

City of Starkville, Mississippi

Audit Report

September 30, 2013

City of Starkville
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For the Year Ended September 30, 2013

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS’ REPORT

To the Honorable Mayor and Board of Aldermen
City of Starkville, Mississippi

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Starkville, Mississippi, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-16 and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Starkville, Mississippi's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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.

The combining and individual nonmajor 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Starkville, Mississippi's internal control over financial reporting and compliance.

Starkville, Mississippi
April 8, 2014

Watkins Ward and Stafford, PLLC

MANAGEMENT DISCUSSION AND ANALYSIS



CITY OF STARKVILLE MANAGEMENT DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

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, 2013. 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 is committed to financial responsibility and continues to focus on highly efficient operation through sound strategic planning, budgeting and strong internal controls. The City is committed to maintaining a quality fiscal management structure. The City's trend demonstrates progressive, responsible growth that ensures its future and reflects positively on that of the University, the County and the Golden Triangle region as well.

As evidenced by continued improvement in the National Economy, Starkville enjoys unprecedented growth in both residential and commercial real estate development. Sales tax collection outpaced Golden Triangle peer cities with improvement that ranked among the highest in Mississippi at growth of 3.55%. Paired with the City's focus on growing fund balances, the improvement in sales tax allowed the City to improve strategic reserves to 8 year highs.

Capital improvement in fiscal year 2013 primarily focuses on improvements to aging water and sewer infrastructure that is either failing or undersized from municipal growth. With regard to electric service, the city continues its plan to add redundancy and improve reliability within the system. Street improvements come in the form of scheduled resurfacing, externally funded street scape renovation, and through private investment via the City's sidewalk ordinance. Boasting low municipal millage compared to other comparable municipalities in Mississippi, Starkville focuses on external funding as a means to achieve continued funding for Capital Improvement. This is largely accomplished through a favorable grant writing/administration relationship with Golden Triangle Planning and Development District.

Early in Fiscal Year 2013 Starkville enters into an industrial development agreement with Oktibbeha County which subsequently forms the Golden Triangle Link with neighboring Lowndes and Clay Counties. This new organization that is managed by a board with equal representation from member counties sets the stage for regional industrial recruitment. The "Link" names Joey Deason as economic developer for Oktibbeha County and establishes an office for operation in Starkville at the Greater Starkville Development Partnership.

Fiscal Year 2013 brings significant gains in multi-family housing. Starkville experiences construction starts with an anticipated value of \$40 million inside the city limit and \$150 million immediately south and east of the city limit near Blackjack Road. These increases are primarily attributable to projected enrollment growth at Mississippi State University as well as industrial employment improvement near the Golden Triangle Regional Airport located eight miles east of Starkville. Two hotel projects are under construction and a new shopping center is announced near the entrance to the City's primary retail corridor on Highway 12. The Mississippi Department of Transportation announces a reworking of the Highway 182 streetscape to cost in excess of \$10 million. Highway 182 is a traditional retail corridor in need of redevelopment. This expansion offers Starkville the needed catalyst to spur this action.

Both the Starkville George M. Bryan field and the Golden Triangle Regional Airport 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 position increased \$1,304,753 which represents a 2.56% increase from the prior fiscal year. The City's ending cash balance decreased by \$386,654 which represents a 4.24% decrease from the prior fiscal year.

The City had \$68,002,955 in total revenues. Tax revenues account for \$10,672,522 or 15.69% of total revenues. Intergovernmental revenues in the form of reimbursements, shared revenue or grants, account for \$3,630,600 or 5.34% of total revenues.

The City had \$66,698,202 in total expenses, which represents a decrease of \$1,484,087 or 2.28% over the prior fiscal year. Expenses in the amount of \$51,399,973 were offset by charges for services, grants or outside contributions. General revenues of \$16,602,982 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$17,228,766 in revenues and \$17,558,661 in expenditures. The General Fund's fund balance decreased \$182,728 from the prior year.

Among major funds, the Road Maintenance Bond Fund had \$627,094 in revenues and \$875,685 in expenditures. The Road Maintenance Bond Fund balance decreased by \$248,591 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$1,790,555.

Long-term debt decreased by \$2,334,507.

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

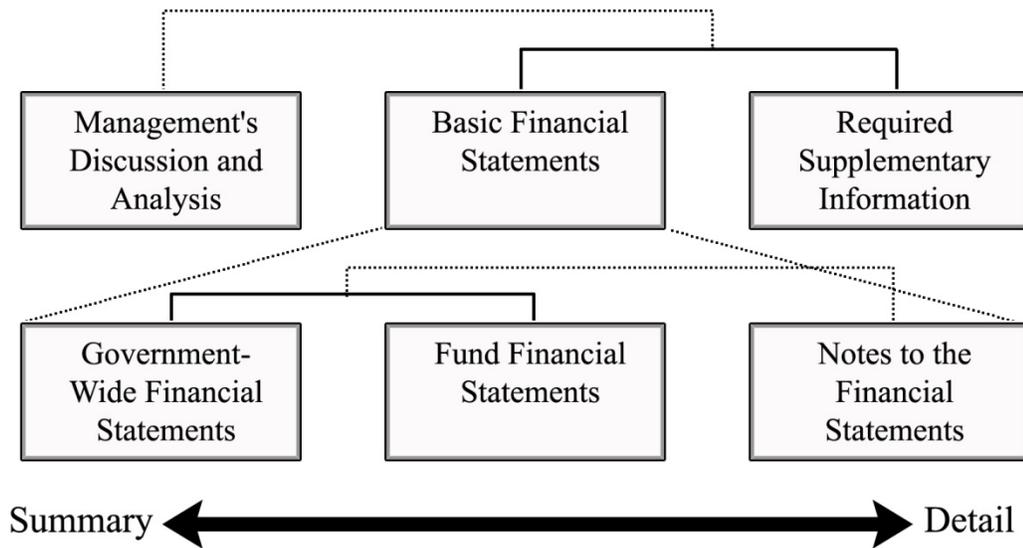


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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 position • 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 position** 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 19 and 20 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 23 and 25, 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 22 and 24 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 29 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 31 through 46 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 48 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 68 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position – Net position may serve over time as a useful indicator of government’s financial position. In the case of the City of Starkville, assets exceeded liabilities by \$50,307,725 as of September 30, 2013

By far, the largest portion of the City’s net position (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 position for the fiscal year ended September 30, 2013.

	<u>2013</u>
Current assets	\$ 26,242,254
Capital assets, net	<u>58,948,720</u>
Total assets	<u>\$ 85,190,974</u>
Current liabilities	\$ 14,257,652
Long-term debt outstanding	<u>20,620,048</u>
Total liabilities	<u>\$ 34,877,700</u>
Net assets:	
Invested in capital assets, net of related debt	35,725,241
Contributed capital	8,967,665
Restricted	1,602,135
Unrestricted	<u>4,018,233</u>
Total net position	<u>\$ 50,313,274</u>

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

- \$2,334,507 of long-term debt principal was retired.

Changes in Net Position – The City’s total revenues for the fiscal year ended September 30, 2013 was \$68,002,955. The total cost for all services provided was \$66,698,202. The increase in net assets was \$1,304,753. The following table presents a summary of the change in net assets for the fiscal year ended September 30, 2013.

	Current Year <u>Amount</u>
Revenues:	
Program revenues	
Charges for services	\$ 47,769,373
Operating grants & contributions	1,334,949
Capital grants & contributions	2,295,651
General revenues	
Property taxes	4,151,300
Sales and Use taxes	5,982,828
Other taxes	538,394
Interest income	57,196
Transfers	913,759
Miscellaneous	<u>4,959,505</u>
Total Revenues	<u>\$ 68,002,955</u>
Expenses:	
General government	3,414,228
Public safety	9,929,398
Highways and streets	2,732,848
Health and sanitation	216,178
Culture and recreation	2,405,823
Other	1,212,410
Utilities	43,385,445
Sanitation	2,701,308
Interest on long-term debt	<u>685,794</u>
Total Expenses	<u>\$ 66,698,202</u>
Increase in Net Position	<u>\$ 1,304,753</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.

	<u>Total Costs</u>	<u>Net Costs</u>
General Government	\$ 3,414,228	\$ 2,831,683
Public Safety	9,949,789	8,438,393
Public Services	2,949,027	1,328,176
Culture and Recreation	2,405,823	2,405,823
Utilities	43,385,445	(1,900,621)

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 \$3,620,478, a decrease of \$498,650. 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 decrease in the fund balance of the General Fund for the fiscal year was \$162,336 which is primarily due to an increase in expenditures while revenues remained relatively consistent.

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, 2013, the City of Starkville’s total capital assets were \$159,692,676. 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 \$2,462,190.

Total accumulated depreciation as of September 30, 2013 was \$100,743,956 including \$4,846,260 of depreciation expense for the year. The balance in total net capital assets was \$58,948,720 at year-end.

Additional information on the City of Starkville's capital assets can be found in note 4 on pages 41 and 42 of this report.

Debt Administration – At September 30, 2013, the City of Starkville had \$23,223,479 in long-term debt outstanding. This includes general obligation bonds, other loans and obligations under capital lease. Of this debt \$2,603,431 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 42 and 43 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
Statement of Net Position
September 30, 2013**

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,142,443	5,423,589	7,566,032
Cash - restricted	1,172,920		1,172,920
Accounts receivable, net	697,688	7,764,819	8,462,507
Other receivables, net	100,780	56,083	156,863
Notes receivable, net	41,699	-	41,699
Due from other departments	77,259	650,176	727,435
Due from other funds	222,298	-	222,298
Prepaid expense	-	5,740,228	5,740,228
Inventory	20,605	907,624	928,229
Capital assets:			
Land and construction in progress	1,247,782	1,651,567	2,899,349
Property and equipment	63,054,275	93,739,052	156,793,327
Less: accumulated depreciation	(56,655,292)	(44,088,664)	(100,743,956)
Other assets		1,224,043	1,224,043
Total assets	<u>12,122,457</u>	<u>73,068,517</u>	<u>85,190,974</u>
<u>LIABILITIES</u>			
Accounts payable	485,651	6,309,313	6,794,964
Accrued liabilities	18,138	331,125	349,263
Due to other departments	480,233	1,152,454	1,632,687
Due to other funds	73,372	27,461	100,833
Customer deposits	-	2,679,598	2,679,598
Other liabilities	-	96,876	96,876
Long-term liabilities:			
Due within one year	1,155,960	1,447,471	2,603,431
Due in more than one year	9,274,291	11,345,757	20,620,048
Total liabilities	<u>11,487,645</u>	<u>23,390,055</u>	<u>34,877,700</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	(2,783,486)	38,508,727	35,725,241
Contributed capital	-	8,967,665	8,967,665
Restricted	1,602,135	-	1,602,135
Unrestricted	1,816,163	2,202,070	4,018,233
Total net position	<u>\$ 634,812</u>	<u>49,678,462</u>	<u>50,313,274</u>

See accompanying notes to the basic financial statements.

City of Starkville
Statement of Activities
For the Year Ended September 30, 2013

<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	\$ 3,414,228	60,604	521,941		(2,831,683)
Public safety					
Police	4,954,424	3,000	441,581		(4,509,843)
Fire	4,641,960		371,427	674,997	(3,595,536)
Public inspection	184,190				(184,190)
Civil defense	128,409				(128,409)
Other	20,415				(20,415)
Highways and streets	2,732,848			1,620,654	(1,112,194)
Health and sanitation	216,178	197			(215,981)
Culture and recreation	2,405,823				(2,405,823)
Other	1,212,410				(1,212,410)
Interest on long-term debt	685,794				(685,794)
Total governmental activities	<u>20,596,679</u>	<u>63,801</u>	<u>1,334,949</u>	<u>2,295,651</u>	<u>(16,902,278)</u>
Business-type Activities					
Electric utilities	37,134,222	39,939,092			2,804,870
Water and sewer utilities	6,256,441	5,352,192			(904,249)
Sanitation and waste	2,473,265	2,280,256			(193,009)
Sanitary landfill	237,595	134,032			(103,563)
Total business-type activities	<u>46,101,523</u>	<u>47,705,572</u>	<u>-</u>	<u>-</u>	<u>1,604,049</u>
Total primary government	<u>\$ 66,698,202</u>	<u>47,769,373</u>	<u>1,334,949</u>	<u>2,295,651</u>	<u>(15,298,229)</u>
			Governmental Activities	Business-type Activities	Total
Changes in Net Position:					
Net (expense) / revenue			\$ (16,902,278)	1,604,049	(15,298,229)
General revenues					
Taxes					
Property taxes			4,151,300		4,151,300
Sales and use taxes			5,982,828		5,982,828
Other taxes			538,394		538,394
Investment income			39,581	17,615	57,196
Other			4,901,142	58,363	4,959,505
Transfers			913,759		913,759
Total general revenues and transfers			<u>16,527,004</u>	<u>75,978</u>	<u>16,602,982</u>
Change in net position			(375,274)	1,680,027	1,304,753
Net position, October 1, 2012			<u>1,058,850</u>	<u>47,998,435</u>	<u>49,057,285</u>
Prior period adjustment			(48,764)	-	(48,764)
Net position, September 30, 2013			<u>\$ 634,812</u>	<u>49,678,462</u>	<u>50,313,274</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

City of Starkville
Balance Sheet - Governmental Funds
September 30, 2013

	<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	\$ 2,241,544	-	75,359	(14,248)	2,302,655
Cash - restricted	104,774	-	42,978	1,025,168	1,172,920
Receivables (Net)					
Accounts	697,513	-	175	-	697,688
Other	12,426	-	-	88,354	100,780
Notes receivable (Net)	-	-	-	41,699	41,699
Due from other departments	77,259	-	-	-	77,259
Due from other funds	256,798	-	-	-	256,798
Inventory	4,969	-	-	-	4,969
	<u>3,395,283</u>	<u>-</u>	<u>118,512</u>	<u>1,140,973</u>	<u>4,654,768</u>
Total Assets	<u>\$ 3,395,283</u>	<u>-</u>	<u>118,512</u>	<u>1,140,973</u>	<u>4,654,768</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 460,835	-	15,499	2,099	478,433
Other liabilities	-	-	-	6,444	6,444
Due to other departments	295,174	-	183,695	-	478,869
Due to other funds	70,544	-	-	-	70,544
	<u>826,553</u>	<u>-</u>	<u>199,194</u>	<u>8,543</u>	<u>1,034,290</u>
Total Liabilities	<u>826,553</u>	<u>-</u>	<u>199,194</u>	<u>8,543</u>	<u>1,034,290</u>
<u>FUND BALANCES</u>					
Fund balances - nonspendable	4,969	-	-	-	4,969
Fund balances - restricted					
Restricted for fire protection	65,643	-	-	-	65,643
Restricted for police protection	61,311	-	-	3,264	64,575
Restricted for airport projects	361,754	-	-	-	361,754
Restricted for parks and recreation	-	-	-	-	-
Restricted for debt service	-	-	-	587,249	587,249
Restricted for capital projects	-	-	-	522,914	522,914
Fund balances - committed	-	-	42,978	-	42,978
Fund balances - unassigned	2,075,053	-	(123,660)	19,003	1,970,396
	<u>2,568,730</u>	<u>-</u>	<u>(80,682)</u>	<u>1,132,430</u>	<u>3,620,478</u>
Total Fund Balances	<u>2,568,730</u>	<u>-</u>	<u>(80,682)</u>	<u>1,132,430</u>	<u>3,620,478</u>
Total Liabilities and Fund Balances	<u>\$ 3,395,283</u>	<u>-</u>	<u>118,512</u>	<u>1,140,973</u>	<u>4,654,768</u>

See accompanying notes to basic financial statements.

City of Starkville
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
September 30, 2013

Fund Balances - total governmental funds		\$ 3,620,478
Amounts reported for governmental activities in Statement of Net Position 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	64,160,328	
Less accumulated depreciation	<u>(56,563,952)</u>	7,596,376
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
		(10,430,251)
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>(151,791)</u>
Net Position of Governmental Activities		<u><u>\$ 634,812</u></u>

See accompanying notes to the basic financial statements.

City of Starkville
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended September 30, 2013

	General	Road Maintenance Bond Fund	Park Commission	Non-Major Governmental Funds	Total Governmental Funds
<u>REVENUES</u>					
General property taxes	\$ 4,151,301	-	-	-	4,151,301
Licenses and permits	209,672	-	-	-	209,672
Intergovernmental:					
Federal	1,305,502	626,711	-	433,238	2,365,451
State of Mississippi	6,934,660	-	-	633,941	7,568,601
Oktibbeha County and Mississippi State	854,910	-	-	-	854,910
Fines and forfeits	1,461,200	-	-	-	1,461,200
Interest income	36,802	383	184	2,212	39,581
Penalties and interest	88,299	-	-	-	88,299
Other revenues	2,186,420	-	233,801	87,806	2,508,027
Total Revenues	<u>17,228,766</u>	<u>627,094</u>	<u>233,985</u>	<u>1,157,197</u>	<u>19,247,042</u>
<u>EXPENDITURES</u>					
General government	3,442,181	-	-	-	3,442,181
Public safety:					
Police	4,706,529	-	-	-	4,706,529
Fire	4,319,931	-	-	-	4,319,931
Public inspection	168,150	-	-	-	168,150
Civil defense	112,369	-	-	-	112,369
Other	20,415	-	-	-	20,415
Highways and streets	1,484,407	-	-	-	1,484,407
Health and sanitation	200,138	-	-	-	200,138
Culture and recreation	1,076,745	-	1,159,273	-	2,236,018
Other	64,169	-	-	69,905	134,074
Capital outlay	840,211	875,685	-	634,672	2,350,568
Debt service:					
Principal	902,771	-	-	256,382	1,159,153
Interest	200,253	-	-	485,541	685,794
Total Expenditures	<u>17,538,269</u>	<u>875,685</u>	<u>1,159,273</u>	<u>1,446,500</u>	<u>21,019,727</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(309,503)</u>	<u>(248,591)</u>	<u>(925,288)</u>	<u>(289,303)</u>	<u>(1,772,685)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	57,828	-	-	10,000	67,828
Transfers out	(61,928)	-	-	-	(61,928)
Inception of capital leases	409,040	-	-	-	409,040
Transfers from other departments	-	-	844,400	321,232	1,165,632
Transfers to other departments	(257,773)	-	-	-	(257,773)
Net other financing sources (uses)	<u>147,167</u>	<u>-</u>	<u>844,400</u>	<u>331,232</u>	<u>1,322,799</u>
Net change in fund balances	(162,336)	(248,591)	(80,888)	41,929	(449,886)
Fund balances, October 1, 2012	<u>2,731,066</u>	<u>248,591</u>	<u>48,970</u>	<u>1,090,501</u>	<u>4,119,128</u>
Prior period adjustment	-	-	(48,764)	-	(48,764)
Fund balances, September 30, 2013	<u>\$ 2,568,730</u>	<u>\$ -</u>	<u>\$ (80,682)</u>	<u>\$ 1,132,430</u>	<u>\$ 3,620,478</u>

See accompanying notes to the basic financial statements.

City of Starkville
Reconciliation of Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
Governmental Funds
September 30, 2013

Net change in Fund Balances - total governmental funds \$ (449,886)

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	1,270,895	
Less current year depreciation	<u>(1,903,406)</u>	(632,511)

Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of borrowed principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments:

Issuance of bonds, notes and capital leases	(409,040)	
Principal payments	<u>1,159,153</u>	750,113

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		56,810
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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>(99,800)</u>
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Change in Net Position of Governmental Funds		<u><u>\$ (375,274)</u></u>
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See accompanying notes to the basic financial statements.

City of Starkville
Statement of Fund Net Position - Proprietary Funds
September 30, 2013

	<u>June 30, 2013</u>	<u>September 30, 2013</u>			<u>Total Enterprise Funds</u>	<u>September 30, 2013</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	\$ 3,321,115	2,142,876	(105,817)	65,415	5,423,589	(160,212)
Accounts receivables, net	5,621,479	1,702,290	400,131	40,919	7,764,819	-
Other receivables, net	55,223	-	-	860	56,083	-
Due from other funds	-	-	-	-	-	-
Due from other departments	89,738	560,438	-	-	650,176	-
Prepaid expense	5,740,228	-	-	-	5,740,228	-
Inventory	778,578	129,046	-	-	907,624	15,636
Total current assets	<u>15,606,361</u>	<u>4,534,650</u>	<u>294,314</u>	<u>107,194</u>	<u>20,542,519</u>	<u>(144,576)</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	1,224,043	-	-	-	1,224,043	-
Capital assets:						
Fixed assets, net of depreciation	29,435,096	20,400,877	1,303,391	162,591	51,301,955	50,389
Total non-current assets	<u>30,659,139</u>	<u>20,400,877</u>	<u>1,303,391</u>	<u>162,591</u>	<u>52,525,998</u>	<u>50,389</u>
Total Assets	<u>46,265,500</u>	<u>24,935,527</u>	<u>1,597,705</u>	<u>269,785</u>	<u>73,068,517</u>	<u>(94,187)</u>
<u>LIABILITIES</u>						
Current liabilities:						
Accounts payable	6,035,466	224,989	42,860	5,998	6,309,313	7,218
Accrued liabilities	93,646	176,898	54,490	6,091	331,125	11,694
Due to other departments	1,149,666	2,788	-	-	1,152,454	1,364
Due to other funds	-	5,568	18,184	3,709	27,461	37,328
Accrued interest - long-term debt	34,886	-	-	-	34,886	-
Bonds payable, current	600,000	-	-	-	600,000	-
Notes payable, current	34,274	456,008	320,128	37,061	847,471	-
Other current liabilities	42,588	-	-	-	42,588	-
Total current liabilities	<u>7,990,526</u>	<u>866,251</u>	<u>435,662</u>	<u>52,859</u>	<u>9,345,298</u>	<u>57,604</u>
Non-current liabilities:						
Bonds payable, non-current	4,275,000	-	-	-	4,275,000	-
Notes payable, non-current	155,058	6,620,100	286,142	9,457	7,070,757	-
Customer deposits	1,967,980	711,618	-	-	2,679,598	-
Other liabilities	19,402	-	-	-	19,402	-
Total non-current liabilities	<u>6,417,440</u>	<u>7,331,718</u>	<u>286,142</u>	<u>9,457</u>	<u>14,044,757</u>	<u>-</u>
Total Liabilities	<u>14,407,966</u>	<u>8,197,969</u>	<u>721,804</u>	<u>62,316</u>	<u>23,390,055</u>	<u>57,604</u>
<u>NET POSITION</u>						
Invested in capital assets, net of related debt	24,370,764	13,324,769	697,121	116,073	38,508,727	50,389
Contributed capital	-	8,967,665	-	-	8,967,665	-
Unrestricted	7,486,770	(5,554,876)	178,780	91,396	2,202,070	(202,180)
Total Net Position	<u>\$ 31,857,534</u>	<u>16,737,558</u>	<u>875,901</u>	<u>207,469</u>	<u>49,678,462</u>	<u>(151,791)</u>

See accompanying notes to the basic financial statements.

City of Starkville
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
For the Year Ended September 30, 2013

	<u>June 30, 2013</u>	<u>September 30, 2013</u>			<u>Total Enterprise Funds</u>	<u>September 30, 2013</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	\$ 39,939,092	5,352,192	2,280,256	134,032	47,705,572	179,354
Total operating revenues	<u>39,939,092</u>	<u>5,352,192</u>	<u>2,280,256</u>	<u>134,032</u>	<u>47,705,572</u>	<u>179,354</u>
<u>OPERATING EXPENSES</u>						
Purchased power	31,582,472	-	-	-	31,582,472	-
Operating and maintenance	3,734,332	4,961,805	2,183,412	200,404	11,079,953	276,908
Depreciation	1,573,019	1,101,652	246,646	21,537	2,942,854	2,126
Total operating expenses	<u>36,889,823</u>	<u>6,063,457</u>	<u>2,430,058</u>	<u>221,941</u>	<u>45,605,279</u>	<u>279,034</u>
Operating income (loss)	<u>3,049,269</u>	<u>(711,265)</u>	<u>(149,802)</u>	<u>(87,909)</u>	<u>2,100,293</u>	<u>(99,680)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Other revenue	1,000	4,930	16,851	35,582	58,363	-
Interest on investments	17,615	-	-	-	17,615	-
Amortization expense	(39,072)	-	-	-	(39,072)	-
Interest and fiscal charges	(188,005)	(148,853)	(17,710)	(14,662)	(369,230)	-
Other expenses	(17,322)	(44,131)	(25,497)	(992)	(87,942)	(120)
Total non-operating revenues (expenses)	<u>(225,784)</u>	<u>(188,054)</u>	<u>(26,356)</u>	<u>19,928</u>	<u>(420,266)</u>	<u>(120)</u>
Income (loss) before transfers	<u>2,823,485</u>	<u>(899,319)</u>	<u>(176,158)</u>	<u>(67,981)</u>	<u>1,680,027</u>	<u>(99,800)</u>
Transfers in	-	-	-	122,078	122,078	-
Transfers out	-	-	(122,078)	-	(122,078)	-
Change in net position	<u>2,823,485</u>	<u>(899,319)</u>	<u>(298,236)</u>	<u>54,097</u>	<u>1,680,027</u>	<u>(99,800)</u>
Total net position, beginning	<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>
Total net position, ending	<u>\$ 31,857,534</u>	<u>16,737,558</u>	<u>875,901</u>	<u>207,469</u>	<u>49,678,462</u>	<u>(151,791)</u>

See accompanying notes to the basic financial statements.

City of Starkville
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2012

	June 30, 2013	September 30, 2013			Total Enterprise Funds	June 30, 2013
	Electric Department	Water & Sewer Department	Sanitation and Waste Fund	Non-Major Enterprise Funds		Internal Service Fund
<u>Cash Flows from Operating Activities</u>						
Cash received from customers	\$ 39,894,047	5,374,855	2,290,391	138,355	47,697,648	-
Cash received from other funds	-	-	-	-	-	182,058
Cash paid to employees	(1,287,593)	(1,488,172)	(915,998)	(109,131)	(3,800,894)	(74,978)
Cash paid to suppliers	(34,661,636)	(3,388,940)	(1,259,661)	(146,014)	(39,456,251)	(179,103)
Other receipts (payments)	(36,272)	(417,886)	18,135	-	(436,023)	(4,555)
Net Cash Flows from Operating Activities	<u>3,908,546</u>	<u>79,857</u>	<u>132,867</u>	<u>(116,790)</u>	<u>4,004,480</u>	<u>(76,578)</u>
<u>Cash Flows from Noncapital Financing Activities</u>						
Transfers in	-	-	-	122,078	122,078	-
Transfers out	-	-	(122,078)	-	(122,078)	-
Net Cash Flows from Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>(122,078)</u>	<u>122,078</u>	<u>-</u>	<u>-</u>
<u>Cash Flows from Capital and Related Financing Activities</u>						
Proceeds from issuance of debt	2,410,000	2,600,000	-	-	5,010,000	-
Payment of debt	(3,358,097)	(3,019,721)	(206,283)	-	(6,584,101)	-
Payment of interest	(201,690)	(148,853)	(17,710)	-	(368,253)	-
Purchase of capital assets	(1,185,722)	(212,706)	(1,107)	-	(1,399,535)	-
Other receipts (payments)	383,055	(301,191)	(9,983)	19,928	91,809	-
Net Cash Flows from Capital and Related Financing Activities	<u>(1,952,454)</u>	<u>(1,082,471)</u>	<u>(235,083)</u>	<u>19,928</u>	<u>(3,250,080)</u>	<u>-</u>
<u>Cash Flows from Investing Activities</u>						
Receipt of interest	17,615	-	-	-	17,615	-
Net Cash Flows from Investing Activities	<u>17,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,615</u>	<u>-</u>
Net Change in Cash	1,973,707	(1,002,614)	(224,294)	25,216	772,015	(76,578)
Cash and Cash Equivalents, October 1, 2012	1,347,408	3,145,490	118,477	40,199	4,651,574	(83,634)
Cash and Cash Equivalents, September 30, 2013	<u>\$ 3,321,115</u>	<u>2,142,876</u>	<u>(105,817)</u>	<u>65,415</u>	<u>5,423,589</u>	<u>(160,212)</u>
<u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u>						
Operating Income (Loss)	\$ 3,049,269	(711,265)	(149,802)	(87,909)	2,100,293	(99,680)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	1,573,019	1,101,652	246,646	21,537	2,942,854	2,126
Changes in operating assets and liabilities:						
(Increase) decrease in receivables	(45,045)	(393,736)	10,135	4,323	(424,323)	-
(Increase) decrease in due from other funds	-	3,440	-	-	3,440	-
(Increase) decrease in inventory	(32,189)	55,982	-	-	23,793	30,738
(Increase) decrease in other assets	(95,230)	(416,399)	-	-	(511,629)	16
Increase (decrease) in payables	(600,236)	28,711	7,753	(56,166)	(619,938)	(7,911)
Increase (decrease) in due to other funds	-	3,298	18,135	1,425	22,858	2,704
Increase (decrease) in accrued liabilities	-	(8,225)	-	-	(8,225)	-
Increase (decrease) in customer deposits	83,853	416,399	-	-	500,252	-
Increase (decrease) in other liabilities	(24,895)	-	-	-	(24,895)	(4,571)
Total adjustments	<u>859,277</u>	<u>791,122</u>	<u>282,669</u>	<u>(28,881)</u>	<u>1,904,187</u>	<u>23,102</u>
Net cash provided (used) by operating activities	<u>\$ 3,908,546</u>	<u>79,857</u>	<u>132,867</u>	<u>(116,790)</u>	<u>4,004,480</u>	<u>(76,578)</u>

See accompanying notes to the basic financial statements.

City of Starkville
Statement of Fiduciary Net Position - Fiduciary Funds
September 30, 2013

	Employee Benefit Trust Fund	Agency Funds
<u>ASSETS</u>		
Cash and cash equivalents	\$ -	182,721
Cash - restricted	77,820	452,402
Due from other funds	-	71,050
Total Assets	77,820	706,173
<u>LIABILITIES</u>		
Due to other funds	-	192,514
Due to outside entities	-	349,728
Total Liabilities	-	542,242
<u>NET POSITION</u>		
Restricted - held in trust	\$ 77,820	163,931

See accompanying notes to the basic financial statements.

City of Starkville
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended September 30, 2013

	<u>Employee Benefit Trust Fund</u>
ADDITIONS	
Investment earnings	
Interest	\$ -
Total investment earnings	-
Tansfers in	20,000
Total Additions	<u>20,000</u>
DEDUCTIONS	
Transfers out	-
Total Deductions	<u>-</u>
Change in Net Position	20,000
Net Position, October 1, 2012	<u>57,820</u>
Net Position, September 30, 2013	<u><u>\$ 77,820</u></u>

See accompanying notes to the basic financial statements.

City of Starkville
Notes to the Basic Financial Statements
For the Year Ended September 30, 2013

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
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

In the government-wide Statement of Net Position, 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 position is reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted 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
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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 Henderson Street Area Redevelopment Project Fund, the Law Enforcement Grants Fund, the Computer Assessments Fund, the CDBG Rehabilitation Loan Program Fund, the Home Program Grant Fund, and the TVA Hewlett Wood Products, Inc. Loan 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, American Recovery Reinvestment Fund, the Parking Mill Project 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
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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.

City of Starkville
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

9. Net Position

GASB 63 requires the classification of net position into three components – invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- a.** Invested in capital assets, net of related debt – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.
- b.** Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- c.** Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

10. Fund Balance

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

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

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

City of Starkville
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

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

The City has the following restricted 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 fund balance** - 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 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 fund balance** - 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 assets.

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

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

11. 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
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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 \$6,012,443 on September 30, 2013, 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, 2013, are:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental Funds:		
General Fund	\$ 222,298	70,545
Proprietary Funds:		
Water & Sewer Department	-	5,568
Sanitation and Waste	-	18,184
Landfill	-	3,709
Internal Service	-	2,828
Fiduciary Funds:		
Payroll Clearing Fund	71,050	100,000
A/P Clearing Fund	-	829
Tax Collectors Fund	-	91,685
	<u>\$ 293,348</u>	<u>293,348</u>

City of Starkville
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

Note 4: Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Balance</u>				<u>Balance</u>
	<u>October 1, 2012</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2013</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	-	87,945	-	49,757,548
Vehicles	4,239,119	-	408,675	(141,016)	4,506,778
Machinery and equipment	3,642,676	(3,261)	804,147	(19,083)	4,424,479
Total	61,775,139	(3,261)	1,300,767	(160,099)	62,912,546
Less accumulated depreciation					
Buildings	(1,633,717)	-	(103,654)	-	(1,737,371)
Building Improvements	-	-	-	-	-
Improvements other than buildings	(46,604,696)	-	(1,272,577)	-	(47,877,273)
Vehicles	(3,098,722)	-	(369,963)	112,482	(3,356,203)
Machinery and equipment	(3,456,899)	1,923	(157,212)	19,083	(3,593,105)
Total	(54,794,034)	1,923	(1,903,406)	131,565	(56,563,952)
Net book value	6,981,105	(1,338)	(602,639)	(28,534)	6,348,594
Internal Service Fund					
Total depreciable assets	141,729	-	-	-	141,729
Less accumulated depreciation	(89,214)	-	(2,126)	-	(91,340)
Internal Service Fund, net	52,515	-	(2,126)	-	50,389
Governmental Activities Capital Assets, net	\$ 8,281,402	(1,338)	(604,765)	(28,534)	7,646,765
Business-type Activities					
Non-depreciable					
Land - Starkville Electric	\$ 349,486	-	4,882	-	354,368
Land - Landfill	16,800	-	-	-	16,800
Land - Water	105,623	-	-	-	105,623
Construction in progress - Stk Elec	1,917,869	(1,005,083)	-	-	912,786
Construction in progress - Stk Sewer	-	-	261,990	-	261,990
Total	2,389,778	(1,005,083)	4,882	-	1,651,567
Depreciable					
Starkville Electric Property & equipment	41,551,785	-	2,185,923	(269,861)	43,467,847
Sanitation property & equipment	3,995,734	3,261	1,107	-	4,000,102
Landfill property & equipment	917,931	-	-	-	917,931
Water property & equipment	45,140,466	-	212,706	-	45,353,172
Total	91,676,058	3,261	2,399,736	(269,861)	93,739,052
Less accumulated depreciation					
Starkville Electric Property & Equipment	(14,120,820)	(98,727)	(1,573,019)	492,661	(15,299,905)
Sanitation property & equipment	(2,448,142)	(1,923)	(246,646)	-	(2,696,711)
Landfill property & equipment	(750,603)	-	(21,537)	-	(772,140)
Water property & equipment	(24,218,256)	-	(1,101,652)	-	(25,319,908)
Total	(41,607,963)	(100,650)	(2,942,854)	492,661	(44,088,664)
Net book value	50,068,095	(97,389)	(543,118)	222,800	49,650,388
Business-type Activities Capital Assets, net	\$ 52,457,873	(1,102,472)	(538,236)	222,800	51,301,955

City of Starkville
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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	\$ 27,519
Public safety - Police	215,814
Public safety - Fire	289,948
Highways and streets	1,216,360
Culture and recreation	<u>153,765</u>
Total governmental activities depreciation expense	<u><u>\$ 1,903,406</u></u>
Business-type activities:	
Electric	\$ 1,573,019
Water and sewer	1,101,652
Sanitation	246,646
Landfill	<u>21,537</u>
Total business-type activities depreciation expense	<u><u>\$ 2,942,854</u></u>

Note 5: Long-Term Liabilities

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

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Amount Due Within One Year
Governmental Activities					
General obligation bonds					
Parks and Recreation, Series 2007	\$ 4,465,000	-	215,000	4,250,000	220,000
Public Improvement, Series 2009	4,690,000	-	550,000	4,140,000	575,000
TIF Revenue Bonds, Series 2011	486,000	-	28,000	458,000	30,000
Notes payable					
Capital Improvements Revolving Loan	171,131	-	40,562	130,569	42,918
Capital Improvements Revolving Loan	156,210	-	41,528	114,682	43,940
Capital Improvements - Police Comm	70,630	-	29,498	41,132	30,651
Capital Improvements - Fire Comm	38,415	-	18,839	19,576	19,576
Capital Improvements - Fire Truck	373,704	-	87,273	286,431	91,253
Capital Improvements - Pub Safety Info Sys	41,382	-	41,382	-	-
Capital Improvements - Dump Truck	32,685	-	6,474	26,211	6,621
Capital Improvements - Police Cars	-	362,532	92,491	270,041	88,596
Capital Improvements - Ford F-350 Truck	-	46,508	8,106	38,402	7,405
Compensated absences	712,017	-	56,810	655,207	-
Total	<u>\$ 11,237,174</u>	<u>409,040</u>	<u>1,215,963</u>	<u>10,430,251</u>	<u>1,155,960</u>

City of Starkville
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

Note 5: Long-Term Liabilities (Continued)

	Balance				Balance September 30, 2013	Amount Due Within One Year
	October 1, 2012	Additions	Reductions	Adjustments		
Business-type Activities						
Bonds and notes payable						
Electric System Bonds, Series 2001	2,440,000	-	230,000	-	2,210,000	245,000
Electric System Revenue Bonds, Series 2004	1,870,000	-	-	(1,870,000)	-	-
Electric System Revenue Bonds, Series 2006	1,480,000	-	120,000	(1,105,000)	255,000	125,000
Electric System GO Refunding Bond, Series 2013	-	2,410,000	-	-	2,410,000	235,000
Drinking Water Improvements Revolving Loan	369,727	-	-	(369,727)	-	-
Drinking Water Improvements Revolving Loan	917,852	-	-	(917,852)	-	-
Drinking Water Improvements Revolving Loan	1,294,856	-	-	(1,294,856)	-	-
Drinking Water Improvements Revolving Loan	706,339	-	42,979	-	663,360	44,066
Water Pollution Control Revolving Loan	2,654,295	-	180,850	-	2,473,445	184,041
Water Pollution Control Revolving Loan	238,442	-	11,729	-	226,713	12,055
Drinking Water Improvements Revolving Loan	-	2,600,000	139,302	-	2,460,698	152,160
CAT D6R Lease	82,389	-	35,871	-	46,518	37,061
MDA Capital Improvements Loan	438,545	-	20,675	-	417,870	21,092
MDA Capital Improvements Loan	875,773	-	41,751	-	834,022	42,594
2011 International 7400 Trucks Lease	215,598	-	52,586	-	163,012	163,012
3 Garbage Trucks Lease	476,002	-	123,054	-	352,948	125,839
Grapple Truck Lease	120,953	-	30,643	-	90,310	31,277
Excavator Lease	-	48,171	11,713	-	36,458	15,956
Electric Department - Digger Truck Lease	90,350	-	13,565	-	76,785	14,047
Electric Department - Bucket Truck Lease	132,079	-	19,532	-	112,547	20,228
Compensated absences	97,439	-	3,793	-	93,646	-
Total	<u>\$ 14,500,639</u>	<u>5,058,171</u>	<u>1,078,043</u>	<u>(5,557,435)</u>	<u>12,923,332</u>	<u>1,468,428</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
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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, 2013.

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 15.75% 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, 2013, 2012, and 2011 were \$1,267,463, \$1,109,312, and \$999,641, 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 \$350,041 in 2013. 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.

City of Starkville
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

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.

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:

City of Starkville
Notes to the Basic Financial Statements (Continued)
For the Year Ended September 30, 2013

Note 11: Economic Development, Tourism, and Convention Tax (Continued)

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.

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. On October 29, 2013, the City and the EPA entered into a Consent Agreement that settled the active portion of the investigation and enforcement action. The Consent Agreement imposed a civil penalty in the amount of \$70,800, which has been paid as of the date of the issuance of this report. The City is currently implementing remediation measures with respect to sewage infrastructure under the direction and oversight of the EPA. In the event the City fails to comply with the remediation measures imposed by the EPA, this action may be re-opened. If so, the City could face additional monetary penalties exceeding \$100,000.

Note 13: Subsequent Events

Subsequent events have been evaluated through April 8, 2014, which is the date the financial statements were issued.

REQUIRED SUPPLEMENTAL INFORMATION

City of Starkville
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (Non-GAAP Budgetary Basis) - General Fund
For the Year Ended September 30, 2013

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>					
General property taxes	\$ 3,988,500	-	3,988,500	4,151,301	162,801
Licenses and permits	243,760	-	243,760	209,672	(34,088)
Intergovernmental					
Federal	831,966	1,788,172	2,620,138	1,305,502	(1,314,636)
State of Mississippi	7,064,127	84,252	7,148,379	6,934,660	(213,719)
Oktibbeha County and Mississippi State	805,529	-	805,529	854,910	49,381
Fines and forfeits	1,395,300	37,600	1,432,900	1,461,200	28,300
Interest income	45,010	-	45,010	36,802	(8,208)
Penalties and interest	95,000	-	95,000	88,299	(6,701)
Other revenues	2,221,013	42,046	2,263,059	2,186,420	(76,639)
Total Revenues before Prior Year Fund Balance	16,690,205	1,952,070	18,642,275	17,228,766	(1,413,509)
Prior year fund balance:					
Appropriated for current year budget	1,024,829	3,134,358	4,159,187		(4,159,187)
Total Revenues and Prior Year Fund Balance	17,715,034	5,086,428	22,801,462	17,228,766	(5,572,696)
<u>EXPENDITURES</u>					
General government	3,129,335	144,508	3,273,843	3,442,181	(168,338)
Public safety:					
Police	4,301,775	152,102	4,453,877	4,706,529	(252,652)
Fire	3,681,423	1,318,462	4,999,885	4,319,931	679,954
Public inspection	222,868	(24,000)	198,868	168,150	30,718
Civil defense	8,000	208,844	216,844	112,369	104,475
Other	-	43,040	43,040	20,415	22,625
Highways and streets	1,476,893	102,784	1,579,677	1,484,407	95,270
Health and sanitation	200,824	-	200,824	200,138	686
Culture and recreation	1,800,532	1,084,084	2,884,616	1,076,745	1,807,871
Other	23,500	-	23,500	64,169	(40,669)
Capital outlay - street improvements	740,000	570,628	1,310,628	840,211	470,417
Debt service:					
Principal	993,375	(70,384)	922,991	902,771	20,220
Interest	199,087	12,402	211,489	200,253	11,236
Total Expenditures	16,777,612	3,542,470	20,320,082	17,538,269	2,781,813
Excess (deficiency) of revenues over (under) expenditures	937,422	1,543,958	2,481,380	(309,503)	(2,790,883)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	52,928	-	52,928	57,828	4,900
Transfers out	(41,928)	(40,000)	(81,928)	(61,928)	20,000
Other financing sources (uses)	(169,919)	(176,342)	(346,261)	151,267	497,528
Net other financing sources (uses)	(158,919)	(216,342)	(375,261)	147,167	522,428
Excess of revenues and other sources over expenditures and other uses	778,503	1,327,616	2,106,119	(162,336)	(2,268,455)
Fund balances, October 1, 2012 (Non-GAAP budgetary basis)	1,820,165		1,631,245	2,731,066	1,099,821
Less budgeted fund balance	-	-	-	-	-
Fund balances, September 30, 2013 (Non-GAAP budgetary basis)	\$ 2,598,668		3,737,364	2,568,730	(1,168,634)

OTHER SUPPLEMENTAL INFORMATION

City of Starkville
Combining Balance Sheet by Activity
General Fund
September 30, 2013

	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	\$ 1,833,150	-	-	2,815	25,937	379,642	2,241,544		2,241,544
Cash - restricted	-	39,131	65,643	-	-	-	104,774		104,774
Receivables (Net)									
Accounts	696,152	-	-	1,136	-	225	697,513		697,513
Other	12,426	-	-	-	-	-	12,426		12,426
Due from other departments	77,259	-	-	-	-	-	77,259		77,259
Due from other funds	256,798	-	-	-	-	-	256,798		256,798
Inventory	4,969	-	-	-	-	-	4,969		4,969
Total Assets	\$ 2,880,754	39,131	65,643	3,951	25,937	379,867	3,395,283	-	3,395,283
<u>Liabilities</u>									
Accounts payable	\$ 438,965	3,757	-	-	-	18,113	460,835		460,835
Due to other departments	-	-	-	295,174	-	-	295,174		295,174
Due to other funds	70,544	-	-	-	-	-	70,544		70,544
Total Liabilities	509,509	3,757	-	295,174	-	18,113	826,553	-	826,553
<u>Fund Equity</u>									
Fund balances - nonspendable	4,969	-	-	-	-	-	4,969		4,969
Fund balances - restricted									
Restricted for fire protection	-	-	65,643	-	-	-	65,643		65,643
Restricted for police protection	-	35,374	-	-	25,937	-	61,311		61,311
Restricted for airport projects	-	-	-	-	-	361,754	361,754		361,754
Fund balances - unassigned	2,366,276	-	-	(291,223)	-	-	2,075,053		2,075,053
Total Fund Equity	2,371,245	35,374	65,643	(291,223)	25,937	361,754	2,568,730	-	2,568,730
Total Liabilities and Fund Equity	\$ 2,880,754	39,131	65,643	3,951	25,937	379,867	3,395,283	-	3,395,283

City of Starkville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance by Activity
General Fund
For the Year Ended September 30, 2013

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
<u>Revenues</u>							
Taxes							
General property taxes	\$ 4,151,299						4,151,299
Licenses and permits							
Privilege license	36,266						36,266
Permits and inspections	139,099						139,099
Franchise fees	34,307						34,307
Intergovernmental							
Federal							
DUI	158,529						158,529
FAA						39,729	39,729
Safe routes grant	181,826						181,826
Childcare grant	223,855						223,855
Homeland security grant	701,563						701,563
State of Mississippi							
General sales tax	5,982,828						5,982,828
Liquor licenses	51,075						51,075
Municipal aid - gas tax	19,042						19,042
Law enforcement assistance grants	16,902						16,902
Fire protection grants			127,316				127,316
Municipal aid	26,107						26,107
Homestead	156,385						156,385
Tennessee Valley Authority	478,880						478,880
Housing Authority	33,491						33,491
MDOT grant	8,944						8,944
Miscellaneous	33,691						33,691
Oktibbeha County and Mississippi State							
Road maintenance	561,685						561,685
Airport support	10,562					42,571	53,133

City of Starkville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance by Activity
General Fund
For the Year Ended September 30, 2013

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Fire control	224,631						224,631
Lieu of tax	15,461						15,461
Fines and forfeits	1,461,200						1,461,200
Interest income	36,802						36,802
Penalties and interest	88,299						88,299
Miscellaneous							
Administration/Electric	1,355,000						1,355,000
Mississippi Valley Gas	69,802						69,802
Rents	16,680					83,687	100,367
TV Cable Franchise	228,306						228,306
Administration/Water	225,000						225,000
Telephone Utility Tax	47,215						47,215
Inception of Capital Lease							-
Other	133,528	17,866				9,337	160,731
Total Revenues	16,908,260	17,866	127,316	-	-	175,324	17,228,766
<u>Expenditures</u>							
General government:							
Legislative							
Personnel services	134,775						134,775
Contractual services	28,881						28,881
Total Legislative	163,656	-	-	-	-	-	163,656

City of Starkville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance by Activity
General Fund
For the Year Ended September 30, 2013

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Judicial							
Personnel services	353,834						353,834
Supplies	10,925						10,925
Contractual services	18,662						18,662
Total Judicial	<u>383,421</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>383,421</u>
Executive							
Personnel services	326,569						326,569
Supplies	4,008						4,008
Contractual services	65,773						65,773
Capital outlay	61,500						61,500
Total Executive	<u>457,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>457,850</u>
Election							
Personnel services	-						-
Supplies	559						559
Contractual services	24,738						24,738
Total Election	<u>25,297</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,297</u>
City Clerk and Tax Collector							
Personnel services	332,956						332,956
Contractual services	130,408						130,408
Total City Clerk and Tax Collector	<u>463,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>463,364</u>
Legal							
Personnel services	79,494						79,494
Contractual services	174,730						174,730
Total Legal	<u>254,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,224</u>
City Planner							
Personnel services	125,920						125,920
Supplies	4,340						4,340
Contractual services	28,400						28,400

City of Starkville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance by Activity
General Fund
For the Year Ended September 30, 2013

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Capital outlay	1,197						1,197
Total City Planner	159,857	-	-	-	-	-	159,857
Other Administrative							
Personnel services	103,770						103,770
Supplies	17,944						17,944
Contractual services	654,383						654,383
Capital outlay	5,603						5,603
Total Other Administrative	781,700	-	-	-	-	-	781,700
City Hall							
Personnel services	28,736						28,736
Supplies	1,461						1,461
Contractual services	33,031						33,031
Total City Hall	63,228	-	-	-	-	-	63,228
Other Miscellaneous							
Personnel services	165,940					37,228	203,168
Supplies	2,755					8,668	11,423
Contractual services	54,183					65,770	119,953
Capital outlay	-					355,040	355,040
Total Other Miscellaneous	222,878	-	-	-	-	466,706	689,584
Total General Government	2,975,475	-	-	-	-	466,706	3,442,181
Public Safety							
Public Safety - Police and E911							
Personnel services	3,355,135						3,355,135
Supplies	480,333	6,056					486,389
Contractual services	438,830	3,088					441,918
Capital outlay	422,325	762					423,087
Total Public Safety - Police and E911	4,696,623	9,906	-	-	-	-	4,706,529

City of Starkville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance by Activity
General Fund
For the Year Ended September 30, 2013

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Public Safety - Fire							
Personnel services	3,145,418						3,145,418
Supplies	95,145		-				95,145
Contractual services	278,026		-				278,026
Capital outlay	51,367						51,367
Grants, subsidies and allocations	749,975						749,975
Total Public Safety - Fire	<u>4,319,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,319,931</u>
Public Safety - Public Inspection							
Personnel services	147,435						147,435
Supplies	6,538						6,538
Contractual services	14,177						14,177
Total Public Safety - Public Inspection	<u>168,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,150</u>
Public Safety - Civil Defense							
Contractual services	12,383						12,383
Capital outlay	99,986						99,986
Total Public Safety - Civil Defense	<u>112,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,369</u>
Public Safety - Other							
Capital outlay	20,415						20,415
Total Public Safety - Other	<u>20,415</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,415</u>
Total Public Safety	<u>9,317,488</u>	<u>9,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,327,394</u>
Highways and Streets							
City Streets							
Personnel services	511,815						511,815
Supplies	191,997						191,997
Contractual services	95,616						95,616
Capital outlay	203,552						203,552
Total City Streets	<u>1,002,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,002,980</u>

City of Starkville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance by Activity
General Fund
For the Year Ended September 30, 2013

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Street Lights							
Contractual services	481,427						481,427
Total Street Lights	481,427	-	-	-	-	-	481,427
Total Highways and Streets	1,484,407	-	-	-	-	-	1,484,407
Health and Sanitation							
Health and welfare - animals							
Personnel services	73,751						73,751
Supplies	4,171						4,171
Contractual services	16,216						16,216
Transfer to Humane Society	106,000						106,000
Total Health and Welfare - Animals	200,138	-	-	-	-	-	200,138
Total Health and Sanitation	200,138	-	-	-	-	-	200,138
Culture and Recreation							
Parks and Recreation							
Personnel services	-						
Contractual services	50,000						50,000
Library	182,345						182,345
Transfer to Parks and Rec	844,400						844,400
Total Parks and Recreation	1,076,745	-	-	-	-	-	1,076,745
Total Culture and Recreation	1,076,745	-	-	-	-	-	1,076,745
Debt Service							
Principal	815,498		87,273				902,771
Interest	183,212		17,041				200,253
Total Debt Service	998,710	-	104,314	-	-	-	1,103,024

City of Starkville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance by Activity
General Fund
For the Year Ended September 30, 2013

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Miscellaneous							
Capital outlay - street improvements	840,211						840,211
Other miscellaneous	64,169						64,169
Total Miscellaneous	<u>904,380</u>	-	-	-	-	-	<u>904,380</u>
Total Expenditures	<u>16,957,343</u>	<u>9,906</u>	<u>104,314</u>	<u>-</u>	<u>-</u>	<u>466,706</u>	<u>17,538,269</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(49,083)</u>	<u>7,960</u>	<u>23,002</u>	<u>-</u>	<u>-</u>	<u>(291,382)</u>	<u>(309,503)</u>
<u>Other Financing Sources (Uses)</u>							
Operating transfers in	25,900					31,928	57,828
Transfers from other departments	-						-
Operating transfers out	(61,928)						(61,928)
Transfers to other departments	(257,773)						(257,773)
Inception of capital leases	409,040						409,040
Total Other Financing Sources (Uses)	<u>115,239</u>	-	-	-	-	<u>31,928</u>	<u>147,167</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	66,156	7,960	23,002	-	-	(259,454)	(162,336)
<u>Fund Balances</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>
September 30, 2013	<u>\$ 2,371,245</u>	<u>35,374</u>	<u>65,643</u>	<u>(291,223)</u>	<u>25,937</u>	<u>361,754</u>	<u>2,568,730</u>

City of Starkville
Balance Sheet - Non-Major Governmental Funds
September 30, 2013

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ (16,906)	-	2,658	(14,248)
Cash - restricted	3,264	500,885	521,019	1,025,168
Receivables (Net)				
Other	95	86,364	1,895	88,354
Notes receivable (Net)	41,699	-	-	41,699
	<u>28,152</u>	<u>587,249</u>	<u>525,572</u>	<u>1,140,973</u>
Total Assets	<u>\$ 28,152</u>	<u>587,249</u>	<u>525,572</u>	<u>1,140,973</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 2,099	-	-	2,099
Other liabilities	6,444	-	-	6,444
	<u>8,543</u>	<u>-</u>	<u>-</u>	<u>8,543</u>
Total Liabilities	<u>8,543</u>	<u>-</u>	<u>-</u>	<u>8,543</u>
<u>FUND BALANCES</u>				
Fund balances - restricted				
Restricted for police protection	3,264	-	-	3,264
Restricted for debt service	-	587,249	-	587,249
Restricted for capital projects	-	-	522,914	522,914
Fund balances - unassigned	16,345	-	2,658	19,003
	<u>19,609</u>	<u>587,249</u>	<u>525,572</u>	<u>1,132,430</u>
Total Fund Balances	<u>19,609</u>	<u>587,249</u>	<u>525,572</u>	<u>1,132,430</u>
Total Liabilities and Fund Balances	<u>\$ 28,152</u>	<u>587,249</u>	<u>525,572</u>	<u>1,140,973</u>

City of Starkville
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Non-Major Governmental Funds
For the Year Ended September 30, 2013

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<u>Revenues</u>				
Intergovernmental:				
Federal	\$ 9,923	-	423,315	433,238
Special 2% Tax	-	-	633,941	633,941
Property tax revenue	-	1,215,834	-	1,215,834
Interest income	-	2,201	11	2,212
Miscellaneous income	37,320	50,486	-	87,806
Total Revenues	<u>47,243</u>	<u>1,268,521</u>	<u>1,057,267</u>	<u>2,373,031</u>
<u>Expenditures</u>				
Debt Service:				
Principal	41,382	894,602	215,000	1,150,984
Interest	1,108	315,353	169,080	485,541
Capital outlay	31,370	-	603,302	634,672
Miscellaneous	11,600	56,365	1,940	69,905
Total Expenditures	<u>85,460</u>	<u>1,266,320</u>	<u>989,322</u>	<u>2,341,102</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(38,217)</u>	<u>2,201</u>	<u>67,945</u>	<u>31,929</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	10,000	-	-	10,000
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(28,217)</u>	<u>2,201</u>	<u>67,945</u>	<u>41,929</u>
<u>Fund Balances</u>				
September 30, 2012	<u>47,826</u>	<u>585,048</u>	<u>457,627</u>	<u>1,090,501</u>
September 30, 2013	<u>\$ 19,609</u>	<u>587,249</u>	<u>525,572</u>	<u>1,132,430</u>

City of Starkville
Statement of Net Position - Non-Major Enterprise Funds
9/30/2013

	<u>Sanitary Landfill Fund</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 65,415
Accounts receivables, net	40,919
Other receivables, net	860
Total current assets	<u>107,194</u>
Non-current assets:	
Capital assets:	
Fixed assets, net of depreciation	<u>162,591</u>
Total non-current assets	<u>162,591</u>
Total Assets	<u>269,785</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	5,998
Accrued liabilities	6,091
Due to other funds	3,709
Notes payable, current	37,061
Total current liabilities	<u>52,859</u>
Non-current liabilities:	
Notes payable, non-current	<u>9,457</u>
Total non-current liabilities	<u>9,457</u>
Total Liabilities	<u>62,316</u>
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	162,591
Unrestricted	<u>44,878</u>
Total net position	<u><u>\$ 207,469</u></u>

City of Starkville
Statement of Revenues, Expenses, and Changes in Fund Net Position -
Non-Major Enterprise Funds
For the Year Ended September 30, 2013

	Sanitary Landfill Fund
<u>OPERATING REVENUES</u>	
Charges for services	\$ 134,032
Total operating revenues	134,032
<u>OPERATING EXPENSES</u>	
Operating and maintenance	200,404
Depreciation	21,537
Total operating expenses	221,941
Operating income	(87,909)
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Other revenues	35,582
Interest and fiscal charges	(14,662)
Other expenses	(992)
Total non-operating revenues (expenses)	19,928
Income before transfers	(67,981)
Transfers in	122,078
Transfers out	-
Change in net assets	54,097
Total net position, beginning	153,372
Total net position, ending	\$ 207,469

City of Starkville
Statement of Cash Flows - Non-Major Enterprise Funds
For the Year Ended September 30, 2013

	Sanitary Landfill Fund
<u>Cash Flows From Operating Activities</u>	
Cash received from customers	\$ 138,355
Cash paid to employees	(109,131)
Cash paid to suppliers	(146,014)
Net cash flows from operating activities	(116,790)
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers in	122,078
Transfers out	-
Net cash flows from noncapital financing activities	122,078
<u>Cash Flows from Capital and Related Financing Activities</u>	
Purchase of capital assets	-
Other receipts (expenses)	19,928
Net cash flows from capital and related financing activities	19,928
<u>Cash Flows from Investing Activities</u>	
Receipt of interest	-
Net cash flows from investing activities	-
Net change in cash	25,216
Cash and cash equivalents, October 1, 2011	40,199
Cash and cash equivalents, September 30, 2012	\$ 65,415
<u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u>	
Operating income	\$ (87,909)
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	4,323
Increase (decrease) in payables	(56,166)
Increase (decrease) in due to other funds	1,425
Total adjustments	(28,881)
Net cash provided by operating activities	\$ (116,790)

City of Starkville
Schedule of Surety Bonds for Municipal Officials
September 30, 2013

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Parker Wiseman	Mayor	Travelers	\$ 100,000
Velisia Wynn	Alderman	Travelers.	\$ 100,000
Ben Carver	Alderman	Travelers.	\$ 100,000
Jason Walker	Alderman	Travelers.	\$ 100,000
David Little	Alderman	Travelers	\$ 100,000
Scott Maynard	Alderman	Travelers	\$ 100,000
Roy A. Perkins	Alderman	Travelers	\$ 100,000
Henry Vaughn, Sr.	Alderman	Travelers	\$ 100,000
Taylor Adams	City Clerk	Western Surety Co.	\$ 300,000
Debbie L. Clark	City Accountant	Travelers	\$ 50,000
David B. Lindley	Chief of Police	Ohio Casualty	\$ 50,000
Pamela Rogers Simpson	Court Clerk	Western Surety Co.	\$ 50,000
Courtney Goodson	Deputy Court Clerk	Travelers Casualty	\$ 50,000
Casandra Young	Deputy Court Clerk	Western Surety Co.	\$ 50,000
Shalonda Sykes	Deputy Court Clerk	Western Surety Co.	\$ 50,000
Krishina Turnipseed	Deputy Court Clerk	Western Surety Co.	\$ 25,000
Lesa Davis Hardin	Deputy Clerk	Western Surety Co.	\$ 50,000
Kaneshia Hendrix	Deputy Clerk	Western Surety Co.	\$ 50,000
Stephanie Halbert	Payroll Clerk	Western Surety Co.	\$ 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
Rodney Lincoln	Airport Manager	Western Surety Co.	\$ 10,000
Dianne Evans	Secretary/Clerk	Western Surety Co.	\$ 10,000

City of Starkville
Schedule of Bonded Indebtedness
September 30, 2013

Name and Date	Maturity Date	Interest Percent	Balance 10/1/2012	Transactions		Balance 9/30/2013
				Issued	Redeemed	
General Obligation Bonds						
Governmental Activities:						
Parks and Recreation, Series 2007	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
	3/1/2017	3.87	255,000	-	-	255,000
	Thereafter		3,305,000	-	-	3,305,000
Total			4,465,000	-	215,000	4,250,000
Public Improvement, Series 2009	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
	4/1/2017	3.00	325,000	-	-	325,000
	Thereafter		2,020,000	-	-	2,020,000
Total			4,690,000	-	550,000	4,140,000
TIF Revenue Bonds, Series 2011	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
	5/1/2017	4.50	34,000	-	-	34,000
	Thereafter	4.50 - 5.00	331,000	-	-	331,000
Total			486,000	-	28,000	458,000
Total Bond Liability, Governmental Activities			9,641,000	-	793,000	8,848,000
Business-type Activities:						
Electric System Bonds, Series 2001	4/1/2013	4.40	230,000	-	230,000	-
	4/1/2014	4.50	245,000	-	-	245,000
	4/1/2015	4.60	250,000	-	-	250,000
	4/1/2016	4.60	260,000	-	-	260,000
	4/1/2017	4.625	270,000	-	-	270,000
	Thereafter	4.50	1,185,000	-	-	1,185,000
Total			2,440,000	-	230,000	2,210,000
Electric System Revenue Bonds, Series 2004	11/1/2012	3.50	195,000	-	195,000	-
	5/17/2013		246,434	-	246,434	-
	5/17/2013		1,428,566	-	1,428,566	-
Total			1,870,000	-	1,870,000	-
Electric System Revenue Bonds, Series 2006	11/1/2012	4.00	120,000	-	120,000	-
	5/17/2013		103,168	-	103,168	-
	5/17/2013		1,001,832	-	1,001,832	-
	11/1/2013	4.00	125,000	-	-	125,000
	11/1/2014	4.00	130,000	-	-	130,000
Total			1,480,000	-	1,225,000	255,000
GO Utility Refunding Bonds, Series 2013	6/30/2014	4.40	-	235,000	-	235,000
	6/30/2015	4.50	-	240,000	-	240,000
	6/30/2016	4.60	-	380,000	-	380,000
	6/30/2017	4.60	-	395,000	-	395,000
	Thereafter	4.50	-	1,160,000	-	1,160,000
			-	2,410,000	-	2,410,000
Total Bond Liability, Business-type Activities			5,790,000	2,410,000	3,325,000	4,875,000
Total Bond Liability			15,431,000	2,410,000	4,118,000	13,723,000

City of Starkville
Schedule of Long-Term Notes
September 30, 2013

Payee	Maturity Date	Interest Percent	Balance 10/1/2012	Transactions		Balance 9/30/2013
				Issued	Redeemed	
Notes Payable						
Governmental Activities:						
Capital Improvements - Fire Truck	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			<u>373,704</u>	<u>-</u>	<u>87,273</u>	<u>286,431</u>
Capital Improvements Revolving Loan	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			<u>171,131</u>	<u>-</u>	<u>40,562</u>	<u>130,569</u>
Capital Improvements Revolving Loan	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			<u>156,210</u>	<u>-</u>	<u>41,528</u>	<u>114,682</u>
Capital Improvements - Police Comm	FY13	3.84%	29,498	-	29,498	-
	FY14	3.84%	30,651	-	-	30,651
	FY15	3.84%	10,481	-	-	10,481
Total			<u>70,630</u>	<u>-</u>	<u>29,498</u>	<u>41,132</u>
Capital Improvements - Fire Comm	FY13	3.84%	18,839	-	18,839	-
	FY14	3.84%	19,576	-	-	19,576
Total			<u>38,415</u>	<u>-</u>	<u>18,839</u>	<u>19,576</u>
Capital Improvements - Pub Info Sys	FY13	3.49%	41,382	-	41,382	-
Total			<u>41,382</u>	<u>-</u>	<u>41,382</u>	<u>-</u>
Capital Improvements - Dump Truck	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
	FY 17	2.25%	5,892	-	-	5,892
Total			<u>32,685</u>	<u>-</u>	<u>6,474</u>	<u>26,211</u>
Capital Improvements - Police Cars	FY 13	1.58%	-	92,491	92,491	-
	FY 14	1.58%	-	88,596	-	88,596
	FY 15	1.58%	-	90,006	-	90,006
	FY 16	1.58%	-	91,439	-	91,439
Total			<u>-</u>	<u>362,532</u>	<u>92,491</u>	<u>270,041</u>
Capital Improvements - Ford F350	FY 13	1.81%	-	8,106	8,106	-
	FY 14	1.81%	-	7,405	-	7,405
	FY 15	1.81%	-	7,540	-	7,540
	FY 16	1.81%	-	7,678	-	7,678
	FY 17	1.81%	-	7,818	-	7,818
	Thereafter	1.81%	-	7,961	-	7,961
Total			<u>-</u>	<u>46,508</u>	<u>8,106</u>	<u>38,402</u>
Total Notes Payable, Governmental Activities			<u>\$ 884,157</u>	<u>\$ 409,040</u>	<u>\$ 366,153</u>	<u>\$ 927,044</u>

City of Starkville
Schedule of Long-Term Notes
September 30, 2013

<u>Payee</u>	<u>Maturity Date</u>	<u>Interest Percent</u>	<u>Balance 10/1/2012</u>	<u>Transactions</u>		<u>Balance 9/30/2013</u>
				<u>Issued</u>	<u>Redeemed</u>	
Business-type activities:						
Drinking Water Systems Improvements Revolving Loan	FY13	3.00%	369,727	-	369,727	-
Total			369,727	-	369,727	-
Drinking Water Systems Improvements Revolving Loan	FY13	3.50%	917,853	-	917,853	-
Total			917,853	-	917,853	-
Water Pollution Control Revolving Loan	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
	FY17	1.75%	193,954	-	-	193,954
Total	Thereafter	1.75%	1,717,571	-	-	1,717,571
			2,654,295	-	180,850	2,473,445
Drinking Water Systems Improvements Revolving Loan	FY13	4.00%	1,294,856	-	1,294,856	-
Total			1,294,856	-	1,294,856	-
Drinking Water Systems Improvements Revolving Loan	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
	FY17	2.50%	47,494	-	-	47,494
Total	Thereafter	2.50%	480,297	-	-	480,297
			706,339	-	42,979	663,360
Water Pollution Control Revolving Loan	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
	FY17	2.75%	13,090	-	-	13,090
Total	Thereafter	2.75%	176,444	-	-	176,444
			238,442	-	11,728	226,714
MDA Capital Improvements Loan	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
	FY17	2.00%	45,226	-	-	45,226
Total	Thereafter	2.00%	658,417	-	-	658,417
			875,773	-	41,751	834,022
<u>Payee</u>	<u>Maturity Date</u>	<u>Interest Percent</u>	<u>Balance 10/1/2012</u>	<u>Transactions</u>		<u>Balance 9/30/2013</u>
				<u>Issued</u>	<u>Redeemed</u>	
Drinking Water Systems Improvements Revolving Loan	FY13	2.12%	-	139,302	139,302	-
	FY14	2.12%	-	152,160	-	152,160
	FY15	2.12%	-	155,418	-	155,418
	FY16	2.12%	-	158,745	-	158,745
	FY17	2.12%	-	162,143	-	162,143
Total	Thereafter	2.12%	-	1,832,232	-	1,832,232
			-	2,600,000	139,302	2,460,698

City of Starkville
Schedule of Long-Term Notes
September 30, 2013

CAT D6R Lease	FY13	3.27%	35,871	-	35,871	-
	FY14	3.27%	37,061	-	-	37,061
	FY15	3.27%	9,456	-	-	9,456
Total			<u>82,388</u>	<u>-</u>	<u>35,871</u>	<u>46,517</u>
MDA Capital Improvements Loan Prom Note #07-347-CP-01	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
	FY17	2.00%	22,396	-	-	22,396
Total	Thereafter	2.00%	<u>330,911</u>	<u>-</u>	<u>-</u>	<u>330,911</u>
Total			<u>438,545</u>	<u>-</u>	<u>20,675</u>	<u>417,870</u>
2011 International 7400 Trucks Lease	FY13	3.19%	52,586	-	52,586	-
	FY14	3.19%	163,012	-	-	163,012
Total			<u>215,598</u>	<u>-</u>	<u>52,586</u>	<u>163,012</u>
3 Garbage Trucks Lease	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>476,002</u>	<u>-</u>	<u>123,054</u>	<u>352,948</u>
Grapple Truck Lease	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>120,953</u>	<u>-</u>	<u>30,643</u>	<u>90,310</u>
Digger Truck Lease	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
	FY17	3.50%	15,738	-	-	15,738
Total	Thereafter	3.50%	<u>17,390</u>	<u>-</u>	<u>-</u>	<u>17,390</u>
Total			<u>90,350</u>	<u>-</u>	<u>13,565</u>	<u>76,785</u>
Bucket Truck Lease	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
	FY17	3.50%	22,652	-	-	22,652
Total	Thereafter	3.50%	<u>27,029</u>	<u>-</u>	<u>-</u>	<u>27,029</u>
Total			<u>132,079</u>	<u>-</u>	<u>19,532</u>	<u>112,547</u>
Excavator Lease	FY13	3.50%	-	11,713	11,713	-
	FY14	3.50%	-	15,956	-	15,956
	FY15	3.50%	-	16,351	-	16,351
	FY16	3.50%	-	4,151	-	4,151
Total			<u>-</u>	<u>48,171</u>	<u>11,713</u>	<u>36,458</u>
Total Notes Payable, Business-type Activities			<u>\$ 8,613,200</u>	<u>\$ 2,648,171</u>	<u>\$ 3,306,685</u>	<u>\$ 7,954,686</u>
Total Notes Payable			<u>\$ 9,497,357</u>	<u>\$ 3,057,211</u>	<u>\$ 3,672,838</u>	<u>\$ 8,881,730</u>

City of Starkville
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

<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	423,314
Home Investment Partnerships Program	14.239	7,100
Total U.S. Department of Housing and Urban Development		<u>430,414</u>
<u>U.S. Department of Justice</u>		
Passed-through Federal-State Programs:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	3,045
Total U.S. Department of Justice		<u>3,045</u>
<u>U. S. Department of Transportation</u>		
Direct Programs:		
Airport Improvement Program (ARRA)	20.106	39,729
Passed through Federal-State Programs:		
Highway Planning and Construction (ARRA)	20.205	850,882
State and Community Highway Safety	20.600	14,610
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	130,089
Occupant Protection Incentive Grants	20.602	13,830
Total U. S. Department of Transportation		<u>1,049,140</u>
<u>U.S. Department of Health and Human Services:</u>		
Passed-through Federal-State Programs:		
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	223,855
Total U.S. Department of Health and Human Services		<u>223,855</u>
<u>U.S. Department of Homeland Security</u>		
Direct Programs:		
Assistance to Firefighters Grant	97.044	674,997
Passed through Federal-State Programs:		
Homeland Security Grant Program	97.067	23,521
Total U.S. Department of Homeland Security		<u>698,518</u>
<u>Total Expenditures of Federal Awards</u>		<u><u>\$ 2,404,972</u></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 AUDITOR’S 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**

To the Honorable Mayor and Board of Aldermen
City of Starkville, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Starkville, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Starkville, Mississippi’s basic financial statements and have issued our report thereon dated April 8, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies (Findings 2013-01 and 2013-02).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Starkville, Mississippi’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of

our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Starkville, Mississippi's Response to Findings

The City of Starkville, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings. the City of Starkville, Mississippi's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Starkville, Mississippi
April 8, 2014

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 AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and Board of Aldermen
City of Starkville, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the City of Starkville, Mississippi’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Starkville, Mississippi’s major federal programs for the year ended September 30, 2013. The City of Starkville, Mississippi’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Starkville, Mississippi’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Starkville, Mississippi’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Starkville, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Starkville, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Starkville, Mississippi’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Starkville, Mississippi
April 8, 2014

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
City of Starkville, Mississippi

We have audited the financial statements of the City of Starkville, Mississippi, as of and for the year ended September 30, 2013, and have issued our report thereon dated April 8, 2014. 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 of Starkville, Mississippi's management. However, this report is a matter of public record and its distribution is not limited.

Starkville, Mississippi
April 8, 2014

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS

**City of Starkville
Schedule of Findings
For the Year Ended September 30, 2013**

Section 1: Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of the 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 the 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 the 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 Community Development Block Program CFDA # 14.228, the Highway Planning and Construction Program (ARRA) CFDA # 20.205 and Assistance to Firefighters Program CFDA # 97.044..
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

2013-01 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
Schedule of Findings (Continued)
For the Year Ended September 30, 2013

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

2013-02 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.