivalents, September 30, 2012	\$ 40,199
<u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u>	
Operating income	\$ (152,275)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	21,537
Changes in operating assets and liabilities:	
(Increase) decrease in receivables	(13,019)
Increase (decrease) in payables	(7,097)
Increase (decrease) in due to other funds	(34,105)
Total adjustments	(32,684)
Net cash provided by operating activities	\$ (184,959)

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
SEPTEMBER 30, 2012**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Parker Wiseman	Mayor	Western Surety Co.	\$ 25,000
Lynn Spruill	Chief Administrator	Travelers	\$ 350,000
Richard Corey, II	Alderman	Western Surety Co.	\$ 100,000
Ben Carver	Alderman	Western Surety Co.	\$ 100,000
Sandra Sistrunk	Alderman	Western Surety Co.	\$ 100,000
Eric Parker	Alderman	Western Surety Co.	\$ 100,000
Jeremiah Dumas	Alderman	Western Surety Co.	\$ 100,000
Roy A. Perkins	Alderman	Western Surety Co.	\$ 100,000
Henry Vaughn, Sr.	Alderman	Western Surety Co.	\$ 100,000
Taylor Adams	City Clerk	Western Surety Co.	\$ 300,000
Debbie L. Clark	City Accountant	Travelers Casualty	\$ 50,000
David B. Lindley	Chief of Police	Ohio Casualty	\$ 50,000
Debra Wood	Court Clerk	Western Surety Co.	\$ 50,000
Pamela Rogers Simpson	Court Clerk	Western Surety Co.	\$ 50,000
Emma Gibson	Adm Asst/Dep Clerk	Travelers Casualty	\$ 50,000
Donna Betts	Deputy Court Clerk	Travelers Casualty	\$ 50,000
Courtney Goodson	Deputy Court Clerk	Travelers Casualty	\$ 50,000
Caryl Pritchard	Deputy Court Clerk	Western Surety Co.	\$ 50,000
Casandra Young	Deputy Court Clerk	Western Surety Co.	\$ 50,000
Shalonda Sykes	Deputy Court Clerk	Western Surety Co.	\$ 50,000
Lesa Davis Hardin	Deputy Clerk	Western Surety Co.	\$ 50,000
Stephanie Halbert	Payroll Clerk	Western Surety Co.	\$ 50,000
Latonya Henderson	Deputy City Clerk	Western Surety	\$ 50,000
Tony Rook	Court Administrator	Travelers Casualty	\$ 50,000
Vicki Lowrey	Sec/InHouse Comp	Western Surety Co.	\$ 50,000
Joanna McLaurin	Accting/Records Clerk	Western Surety Co.	\$ 50,000
William E. Green	Hearing Enforcement	Western Surety Co.	\$ 50,000
Tom E Roberson	Deputy Sheriff	Western Surety Co.	\$ 25,000

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF BONDED INDEBTEDNESS
SEPTEMBER 30, 2012**

Name and Date	Maturity Date	Interest Percent	Balance 10/1/11	Transactions		Balance 9/30/12
				Issued	Redeemed	
General Obligation Bonds						
Governmental Activities:						
Parks and Recreation, Series 2007	3/1/2012	3.87	200,000	-	200,000	-
	3/1/2013	3.87	215,000	-	-	215,000
	3/1/2014	3.87	220,000	-	-	220,000
	3/1/2015	3.87	230,000	-	-	230,000
	3/1/2016	3.87	240,000	-	-	240,000
	Thereafter		3,560,000	-	-	3,560,000
Total			4,665,000	-	200,000	4,465,000
Public Improvement, Series 2007	4/1/2012	4.10	195,000	-	195,000	-
Total			195,000	-	195,000	-
Public Improvement, Series 2009	4/1/2012	3.00	535,000	-	535,000	-
	4/1/2013	3.00	550,000	-	-	550,000
	4/1/2014	3.00	575,000	-	-	575,000
	4/1/2015	3.00	600,000	-	-	600,000
	4/1/2016	3.00	620,000	-	-	620,000
	Thereafter		2,345,000	-	-	2,345,000
Total			5,225,000	-	535,000	4,690,000
TIF Revenue Bonds, Series 2011	5/1/2012	4.00	24,000	-	24,000	-
	5/1/2013	4.00	28,000	-	-	28,000
	5/1/2014	4.25	30,000	-	-	30,000
	5/1/2015	4.25	31,000	-	-	31,000
	5/1/2016	4.25	32,000	-	-	32,000
	Thereafter		365,000	-	-	365,000
Total			510,000	-	24,000	486,000
Total Bond Liability, Governmental Activities			10,595,000	-	954,000	9,641,000
Business-type Activities:						
Electric System Bonds, Series 2001	4/1/2012	4.20	225,000	-	225,000	-
	4/1/2013	4.20	230,000	-	-	230,000
	4/1/2014	4.20	245,000	-	-	245,000
	4/1/2015	4.20	250,000	-	-	250,000
	4/1/2016	4.20	260,000	-	-	260,000
	Thereafter		1,455,000	-	-	1,455,000
Total			2,665,000	-	225,000	2,440,000
Electric System Revenue Bonds, Series 2004	11/1/2011	3.50	185,000	-	185,000	-
	11/1/2012	3.50	195,000	-	-	195,000
	11/1/2013	3.50	205,000	-	-	205,000
	11/1/2014	3.50	215,000	-	-	215,000
	11/1/2015	3.50	225,000	-	-	225,000
	Thereafter		1,030,000	-	-	1,030,000
Total			2,055,000	-	185,000	1,870,000
Electric System Revenue Bonds, Series 2006	11/1/2011	5.25	115,000	-	115,000	-
	11/1/2012	5.25	120,000	-	-	120,000
	11/1/2013	4.00	125,000	-	-	125,000
	11/1/2014	4.00	130,000	-	-	130,000
	11/1/2015	4.00	135,000	-	-	135,000
	Thereafter		970,000	-	-	970,000
Total			1,595,000	-	115,000	1,480,000
Total Bond Liability, Business-type Activities			6,315,000	-	525,000	5,790,000
Total Bond Liability			16,910,000	-	1,479,000	15,431,000

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF LONG-TERM NOTES
SEPTEMBER 30, 2012**

Payee	Maturity Date	Interest Percent	Balance 10/1/2011	Transactions		Balance 9/30/2012
				Issued	Redeemed	
Notes Payable						
Governmental Activities:						
Capital Improvements - Fire Truck	FY12	4.47%	83,467	-	83,467	-
	FY13	4.47%	87,273	-	-	87,273
	FY14	4.47%	91,253	-	-	91,253
	FY15	4.47%	95,414	-	-	95,414
	FY16	4.47%	99,764	-	-	99,764
Total			457,171	-	83,467	373,704
Capital Improvements Revolving Loan	FY12	5.66%	38,335	-	38,335	-
	FY13	5.66%	40,562	-	-	40,562
	FY14	5.66%	42,918	-	-	42,918
	FY15	5.66%	45,411	-	-	45,411
	FY16	5.66%	42,240	-	-	42,240
Total			209,466	-	38,335	171,131
Capital Improvements Revolving Loan	FY12	5.66%	39,433	-	39,433	-
	FY13	5.66%	41,528	-	-	41,528
	FY14	5.66%	43,940	-	-	43,940
	FY15	5.66%	46,492	-	-	46,492
	FY16	5.66%	24,250	-	-	24,250
Total			195,643	-	39,433	156,210
Capital Improvements - Police Vehicles	FY12	4.90%	106,059	-	106,059	-
Total			106,059	-	106,059	-
Capital Improvements - Excavator	FY12	5.15%	20,053	-	20,053	-
Total			20,053	-	20,053	-
Capital Improvements - Police Comm	FY12	3.84%	28,388	-	28,388	-
	FY13	3.84%	29,498	-	-	29,498
	FY14	3.84%	30,651	-	-	30,651
	FY15	3.84%	10,481	-	-	10,481
Total			99,018	-	28,388	70,630
Capital Improvements - Fire Comm	FY12	3.84%	18,131	-	18,131	-
	FY13	3.84%	18,839	-	-	18,839
	FY14	3.84%	19,576	-	-	19,576
Total			56,546	-	18,131	38,415
Capital Improvements - Pub Info Sys	FY12	3.49%	43,662	-	43,662	-
	FY13	3.49%	41,382	-	-	41,382
Total			85,044	-	43,662	41,382
Capital Improvements - Dump Truck	FY 12	2.25%	-	1,065	1,065	-
	FY 13	2.25%	-	6,474	-	6,474
	FY 14	2.25%	-	6,621	-	6,621
	FY 15	2.25%	-	6,772	-	6,772
	FY 16	2.25%	-	6,926	-	6,926
	Thereafter	2.25%	-	5,892	-	5,892
Total			-	33,750	1,065	32,685
Total Notes Payable, Governmental Activities			\$ 1,229,000	\$ 33,750	\$ 378,593	\$ 884,157

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF LONG-TERM NOTES
SEPTEMBER 30, 2012**

<u>Payee</u>	<u>Maturity Date</u>	<u>Interest Percent</u>	<u>Balance 10/1/2011</u>	<u>Transactions</u>		<u>Balance 9/30/2012</u>
				<u>Issued</u>	<u>Redeemed</u>	
Business-type activities:						
Drinking Water Systems Improvements Revolving Loan	FY12	3.00%	30,637	-	30,637	-
	FY13	3.00%	31,578	-	-	31,578
	FY14	3.00%	32,539	-	-	32,539
	FY15	3.00%	33,528	-	-	33,528
	FY16	3.00%	34,548	-	-	34,548
	Thereafter	3.00%	237,534	-	-	237,534
Total			400,364	-	30,637	369,727
Drinking Water Systems Improvements Revolving Loan	FY12	3.50%	62,080	-	62,080	-
	FY13	3.50%	64,288	-	-	64,288
	FY14	3.50%	66,574	-	-	66,574
	FY15	3.50%	68,942	-	-	68,942
	FY16	3.50%	71,394	-	-	71,394
	Thereafter	3.50%	646,655	-	-	646,655
Total			979,933	-	62,080	917,853
Water Pollution Control Revolving Loan	FY12	1.75%	177,715	-	177,715	-
	FY13	1.75%	180,850	-	-	180,850
	FY14	1.75%	184,041	-	-	184,041
	FY15	1.75%	187,288	-	-	187,288
	FY16	1.75%	190,591	-	-	190,591
	Thereafter	1.75%	1,911,525	-	-	1,911,525
Total			2,832,010	-	177,715	2,654,295
Drinking Water Systems Improvements Revolving Loan	FY12	4.00%	62,252	-	62,252	-
	FY13	4.00%	64,789	-	-	64,789
	FY14	4.00%	67,428	-	-	67,428
	FY15	4.00%	70,375	-	-	70,375
	FY16	4.00%	73,034	-	-	73,034
	Thereafter	4.00%	1,019,230	-	-	1,019,230
Total			1,357,108	-	62,252	1,294,856
Drinking Water Systems Improvements Revolving Loan	FY12	2.50%	41,919	-	41,919	-
	FY13	2.50%	42,979	-	-	42,979
	FY14	2.50%	44,066	-	-	44,066
	FY15	2.50%	45,180	-	-	45,180
	FY16	2.50%	46,323	-	-	46,323
	Thereafter	2.50%	527,791	-	-	527,791
Total			748,258	-	41,919	706,339
Water Pollution Control Revolving Loan	FY12	2.75%	11,410	-	11,410	-
	FY13	2.75%	11,728	-	-	11,728
	FY14	2.75%	12,055	-	-	12,055
	FY15	2.75%	12,390	-	-	12,390
	FY16	2.75%	12,735	-	-	12,735
	Thereafter	2.75%	189,534	-	-	189,534
Total			249,852	-	11,410	238,442
MDA Capital Improvements Loan	FY12	2.00%	40,925	-	40,925	-
	FY13	2.00%	41,751	-	-	41,751
	FY14	2.00%	42,594	-	-	42,594
	FY15	2.00%	43,454	-	-	43,454
	FY16	2.00%	44,331	-	-	44,331
	Thereafter	2.00%	703,643	-	-	703,643
Total			916,698	-	40,925	875,773

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF LONG-TERM NOTES
SEPTEMBER 30, 2012**

Payee	Maturity Date	Interest Percent	Balance 10/1/2011	Transactions		Balance 9/30/2012
				Issued	Redeemed	
CAT D6R Lease	FY12	3.27%	31,868	-	31,868	-
	FY13	3.27%	35,871	-	-	35,871
	FY14	3.27%	37,061	-	-	37,061
	FY15	3.27%	9,456	-	-	9,456
Total			<u>114,256</u>	<u>-</u>	<u>31,868</u>	<u>82,388</u>
MDA Capital Improvements Loan Prom Note #07-347-CP-01	FY12	2.00%	20,266	-	20,266	-
	FY13	2.00%	20,675	-	-	20,675
	FY14	2.00%	21,092	-	-	21,092
	FY15	2.00%	21,518	-	-	21,518
	FY16	2.00%	21,953	-	-	21,953
	Thereafter	2.00%	353,307	-	-	353,307
Total			<u>458,811</u>	<u>-</u>	<u>20,266</u>	<u>438,545</u>
2011 International 7400 Trucks Lease	FY12	3.19%	46,754	-	46,754	-
	FY13	3.19%	52,586	-	-	52,586
	FY14	3.19%	163,012	-	-	163,012
Total			<u>262,352</u>	<u>-</u>	<u>46,754</u>	<u>215,598</u>
3 Garbage Trucks Lease	FY12	2.24%	-	30,335	30,335	-
	FY13	2.24%	-	123,054	-	123,054
	FY14	2.24%	-	125,839	-	125,839
	FY15	2.24%	-	128,687	-	128,687
	FY16	2.24%	-	98,422	-	98,422
Total			<u>-</u>	<u>506,337</u>	<u>30,335</u>	<u>476,002</u>
Grapple Truck Lease	FY12	2.05%	-	5,047	5,047	-
	FY13	2.05%	-	30,643	-	30,643
	FY14	2.05%	-	31,277	-	31,277
	FY15	2.05%	-	31,925	-	31,925
	FY16	2.05%	-	27,108	-	27,108
Total			<u>-</u>	<u>126,000</u>	<u>5,047</u>	<u>120,953</u>
Digger Truck Lease	FY12	3.50%	-	12,025	12,025	-
	FY13	3.50%	-	13,565	-	13,565
	FY14	3.50%	-	14,047	-	14,047
	FY15	3.50%	-	14,546	-	14,546
	FY16	3.50%	-	15,064	-	15,064
		Thereafter	3.50%	-	33,128	-
Total			<u>-</u>	<u>102,375</u>	<u>12,025</u>	<u>90,350</u>
Bucket Truck Lease	FY12	3.50%	-	15,763	15,763	-
	FY13	3.50%	-	19,532	-	19,532
	FY14	3.50%	-	20,228	-	20,228
	FY15	3.50%	-	20,947	-	20,947
	FY16	3.50%	-	21,691	-	21,691
		Thereafter	3.50%	-	49,681	-
Total			<u>-</u>	<u>147,842</u>	<u>15,763</u>	<u>132,079</u>
Total Notes Payable, Business-type Activities			<u>\$ 8,319,642</u>	<u>\$ 882,554</u>	<u>\$ 588,996</u>	<u>\$ 8,613,200</u>
Total Notes Payable			<u>\$ 9,548,642</u>	<u>\$ 916,304</u>	<u>\$ 967,589</u>	<u>\$ 9,497,357</u>

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<u>Federal Agency/ Pass-through Entity/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed-through Federal-State Programs:		
Community Development Block Grants	14.228	1,500
Total U.S. Department of Housing and Urban Development		<u>1,500</u>
<u>U.S. Department of the Interior</u>		
Passed-through Federal-State Programs:		
Historic Preservation Fund Grants-In-Aid	15.904	5,085
Total U.S. Department of Housing and Urban Development		<u>5,085</u>
<u>U. S. Department of Transportation</u>		
Direct Programs:		
Airport Improvement Program (ARRA)	20.106	266,163
Passed through Federal-State Programs:		
Highway Planning and Construction (ARRA)	20.205	838,467
State and Community Highway Safety	20.600	10,096
Occupant Protection Incentive Grants	20.602	9,952
Alcohol Open Container Requirements	20.607	79,274
Total U. S. Department of Transportation		<u>1,203,952</u>
<u>U. S. Department of Energy</u>		
Passed through Federal-State Programs:		
Energy Efficiency and Conservation Block Grant Program (EECBG) (ARRA)	81.128	7,984
Total U.S. Department of Energy		<u>7,984</u>
<u>U.S. Department of Health and Human Services:</u>		
Passed-through Federal-State Programs:		
Child Care and Development Block Grant	93.575	68,393
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	114,919
Total U.S. Department of Health and Human Services		<u>183,312</u>
<u>U.S. Department of Homeland Security</u>		
Direct Programs:		
Assistance to Firefighters Grant	97.044	282,481
Total U.S. Department of Homeland Security		<u>282,481</u>
<u>Total Expenditures of Federal Awards</u>		<u>\$ 1,684,314</u>

Notes to Schedule

- (1) This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the general purpose financial statements.

COMPLIANCE SECTION

**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***



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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

The Honorable Mayor and Board of Aldermen
The City of Starkville
Starkville, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Starkville, Mississippi, as of and for the year ended September 30, 2012, which collectively comprise the City of Starkville, Mississippi’s basic financial statements and have issued our report thereon dated April 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Starkville, 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 Starkville, Mississippi’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Starkville, 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 performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting (Findings 2012-01, 2012-02, 2012-03, and 2012-04). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Starkville, 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*.

City of Starkville, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit City of Starkville, Mississippi's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Board, 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.

Starkville, Mississippi
April 29, 2013

Watkins Ward and Stafford, PLLC

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



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

The Honorable Mayor and Board of Aldermen
The City of Starkville
Starkville, Mississippi

Compliance

We have audited the compliance of the City of Starkville, 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, 2012. City of Starkville, Mississippi’s major federal programs are identified in the summary of auditors’ 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 Starkville, Mississippi’s management. Our responsibility is to express an opinion on the City of Starkville, 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 City of Starkville, 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 on City of Starkville, Mississippi’s compliance with those requirements.

In our opinion, City of Starkville, 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, 2012.

Internal Control Over Compliance

The management of City of Starkville, 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 City of Starkville, Mississippi’s internal control over compliance with requirements that could have a direct and material effect on a major

federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Starkville, Mississippi'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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Board, 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.

Starkville, Mississippi
April 29, 2013

A rectangular box containing a handwritten signature in black ink that reads "Watkins Ward and Stafford, PLLC".

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



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

The Honorable Mayor and Board of Aldermen
The City of Starkville
Starkville, Mississippi

We have audited the financial statements of the City of Starkville, Mississippi, as of and for the year ended September 30, 2012, and have issued our report thereon dated April 29, 2013. We conducted our audit in accordance with generally accepted auditing standards.

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

The results of those procedures and our audit of the general purpose financial statements disclosed no instances of noncompliance with state laws and regulations.

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

Starkville, Mississippi
April 29, 2013

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Section 1: Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Starkville, Mississippi.
2. The audit of the financial statements did not disclose any material weaknesses in internal control.
3. No instances of noncompliance material to the financial statements of City of Starkville, Mississippi were disclosed during the audit.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. The auditors' report on compliance for the major federal award programs for City of Starkville, Mississippi expresses an unqualified opinion on all major federal programs.
6. The audit did disclose significant deficiencies in internal control which are required to be reported in accordance with Government Auditing Standards.
7. The programs tested as major programs included: the Airport Improvement Program (ARRA) CFDA # 20.106 and the Highway Planning and Construction Program (ARRA) CFDA # 20.205.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Starkville, Mississippi was determined to be a low-risk auditee.

Section 2: Findings Relating to the Financial Statements

- 2012-01 Finding: The accounts payable and payroll liabilities as reported in the general ledger do not reconcile to the subsidiary ledgers.
- Recommendation: The accounts payable and payroll liabilities as reported in the general ledger should be reconciled monthly to the subsidiary ledgers.
- Response: The accounts payable and payroll clerks will reconcile the accounts payable and payroll liabilities as reported in the general ledger to the subsidiary ledgers on a monthly basis.

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Section 2: Findings Relating to the Financial Statements (Continued)

2012-02 Finding: As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for those financial statements prior to their issuance. The absence of management preparation of the financial statements creates the potential that a misstatement could occur and not be prevented or detected by the City's internal control.

Recommendation: Management should review, approve and accept auditor prepared financial statements, including disclosures prior to their issuance.

Response: Management will review, approve and accept auditor prepared financial statements, including disclosures prior to their issuance.

2012-03 Finding: The City Clerk's office does not appear to have sufficient internal controls in place over accounts receivable and cash receipts to prevent the embezzlement of funds by employees of the City. The accounts receivable clerk was charged with embezzling \$846 of city money on or about February 1, 2013.

Recommendation: The city should enhance internal control procedures over accounts receivable and cash receipts to prevent the embezzlement of funds by employees of the City.

Response: In an effort to improve its control environment, The City changed accounting software in fiscal year 2012 which aided in the discovery of the embezzlement. Management will continue to update policies and procedures to enhance the control environment over its financial system.

2012-04 Finding: The City does not have adequate policies and procedures in place to monitor the internal budgets for capital projects related to the Starkville Park Commission. The Splash Pad project exceeded its budget. While the expenditures were allowable under the 2% ordinance, the 2% funds expenditures exceeded its budget.

Recommendation: The City should adopt policies and procedures to timely monitor capital projects and preparation of required budget amendments. Policies should be implemented to ensure that the Starkville Park Commission notifies the Board of Aldermen in a timely manner when there are any funding changes related to amounts that come from the 2% funds managed by the City.

Response: Management of the City of Starkville will work with management of the Starkville Park Commission to implement the appropriate policies and procedures to coordinate the communications and flow of information for jointly funded projects.