

CITY OF STARKVILLE, MISSISSIPPI

AUDIT REPORT

SEPTEMBER 30, 2011

**CITY OF STARKVILLE, MISSISSIPPI
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Page</u>
Financial Section:	
Independent Auditors' Report	2
Management Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet - Governmental Funds	21
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds	24
Statement of Fund Net Assets - Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	27
Statement of Fiduciary Net Assets - Fiduciary Funds	28
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	29
Notes to the Basic Financial Statements	30

**CITY OF STARKVILLE, MISSISSIPPI
TABLE OF CONTENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Page</u>
Required Supplemental Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	46
Other Supplemental Information:	
General Fund:	
Combining Balance Sheet by Activity	48
Combining Statement of Revenues, Expenditures, and Changes In Fund Balance by Activity	49
Balance Sheet - Non-major Governmental Funds	56
Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-major Governmental Funds	57
Statement of Net Assets - Non-major Enterprise Funds	58
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Non-major Enterprise Funds	59
Statement of Cash Flows - Non-major Enterprise Funds	60
Schedule of Surety Bonds for Municipal Officials	61
Schedule of Bonded Indebtedness	62
Schedule of Long-Term Notes	63
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 <i>Government Auditing Standards</i>	68
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	71
Independent Auditors' Report on Compliance with State Laws and Regulations	74
Schedule of Findings	76
Schedule of Expenditures of Federal Awards	79

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Starkville, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Starkville, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Starkville, Mississippi, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2012, on our consideration of the City of Starkville, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 15 and 45 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Starkville, Mississippi
February 29, 2012

Watkins Ward & Stafford LLC

MANAGEMENT DISCUSSION AND ANALYSIS



CITY OF STARKVILLE MANAGEMENT DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

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, 2011. The intent of this discussion and analysis is to view the City's performance as a whole. Readers should also review the notes to the basic financial statements as well as the financial statements to fully develop their understanding of the City's overall financial performance and condition.

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

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

FINANCIAL HIGHLIGHTS

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

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

The City leaders understand the need for maintenance and improvement in the infrastructure that services the municipality. The Board of Aldermen has committed significant resources to new roads and improvements to existing roads and drainage as well as the infrastructure supporting commercial development through increased access to upgraded and expanded water lines. The City has increased its service area for utilities to the industrial area, Cornerstone Park, in order to insure that future development will not be hindered from considering sites within the City due to a lack of adequate utilities to support industrial growth opportunities. At every turn the City considers its opportunities for growth in all quadrants of the City and the needs that accompany any site development prospects.

Mississippi State University continues to increase its enrollment and to project record breaking future enrollment which benefits the local economy through increased sales tax figures and retail and restaurant activity within the region. This projected growth of the University is a driving force in the increased number of residential and commercial projects that have been presented to the development review process for the City. As a result of the presence of the University, there are also multiple special events that are hosted in this area for the local student population and the activities that they generate through concerts and sports. The City has also become involved in a statewide recognized Main Street Program that has enhanced the activities in the downtown area and that supplement the University activities during the sports seasons.

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

There is currently a hotel under construction and plans continue to be presented to the Building Department for near term commercial construction activity. The City has recently had a significant retailer open their doors for business and there is ongoing activity related to retail development on both the east and west sides of town along the state highway corridors. This increased construction activity and focus on hotel and restaurant construction is reasonably attributed to the additional activities at the Mississippi Horse Park, the increased success of the University's sports programs, the incremental growth of the special events including state wide soccer tournaments and activities utilizing the vast park system that is available through a joint agreement between the University and the City and the City school system.

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

Total net assets increased \$649,069 which represents a 1.43% increase from the prior fiscal year. The City's ending cash balance decreased by \$1,805,887 which represents a 18.73% decrease from the prior fiscal year.

The City had \$66,219,418 total revenues. Tax revenues account for \$10,209,165 or 15.42% of total revenues. Intergovernmental revenues in the form of reimbursements, shared revenue or grants, account for \$2,290,337 or 3.46% of total revenues.

The City had \$65,570,349 in total expenses, which represents a decrease of \$1,136,911 or 1.70% decrease over the prior fiscal year. Expenses in the amount of \$51,415,689 were offset by charges for services, grants or outside contributions. General revenues of \$14,803,729 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$15,963,683 in revenues and \$14,993,263 in expenditures. The General Fund's fund balance increased \$483,605 from the prior year.

Among major funds, the Road Maintenance Bond Fund had \$17,792 in revenues and \$1,937,707 in expenditures. The Road Maintenance Bond Fund balance decreased by \$1,919,915 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$1,280,510.

Long-term debt decreased by \$2,477,877.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

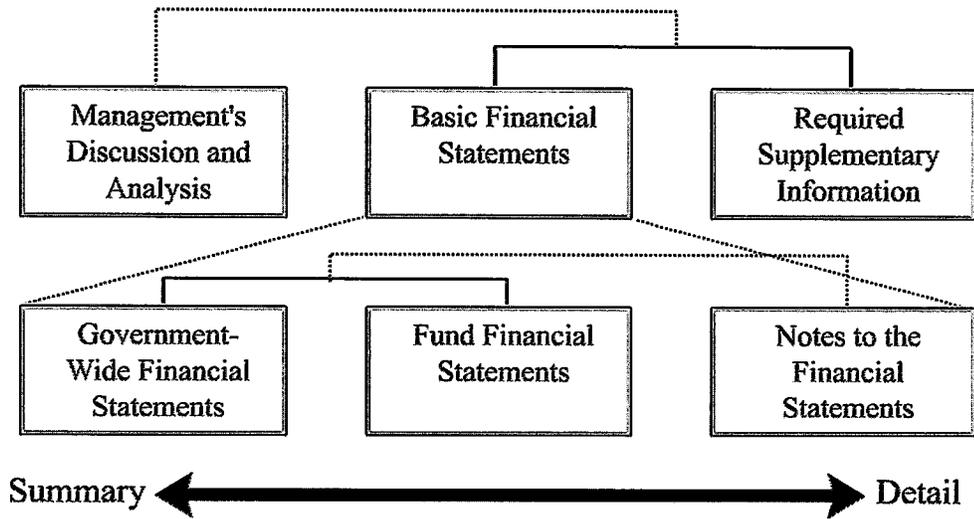


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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

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

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

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

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

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

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

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

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

The Government-wide Financial Statements can be found on pages 18 and 19 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 22 and 24, respectively.

The City maintains individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 21 and 23 of this report.

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

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 30 through 44 of this report.

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

The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on page 46 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 79 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – Net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Starkville, assets exceeded liabilities by \$46,011,181 as of September 30, 2011

By far, the largest portion of the City's net assets (79%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The City uses these capital assets to provide services to its citizens.

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

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2011.

	<u>2011</u>
Current assets	\$ 21,976,545
Capital assets, net	<u>63,226,910</u>
Total assets	<u>\$ 85,203,455</u>
Current liabilities	\$ 14,699,322
Long-term debt outstanding	<u>24,492,952</u>
Total liabilities	<u>\$ 39,192,274</u>
Net assets:	
Contributed Capital	\$ 9,179,784
Invested in capital assets, net of related debt	36,418,721
Restricted	3,304,098
Unrestricted	<u>(2,891,422)</u>

Total net assets \$ 46,011,181

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

- \$2,918,074 of long-term debt principal was retired.

Changes in Net Assets – The City’s total revenues for the fiscal year ended September 30, 2011 was \$66,219,418. The total cost for all services provided was \$65,570,349. The increase in net assets was \$649,069. The following table presents a summary of the change in net assets for the fiscal year ended September 30, 2011.

	<u>Current Year Amount</u>
Revenues:	
Program revenues	
Charges for services	\$ 49,125,352
Operating grants & contributions	2,290,337
Capital grants & contributions	510,000
General revenues	
Property taxes	4,057,448
Sales and Use taxes	5,582,059
Other taxes	569,658
Interest income	114,311
Transfers	78,912
Miscellaneous	<u>3,891,341</u>
Total Revenues	<u>\$ 66,219,418</u>
Expenses:	
General government	3,310,042
Public safety	8,073,381
Highways and Streets	2,471,303
Health and Welfare	273,294
Parks & Recreation	1,426,733
Other	2,387,456
Utilities	43,765,038
Sanitation	3,152,408
Interest on long-term debt	<u>710,694</u>
Total Expenses	<u>\$ 65,570,349</u>
Increase in Net Assets	<u>\$ 649,069</u>

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

The table also shows each function’s net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on City of Starkville taxpayers by each of these functions.

	Total Costs	Net Costs
General Government	\$ 3,310,042	\$ 1,416,991
Public Safety	8,073,381	7,409,191
Public Services	2,744,597	2,188,162
Parks and Recreation	1,426,733	1,426,733
Utilities	46,917,446	1,894,567

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 \$687,248, a decrease of \$1,490,067. The primary reasons for this decrease are highlighted in the analysis of governmental activities.

The General Fund is the principal operating fund of the City. The increase in the fund balance of the General Fund for the fiscal year was \$483,605 which is primarily due to increased grants.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2011, the City of Starkville’s total capital assets were \$156,139,094. 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 \$2,579,348.

Total accumulated depreciation as of September 30, 2011 was \$92,912,184 including \$4,940,234 of depreciation expense for the year. The balance in total net capital assets was \$63,226,910 at year-end.

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

Debt Administration – At September 30, 2011, the City of Starkville had \$26,808,189 in long-term debt outstanding. This includes general obligation bonds, other loans and obligations under capital lease. Of this debt \$2,315,237 is due within one year.

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

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

CURRENT AND FUTURE ITEMS OF IMPACT

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

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

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

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

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the City of Starkville City Clerk's office at 101 Lampkin Street, Starkville, Mississippi 39759.

BASIC FINANCIAL STATEMENTS

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 3,652,698	4,184,507	7,837,205
Cash - restricted	567,302	-	567,302
Accounts receivable, net	594,815	7,115,526	7,710,341
Other receivables, net	100,131	32,549	132,680
Notes receivable, net	41,713	-	41,713
Due from other departments	55,670	168,803	224,473
Due from other funds	261,852	33,500	295,352
Prepaid expense	-	3,399,828	3,399,828
Inventory	58,751	868,761	927,512
Capital assets:			
Land and construction in progress	1,247,782	2,704,014	3,951,796
Property and equipment	61,653,225	90,534,073	152,187,298
Less: accumulated depreciation	(53,186,377)	(39,725,807)	(92,912,184)
Other assets	-	840,139	840,139
Total assets	<u>15,047,562</u>	<u>70,155,893</u>	<u>85,203,455</u>
LIABILITIES			
Accounts payable	1,360,678	6,769,450	8,130,128
Accrued liabilities	313,344	351,793	665,137
Due to other departments	-	1,410,377	1,410,377
Due to other funds	125,040	39,527	164,567
Customer deposits	-	1,854,830	1,854,830
Other liabilities	-	159,046	159,046
Long-term liabilities:			
Due within one year	1,343,033	972,204	2,315,237
Due in more than one year	11,218,219	13,274,733	24,492,952
Total liabilities	<u>14,360,314</u>	<u>24,831,960</u>	<u>39,192,274</u>
NET ASSETS			
Nonspendable net assets -			
Invested in capital assets, net of related debt	(2,846,622)	39,265,343	36,418,721
Nonspendable net assets - other	58,751	4,268,589	4,327,340
Restricted net assets	1,596,700	-	1,596,700
Unassigned net assets	1,878,419	1,790,001	3,668,420
Total net assets	<u>\$ 687,248</u>	<u>45,323,933</u>	<u>46,011,181</u>

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) / Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 3,310,042	295,168	1,087,883	-	(1,926,991)
Public safety					
Police	4,330,184	-	244,764	-	(4,085,420)
Fire	3,495,219	-	330,765	-	(3,164,454)
Public inspection	204,864	18,171	-	-	(186,693)
Civil defense	43,114	-	70,490	-	27,376
Highways and streets	2,471,303	-	556,435	-	(1,914,868)
Health and sanitation	273,294	-	-	-	(273,294)
Culture and recreation	1,426,733	-	-	-	(1,426,733)
Other	2,387,456	-	-	-	(2,387,456)
Interest on long-term debt	710,694	-	-	-	(710,694)
Total governmental activities	18,652,903	313,339	2,290,337	-	(16,049,227)
Business-type Activities					
Electric utilities	37,635,326	40,489,044	-	-	2,853,718
Water and sewer utilities	6,129,712	5,785,885	-	-	(343,827)
Sanitation and waste	2,884,558	2,249,278	-	-	(635,280)
Sanitary landfill	267,850	287,806	-	-	19,956
Total business-type activities	46,917,446	48,812,013	-	-	1,894,567
Total primary government	\$ 65,570,349	49,125,352	2,290,337	-	(14,154,660)
			Governmental Activities	Business-type Activities	Total
Changes in Net Assets:					
Net (expense) / revenue			\$ (16,049,227)	1,894,567	(14,154,660)
General revenues					
Taxes					
Property taxes			4,057,448	-	4,057,448
Sales and use taxes			5,582,059	-	5,582,059
Other taxes			569,658	-	569,658
Investment income			85,391	28,920	114,311
Other			3,887,811	3,530	3,891,341
Transfers			(133,207)	212,119	78,912
Proceeds from bond issuance			510,000	-	510,000
Total general revenues and transfers			14,559,160	244,569	14,803,729
Change in net assets			(1,490,067)	2,139,136	649,069
Net assets, October 1, 2010			2,177,315	43,184,797	45,362,112
Net assets, September 30, 2011			\$ 687,248	45,323,933	46,011,181

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

**CITY OF STARKVILLE, MISSISSIPPI
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<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	\$ 1,951,685	1,045,588	42,415	643,959	3,683,647
Cash - restricted	68,856	-	-	498,446	567,302
Receivables (Net)					
Accounts	594,605	-	210	-	594,815
Other	11,463	-	295	88,373	100,131
Notes receivable (Net)	-	-	-	41,713	41,713
Due from other departments	22,853	-	-	-	22,853
Due from other funds	259,961	-	-	-	259,961
Inventory	45,547	-	-	-	45,547
Total Assets	<u>\$ 2,954,970</u>	<u>1,045,588</u>	<u>42,920</u>	<u>1,272,491</u>	<u>5,315,969</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 937,375	337,490	36,528	2,344	1,313,737
Other liabilities	295,174	-	-	6,476	301,650
Due to other funds	90,416	-	-	-	90,416
Total Liabilities	<u>1,322,965</u>	<u>337,490</u>	<u>36,528</u>	<u>8,820</u>	<u>1,705,803</u>
<u>FUND BALANCES</u>					
Fund balances - nonspendable	45,547	-	-	-	45,547
Fund balances - restricted					
Restricted for fire protection	24,204	-	-	-	24,204
Restricted for police protection	66,832	-	-	3,264	70,096
Restricted for airport projects	(40,638)	-	-	-	(40,638)
Restricted for parks and recreation	(291,223)	-	6,392	-	(284,831)
Restricted for debt service	-	-	-	584,810	584,810
Restricted for capital projects	-	708,098	-	534,961	1,243,059
Fund balances - unassigned	1,827,283	-	-	140,636	1,967,919
Total Fund Balances	<u>1,632,005</u>	<u>708,098</u>	<u>6,392</u>	<u>1,263,671</u>	<u>3,610,166</u>
Total Liabilities and Fund Balances	<u>\$ 2,954,970</u>	<u>1,045,588</u>	<u>42,920</u>	<u>1,272,491</u>	<u>5,315,969</u>

See accompanying notes to basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

Fund Balances - total governmental funds		\$ 3,610,166
Amounts reported for governmental activities in Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	62,759,278	
Less accumulated depreciation	<u>(53,099,458)</u>	9,659,820
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
		(12,561,252)
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>(21,486)</u>
Net Assets of Governmental Activities		<u>\$ 687,248</u>

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	General	Road Maintenance Bond Fund	Park Commission	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General property taxes	\$ 4,057,448	\$ -	\$ -	-	4,057,448
Licenses and permits	235,673	-	-	-	235,673
Intergovernmental:					
Federal	819,349	-	-	159,799	979,148
State of Mississippi	6,506,072	-	-	569,658	7,075,730
Oktibbeha County and Mississippi State	897,176	-	-	-	897,176
Fines and forfeits	1,235,637	-	-	-	1,235,637
Interest income	67,097	17,792	200	302	85,391
Penalties and interest - prior year taxes	18,171	-	-	-	18,171
Other revenues	2,127,060	-	216,760	72,681	2,416,501
Total Revenues	<u>15,963,683</u>	<u>17,792</u>	<u>216,960</u>	<u>802,440</u>	<u>17,000,875</u>
EXPENDITURES					
General government	3,249,899	-	-	-	3,249,899
Public safety:					
Police	4,017,387	-	-	-	4,017,387
Fire	3,211,774	-	-	-	3,211,774
Public inspection	166,132	-	-	-	166,132
Civil defense	4,382	-	-	-	4,382
Highways and streets	1,177,700	-	-	-	1,177,700
Health and sanitation	234,563	-	-	-	234,563
Culture and recreation	1,014,800	-	215,679	-	1,230,479
Other	209,591	-	-	83,187	292,778
Capital outlay	409,833	1,937,707	-	775,424	3,122,964
Debt service:					
Principal	1,038,662	-	-	243,277	1,281,939
Interest	258,540	-	-	452,154	710,694
Total Expenditures	<u>14,993,263</u>	<u>1,937,707</u>	<u>215,679</u>	<u>1,554,042</u>	<u>18,700,691</u>
Excess (deficiency) of revenues over (under) expenditures	970,420	(1,919,915)	1,281	(751,602)	(1,699,816)
OTHER FINANCING SOURCES (USES)					
Transfers in	48,946	-	-	10,180	59,126
Transfers out	(123,814)	-	-	(25,180)	(148,994)
Inception of capital leases	-	-	-	-	-
Proceeds of bond issuance	-	-	-	510,000	510,000
Transfers from other departments	-	-	-	278,740	278,740
Transfers to other departments	(411,947)	-	-	-	(411,947)
Net other financing sources (uses)	<u>(486,815)</u>	<u>-</u>	<u>-</u>	<u>773,740</u>	<u>286,925</u>
Net change in fund balances	483,605	(1,919,915)	1,281	22,138	(1,412,891)
Fund balances, October 1, 2010	<u>1,148,400</u>	<u>2,628,013</u>	<u>5,111</u>	<u>1,241,533</u>	<u>5,023,057</u>
Fund balances, September 30, 2011	<u>\$ 1,632,005</u>	<u>708,098</u>	<u>6,392</u>	<u>1,263,671</u>	<u>3,610,166</u>

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

Net change in Fund Balances - total governmental funds \$ (1,412,891)

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	1,028,286	
Less current year depreciation	<u>(1,875,118)</u>	(846,832)

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

Issuance of bonds, notes and capital leases	(510,000)	
Principal payments	<u>1,281,939</u>	771,939

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

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.

(2,283)

Change in Net Assets of Governmental Funds

\$ (1,490,067)

See accompanying notes to the basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	<u>June 30, 2011</u>	<u>September 30, 2011</u>			<u>September 30, 2011</u>	
	<u>Electric Department</u>	<u>Water & Sewer Department</u>	<u>Sanitation and Waste Fund</u>	<u>Non-major Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,335,706	2,744,284	(80,962)	185,479	4,184,507	(30,949)
Accounts receivables, net	5,448,975	1,422,987	211,197	32,367	7,115,526	-
Other receivables, net	31,833	-	-	716	32,549	-
Due from other funds	-	-	33,500	-	33,500	32,817
Due from other departments	118,241	50,562	-	-	168,803	1,891
Interest receivable	-	-	-	-	-	-
Prepaid expense	3,399,828	-	-	-	3,399,828	-
Inventory	704,435	164,326	-	-	868,761	13,204
Total current assets	11,039,018	4,382,159	163,735	218,562	15,803,474	16,963
Restricted assets:						
Cash - restricted	-	-	-	-	-	-
Total restricted assets	-	-	-	-	-	-
Non-current assets:						
Other assets	840,139	-	-	-	840,139	-
Capital assets:						
Fixed assets, net of depreciation	29,898,261	22,222,303	1,181,176	210,540	53,512,280	54,810
Total non-current assets	30,738,400	22,222,303	1,181,176	210,540	54,352,419	54,810
Total Assets	41,777,418	26,604,462	1,344,911	429,102	70,155,893	71,773
LIABILITIES						
Current liabilities:						
Accounts payable	5,965,681	373,145	314,845	115,779	6,769,450	46,941
Accrued liabilities	106,042	185,170	54,490	6,091	351,793	11,694
Due to other departments	1,371,200	2,788	-	36,389	1,410,377	-
Due to other funds	-	9,435	30,092	-	39,527	34,624
Accrued interest - long-term debt	41,590	-	-	-	41,590	-
Bonds payable, current	525,000	-	-	-	525,000	-
Notes payable, current	-	447,204	-	-	447,204	-
Total current liabilities	8,009,513	1,017,742	399,427	158,259	9,584,941	93,259
Non-current liabilities:						
Bonds payable, non-current	5,778,904	-	-	-	5,778,904	-
Notes payable, non-current	-	7,495,829	-	-	7,495,829	-
Customer deposits	1,653,088	201,742	-	-	1,854,830	-
Other liabilities	117,456	-	-	-	117,456	-
Total non-current liabilities	7,549,448	7,697,571	399,427	158,259	15,247,019	93,259
Total Liabilities	15,558,961	8,715,313	399,427	158,259	24,831,960	93,259
NET ASSETS						
Nonspendable net assets -						
Invested in capital assets, net of related debt	23,594,357	14,279,270	1,181,176	210,540	39,265,343	54,810
Nonspendable net assets - other	4,104,263	164,326	-	-	4,268,589	-
Unassigned net assets	(1,480,163)	3,445,553	(235,692)	60,303	1,790,001	(76,296)
Total Net Assets	\$ 26,218,457	17,889,149	945,484	270,843	45,323,933	(21,486)

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	September 30, 2011			June 30, 2011		
	Total	Non-Major	Sanitation and	Water & Sewer	Electric	Department
	Enterprise	Enterprise	Waste Fund	Department	Department	Department
	Funds	Funds	Funds	Funds	Funds	Funds
	Internal	Service	Fund	Internal	Service	Fund
OPERATING REVENUES						
Charges for services	48,812,013	48,812,013	2,249,278	5,785,885	40,489,044	40,489,044
Total operating revenues	48,812,013	287,806	2,249,278	5,785,885	40,489,044	40,489,044
OPERATING EXPENSES						
Purchased power	32,180,865	-	-	-	32,180,865	-
Operating and maintenance	11,139,750	235,949	2,663,001	4,796,240	3,444,560	3,444,560
Depreciation	3,068,685	27,565	213,976	1,131,612	1,695,532	1,695,532
Total operating expenses	46,389,300	263,514	2,876,977	5,927,852	37,320,957	37,320,957
Operating income (loss)	2,422,713	24,292	(627,699)	(141,967)	3,168,087	3,168,087
NON-OPERATING REVENUES (EXPENSES)						
Other revenue	3,530	-	-	3,530	-	-
Interest on investments	28,920	-	-	-	28,920	-
Amortization expense	(24,646)	-	-	-	(24,646)	-
Interest and fiscal charges	(488,361)	(4,336)	(7,581)	(201,860)	(274,584)	(274,584)
Other expenses	(15,139)	-	-	-	(15,139)	-
Total non-operating revenues (expenses)	(495,696)	(4,336)	(7,581)	(198,330)	(285,449)	(285,449)
Income (loss) before transfers	1,927,017	19,956	(635,280)	(340,297)	2,882,638	2,882,638
Transfers in	212,119	-	212,119	-	-	-
Change in net assets	2,139,136	19,956	(423,161)	(340,297)	2,882,638	2,882,638
Total net assets, beginning	43,184,797	250,887	1,368,645	18,229,446	23,335,819	23,335,819
Total net assets, ending	45,323,933	270,843	945,484	17,889,149	26,218,457	26,218,457

See accompanying notes to the basic financial statements.

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	June 30, 2011	September 30, 2011			September 30, 2011	
	Electric Department	Water & Sewer Department	Sanitation and Waste Fund	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities						
Cash received from customers	\$ 39,804,857	5,784,121	2,385,749	286,112	48,260,839	-
Cash received from other funds			-	-		432,080
Cash paid to employees	(2,063,002)	(1,467,961)	(904,497)	(103,852)	(4,539,312)	(168,454)
Cash paid to suppliers	(30,016,208)	(3,420,353)	(1,473,465)	(316,248)	(35,226,274)	(345,655)
Other receipts (payments)	(4,801,207)	5,804	(11,268)	-	(4,806,671)	-
Net Cash Flows from Operating Activities	2,924,440	901,611	(3,481)	(133,988)	3,688,582	(82,029)
Cash Flows from Noncapital Financing Activities						
Transfers in	-	-	-	-	-	89,868
Net Cash Flows from Noncapital Financing Activities	-	-	-	-	-	89,868
Cash Flows from Capital and Related Financing Activities						
Proceeds from issuance of debt	2,687,428	-	-	-	2,687,428	-
Payment of debt	(3,675,000)	(436,108)	-	-	(4,111,108)	-
Payment of interest	(296,313)	(201,860)	-	-	(498,173)	-
Purchase of capital assets	(1,999,592)	(130,793)	(369,334)	(33,500)	(2,533,219)	-
Other receipts (payments)	185,326	3,530	-	-	188,856	-
Net Cash Flows from Capital and Related Financing Activities	(3,098,151)	(765,231)	(369,334)	(33,500)	(4,266,216)	-
Cash Flows from Investing Activities						
Receipt of interest	28,920	-	-	-	28,920	-
Net Cash Flows from Investing Activities	28,920	-	-	-	28,920	-
Net Change in Cash	(144,791)	136,380	(372,815)	(167,488)	(548,714)	7,839
Cash and Cash Equivalents, October 1, 2010	1,480,497	2,607,904	291,853	352,967	4,733,221	(38,788)
Cash and Cash Equivalents, September 30, 2011	\$ 1,335,706	2,744,284	(80,962)	185,479	4,184,507	(30,949)
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:						
Operating Income (Loss)	\$ 2,882,638	(141,967)	(635,280)	19,956	2,125,347	(92,150)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	1,695,532	1,131,612	213,976	27,565	3,068,685	2,285
Amortization	13,658	-	-	-	13,658	-
Changes in operating assets and liabilities:						
(Increase) decrease in receivables	(684,187)	(1,764)	136,471	(1,694)	(551,174)	4,518
(Increase) decrease in due from other funds		3,440	(33,500)	-	(30,060)	(32,817)
(Increase) decrease in inventory	(33,314)	26,276	-	-	(7,038)	18,200
(Increase) decrease in other assets	(3,253,741)	(8,600)	-	-	(3,262,341)	-
Increase (decrease) in payables	2,197,971	(118,350)	285,039	(213,920)	2,150,740	17,814
Increase (decrease) in due to other funds	-	7,299	30,092	34,105	71,496	121
Increase (decrease) in accrued liabilities	-	(4,935)	-	-	(4,935)	-
Increase (decrease) in customer deposits	105,883	8,600	-	-	114,483	-
Increase (decrease) in other liabilities	-	-	(279)	-	(279)	-
Total adjustments	41,802	1,043,578	631,799	(153,944)	1,563,235	10,121
Net cash provided (used) by operating activities	\$ 2,924,440	901,611	(3,481)	(133,988)	3,688,582	(82,029)

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
SEPTEMBER 30, 2011**

	Employee Benefit Trust Fund	Agency Funds
<u>ASSETS</u>		
Cash and cash equivalents	\$ -	573,617
Cash - restricted	57,820	1,495,763
Due from other funds	-	74,660
	<u>57,820</u>	<u>2,144,040</u>
<u>LIABILITIES</u>		
Due to other funds	-	351,304
Due to outside entities	-	688,930
	<u>-</u>	<u>1,040,234</u>
<u>NET ASSETS</u>		
Restricted net assets - held in trust	<u>\$ 57,820</u>	<u>1,103,806</u>

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Employee Benefit Trust Fund
ADDITIONS	
Investment earnings	
Interest	\$ -
Total investment earnings	-
Total Additions	-
DEDUCTIONS	
Transfers out	
Total Deductions	-
Change in Net Assets	-
Net Assets, October 1, 2009	57,820
Net Assets, September 30, 2010	\$ 57,820

See accompanying notes to the basic financial statements.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. REPORTING ENTITY

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

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Included within the reporting entity:

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

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

Excluded from the reporting entity:

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

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

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

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

1. Governmental Funds

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

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Proprietary Funds

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

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Fiduciary Funds

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

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

D. BASIS OF ACCOUNTING

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

1. Accrual:

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

2. Modified Accrual:

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

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

2. Inventory:

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

3. Capital Assets:

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

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

4. Revenues:

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Expenditures:

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

6. Compensated Absences:

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

7. Interfund Activity:

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

8. Basis of Budgeting

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

9. Net Assets

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

The City does not have any committed net assets.

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

The City does not have any assigned net assets.

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

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

10. Use of Estimates

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 2: CASH, OTHER DEPOSITS, AND INVESTMENTS

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

The carrying amount of the City's deposits with financial institutions was \$7,068,801 on September 30, 2011, and the bank balance was \$9,615,676.

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, 2011, are:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental Funds:		
General Fund	\$ 259,961	90,416
Proprietary Funds:		
Internal Service	1,891	34,624
Fiduciary Funds:		
Payroll Clearing Fund	<u>70,545</u>	<u>106,311</u>
	<u>\$ 332,397</u>	<u>231,351</u>

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance				Balance
	October 1, 2010	Adjustments	Increases	Decreases	September 30, 2011
Governmental Activities					
Non-depreciable: Land	\$ 1,247,782	-	-	-	1,247,782
Depreciable:					
Buildings	3,336,413	-	887,328	-	4,223,741
Building Improvements	-	-	-	-	-
Improvements other than buildings	49,669,603	-	-	-	49,669,603
Vehicles	4,295,650	(307,089)	30,975	-	4,019,536
Machinery and equipment	3,636,587	(248,459)	210,488	-	3,598,616
Total	60,938,253	(555,548)	1,128,791	-	61,511,496
Less accumulated depreciation					
Buildings	(1,426,409)	-	(103,654)	-	(1,530,063)
Building Improvements	-	-	-	-	-
Improvements other than buildings	(44,055,610)	-	(1,276,882)	-	(45,332,492)
Vehicles	(2,922,368)	207,866	(258,534)	-	(2,973,036)
Machinery and equipment	(3,163,381)	135,562	(236,048)	-	(3,263,867)
Total	(51,567,768)	343,428	(1,875,118)	-	(53,099,458)
Net book value	9,370,485	(212,120)	(746,327)	-	8,412,038
Internal Service Fund					
Total depreciable assets	141,729	-	-	-	141,729
Less accumulated depreciation	(84,634)	-	(2,285)	-	(86,919)
Internal Service Fund, net	57,095	-	(2,285)	-	54,810
Governmental Activities Capital Assets, net	\$ 10,675,362	(212,120)	(748,612)	-	9,714,630
Business-type Activities					
Non-depreciable					
Land - Starkville Electric	\$ 676,971	-	3,455	-	680,426
Land - Landfill	16,800	-	-	-	16,800
Land - Water	105,623	-	-	-	105,623
Construction in progress - Stk Elec	6,524,322	-	(4,623,157)	-	1,901,165
Total	7,323,716	-	(4,619,702)	-	2,704,014
Depreciable					
Starkville Electric Property & equipment	34,773,813	(2,639)	6,344,262	(720,417)	40,395,019
Sanitation property & equipment	2,438,516	555,548	369,334	-	3,363,398
Landfill property & equipment	889,791	-	33,500	-	923,291
Water property & equipment	45,721,572	-	130,793	-	45,852,365
Total	83,823,692	552,909	6,877,889	(720,417)	90,534,073
Less accumulated depreciation					
Starkville Electric Property & Equipment	(12,380,905)	85,218	(1,708,401)	(925,738)	(13,078,350)
Sanitation property & equipment	(1,624,817)	(343,428)	(213,976)	-	(2,182,221)
Landfill property & equipment	(705,555)	-	(23,996)	-	(729,551)
Water property & equipment	(22,604,073)	-	(1,131,612)	-	(23,735,685)
Total	(37,315,350)	(258,210)	(3,077,985)	(925,738)	(39,725,807)
Net book value	46,508,342	294,699	3,799,904	(1,646,155)	50,808,266
Business-type Activities Capital Assets, net	\$ 53,832,058	294,699	(819,798)	(1,646,155)	53,512,280

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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	\$ 60,143
Public safety - Police	235,333
Public safety - Fire	205,981
Highways and streets	1,216,139
Culture and recreation	<u>157,522</u>
 Total governmental activities depreciation expense	 <u>\$ 1,875,118</u>
 Business-type activities:	
Electric	\$ 1,695,532
Water and sewer	1,131,612
Sanitation	213,976
Landfill	<u>27,565</u>
 Total business-type activities depreciation expense	 <u>\$ 3,068,685</u>

NOTE 5: LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Balance			Balance	Amount Due
	October 1, 2010	Additions	Reductions	September 30, 2011	Within One
					Year
Governmental Activities					
General obligation bonds					
Parks and Recreation, Series 2007	\$ 4,855,000	-	190,000	4,665,000	200,000
Public Improvement, Series 2007	385,000	-	190,000	195,000	195,000
Public Improvement, Series 2009	5,745,000	-	520,000	5,225,000	535,000
TIF Revenue Bonds, Series 2011	-	510,000	-	510,000	24,000
Notes payable					
Capital Improvements Revolving Loan	245,697	-	36,231	209,466	38,335
Capital Improvements Revolving Loan	232,911	-	37,268	195,643	39,433
Capital Improvements - Police Comm	126,338	-	27,320	99,018	28,388
Capital Improvements - Fire Comm	73,995	-	17,449	56,546	18,131
Capital Improvements - Fire Truck	536,998	-	79,827	457,171	83,467
Capital Improvements - Police Vehicles	207,164	-	101,105	106,059	106,059
Capital Improvements - Excavator	49,515	-	29,462	20,053	20,053
Capital Improvements-Pub Safety Info Sys	164,794	-	53,277	111,517	55,167
Compensated absences	698,079	12,700	-	710,779	
Total	<u>\$ 13,320,491</u>	<u>522,700</u>	<u>1,281,939</u>	<u>12,561,252</u>	<u>1,343,033</u>

CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

	Balance			Balance September 30, 2011	Amount Due
	October 1, 2010	Additions	Reductions		Within One Year
Business-type Activities					
Bonds and notes payable					
Electric Dept '96 G.O. Bond	\$ 390,000	-	390,000	-	-
Electric System Refunding Bonds, Series 2001	270,000	-	270,000	-	-
Electric System Bonds, Series 2001	2,735,000	-	185,000	2,550,000	195,000
Electric System Revenue Bonds, Series 2004	2,230,000	-	175,000	2,055,000	185,000
Electric System Revenue Bonds, Series 2006	1,700,000	-	105,000	1,595,000	115,000
Drinking Water Improvements Revolving Loan	430,105	-	29,741	400,364	30,637
Drinking Water Improvements Revolving Loan	1,039,880	-	59,948	979,932	62,080
Drinking Water Improvements Revolving Loan	1,416,923	-	59,815	1,357,108	62,252
Drinking Water Improvements Revolving Loan	789,143	-	40,885	748,258	41,919
Water Pollution Control Revolving Loan	3,006,646	-	174,636	2,832,010	177,715
Water Pollution Control Revolving Loan	260,953	-	11,101	249,852	11,410
CAT D6R Lease	147,951	-	33,694	114,257	34,813
MDA Capital Improvements Loan	478,676	-	19,865	458,811	20,266
MDA Capital Improvements Loan	956,813	-	40,115	916,698	40,925
2011 International 7400 Trucks Lease	-	303,687	41,335	262,352	51,072
Compensated absences	104,485	1,557	-	106,042	-
Total	\$ 15,956,575	305,244	1,636,135	14,625,684	1,028,089

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

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

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

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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, 2011.

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 12.00% 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, 2011, 2010, and 2009 were \$999,641, \$982,100, and \$977,320, 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 \$357,890 in 2011. 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, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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.

**CITY OF STARKVILLE, MISSISSIPPI
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE 11: ECONOMIC DEVELOPMENT, TOURISM AND CONVENTION TAX

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

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

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

NOTE 12: SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 29, 2012, which is the date the financial statements were issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Revisions	Revised Budget	Actual	Variance
REVENUES					
General property taxes	\$ 3,901,497	95,000	3,996,497	4,057,448	60,951
Licenses and permits	402,733	(156,583)	246,150	235,673	(10,477)
Intergovernmental					
Federal	527,885	434,588	962,473	819,349	(143,124)
State of Mississippi	6,424,521	(24,321)	6,400,200	6,506,072	105,872
Oktribbcha County and Mississippi State	2,629,271	(1,922,528)	706,743	897,176	190,433
Fines and forfeits	1,305,518	(80,998)	1,224,520	1,235,637	11,117
Interest income	20	60,000	60,020	67,097	7,077
Penalties and interest - prior year taxes	-	13,553	13,553	18,171	4,618
Other revenues	134,185	1,839,995	1,974,180	2,127,060	152,880
Total Revenues before Prior Year Fund Balance	15,325,630	258,706	15,584,336	15,963,683	379,347
Prior year fund balance:					
Appropriated for current year budget	717,348	-	717,348		(717,348)
Total Revenues and Prior Year Fund Balance	16,042,978	258,706	16,301,684	15,963,683	(338,001)
EXPENDITURES					
General government	4,087,791	(1,070,630)	3,017,161	3,249,899	(232,738)
Public safety:					
Police	4,135,141	68,112	4,203,253	4,017,387	185,866
Fire	3,640,790	(121,959)	3,518,831	3,211,774	307,057
Public inspection	122,673	23,668	146,341	166,132	(19,791)
Civil defense	61,200	39,966	101,166	4,382	96,784
Highways and streets	741,792	454,823	1,196,615	1,177,700	18,915
Health and sanitation	195,152	332,130	527,282	234,563	292,719
Culture and recreation	1,084,800	(70,000)	1,014,800	1,014,800	-
Other	189,836	51,589	241,425	209,591	31,834
Capital outlay	400,000	9,834	409,834	409,833	1
Debt service:					
Principal	1,009,742	(208,426)	801,316	1,038,662	(237,346)
Interest		208,426	208,426	258,540	(50,114)
Total Expenditures	15,668,917	(282,467)	15,386,450	14,993,263	393,187
Excess (deficiency) of revenues over (under) expenditures	374,061	541,173	915,234	970,420	55,186
OTHER FINANCING SOURCES (USES)					
Transfers in	25,000	-	25,000	48,946	23,946
Transfers out	-	(560,973)	(560,973)	(535,761)	25,212
Other financing sources (uses)	-	-	-	-	-
Net other financing sources (uses)	25,000	(560,973)	(535,973)	(486,815)	49,158
Excess of revenues and other sources over expenditures and other uses	399,061	(19,800)	379,261	483,605	104,344
Fund balances, October 1, 2010 (Non-GAAP budgetary basis)	420,102		420,102	1,148,400	728,298
Less budgeted fund balance	-	-	-	-	-
Fund balances, September 30, 2011 (Non-GAAP budgetary basis)	\$ 819,163		799,363	1,632,005	832,642

OTHER SUPPLEMENTAL INFORMATION

**CITY OF STARBUCK, MISSISSIPPI
COMBINING BALANCE SHEET BY ACTIVITY
GENERAL FUND
SEPTEMBER 30, 2011**

	General	Restricted	Restricted	Parks and	Multi-Unit	Airport	Subtotal	Eliminating	Total
Assets	Activities	Police	Fire	Recreation	Task Force	Activities		Entries	General
	Activities	Activities	Activities	Activities	Operations	Activities		Fund	Fund
Cash and cash equivalents	\$ 1,959,976	-	24,204	2,815	25,937	(37,043)	1,951,685	-	1,951,685
Cash - restricted	-	44,652	-	-	-	-	68,856	-	68,856
Receivables (Net)	593,383	-	-	997	-	225	594,605	-	594,605
Accounts	11,463	-	-	-	-	-	11,463	-	11,463
Due from other departments	22,853	-	-	-	-	-	22,853	-	22,853
Due from other funds	259,961	-	-	-	-	-	259,961	-	259,961
Inventory	45,547	-	-	-	-	-	45,547	-	45,547
Total Assets	\$ 2,893,183	44,652	24,204	3,812	25,937	(36,818)	2,954,970	-	2,954,970
Liabilities	\$ 929,937	3,757	-	(139)	-	3,820	937,375	-	937,375
Accounts payable	-	-	-	295,174	-	-	295,174	-	295,174
Due to other departments	90,416	-	-	-	-	-	90,416	-	90,416
Due to other funds	1,020,353	3,757	-	295,035	-	3,820	1,322,965	-	1,322,965
Total Liabilities	1,020,353	3,757	-	295,035	-	3,820	1,322,965	-	1,322,965
Fund Equity	45,547	-	-	-	-	-	45,547	-	45,547
Fund balances - nonspendable	-	-	24,204	-	-	-	24,204	-	24,204
Restricted for fire protection	-	-	-	-	-	-	-	-	-
Restricted for police protection	-	40,895	-	-	25,937	-	66,832	-	66,832
Restricted for airport projects	-	-	-	(291,223)	-	(40,638)	(40,638)	-	(40,638)
Restricted for parks and recreation	-	-	-	-	-	-	-	-	-
Fund balances - unassigned	1,827,283	-	-	-	-	-	1,827,283	-	1,827,283
Total Fund Equity	1,872,830	40,895	24,204	(291,223)	25,937	(40,638)	1,632,005	-	1,632,005
Total Liabilities and Fund Equity	\$ 2,893,183	44,652	24,204	3,812	25,937	(36,818)	2,954,970	-	2,954,970

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Multi-Unit	Drug Task Force	Operations	Airport	Total
General	4,057,448	-	-	4,057,448
Taxes	-	-	-	-
General property taxes	-	-	-	-
Licenses and permits	-	-	-	-
Privilege license	78,003	-	-	78,003
Permits and inspections	141,640	-	-	141,640
Franchise fees	16,030	-	-	16,030
Intergovernmental	-	-	-	-
Federal	-	-	-	-
DUI	159,485	-	-	159,485
JAG	11,885	-	-	11,885
FAA	-	-	172,382	172,382
State energy grant	106,560	-	-	106,560
Childcare grant	298,547	-	-	298,547
Homeland security grant	70,490	-	-	70,490
State of Mississippi	-	-	-	-
General sales tax	5,507,531	-	-	5,507,531
Liquor licenses	56,475	-	-	56,475
Municipal aid - gas tax	18,053	-	-	18,053
Law enforcement assistance grants	73,394	-	-	73,394
Fire protection grants	-	122,559	-	122,559
Municipal aid	25,189	-	-	25,189
Homestead	129,124	-	-	129,124
Tennessee Valley Authority	489,075	-	-	489,075
Housing Authority	76,600	-	-	76,600
Miscellaneous	8,072	-	-	8,072
OkTibbeha County and Mississippi State	556,435	-	-	556,435
Road maintenance	-	-	-	-
Airport support	3,913	-	111,782	115,695

49
WATKINS, WARD & STAFFORD
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Multi-Unit	Drug Task	Force	Operations	Airport	Total
Fire control	-	-	-	-	-	208,206
Lien of tax	-	-	-	-	-	16,840
Fines and forfeits	-	-	-	-	-	1,235,637
Interest income	-	-	-	-	-	67,097
Penalties and interest - prior years taxes	-	-	-	-	-	18,171
Miscellaneous	-	-	-	-	-	1,266,087
Electric department administration	-	-	-	-	-	71,232
Mississippi Valley Gas	-	-	-	-	-	180
Rents	-	-	-	-	53,736	173,823
TV Cable Franchise	-	-	-	-	-	95,000
Administration/Water	-	-	-	-	-	95,000
Administration/Sanitation	-	-	-	-	-	-
Inception of Capital Lease	-	-	-	-	-	269,736
Other	-	-	-	-	-	16,308
Total Revenues	122,564	-	-	-	423,858	15,400,953
Expenditures						
General government:						
Legislative	-	-	-	-	-	123,925
Personal services	-	-	-	-	-	82,183
Other services and charges	-	-	-	-	-	206,108
Total Legislative	-	-	-	-	-	206,108

CITY OF STARKVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Restricted	Police	Fire	Restricted	Parks and Recreation	Multi-Unit Drug Task Force	Operations	Airport	Activities	Total
Judicial	339,247	-	-	-	-	-	-	-	-	-	339,247
Personal services	12,773	-	-	-	-	-	-	-	-	-	12,773
Supplies	23,265	-	-	-	-	-	-	-	-	-	23,265
Other services and charges	375,285	-	-	-	-	-	-	-	-	-	375,285
Executive	371,996	-	-	-	-	-	-	-	-	-	371,996
Personal services	10,590	-	-	-	-	-	-	-	-	-	10,590
Supplies	62,413	-	-	-	-	-	-	-	-	-	62,413
Other services and charges	18,242	-	-	-	-	-	-	-	-	-	18,242
Capital outlay	463,241	-	-	-	-	-	-	-	-	-	463,241
Total Executive	7,544	-	-	-	-	-	-	-	-	-	7,544
Election	7,544	-	-	-	-	-	-	-	-	-	7,544
Other services and charges	7,544	-	-	-	-	-	-	-	-	-	7,544
Total Election	323,466	-	-	-	-	-	-	-	-	-	323,466
City Clerk and Tax Collector	96,352	-	-	-	-	-	-	-	-	-	96,352
Other services and charges	419,818	-	-	-	-	-	-	-	-	-	419,818
Total City Clerk and Tax Collector	76,723	-	-	-	-	-	-	-	-	-	76,723
Legal	174,394	-	-	-	-	-	-	-	-	-	174,394
Personal services	134,066	-	-	-	-	-	-	-	-	-	134,066
Other services and charges	251,117	-	-	-	-	-	-	-	-	-	251,117
Total Legal	15,468	-	-	-	-	-	-	-	-	-	15,468
City Planner	5,202	-	-	-	-	-	-	-	-	-	5,202
Personal services	134,066	-	-	-	-	-	-	-	-	-	134,066
Supplies	5,202	-	-	-	-	-	-	-	-	-	5,202
Other services and charges	15,468	-	-	-	-	-	-	-	-	-	15,468

CITY OF STARKEVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Capital outlay	-	-	1,986
Total City Planner	-	-	156,722
Other Administrative	-	-	7,979
Supplies	-	-	548,122
Other services and charges	-	-	26,408
Capital outlay	-	-	582,509
Total Other Administrative	-	-	26,341
City Hall	-	-	3,057
Personal services	-	-	38,502
Supplies	-	-	67,900
Total City Hall	-	-	154,495
Other Miscellaneous	-	-	26,448
Personal services	-	-	82,251
Supplies	-	-	6,028
Other services and charges	-	-	269,222
Total Other Miscellaneous	-	-	2,799,466
Total General Government	450,433	450,433	3,249,899
Public Safety	-	-	-
Public Safety - Police and E911	-	-	3,074,500
Personal services	-	-	8,743
Supplies	-	-	260,584
Other services and charges	-	-	660,759
Capital outlay	-	-	12,801
Total Public Safety - Police and E911	-	-	4,008,644
WATKINS, WARD & STAFFORD	-	-	8,743
CERTIFIED PUBLIC ACCOUNTANTS	-	-	4,017,387

CITY OF STARKEVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Multi-Unit	Drug Task Force	Operations	Airport	Total
General Activities	Restricted	Police	Restricted	Fire	Activities
2,790,783	63,106	269,800	86,804	3,210,493	1,281
Personal services	Supplies	Other services and charges	Capital outlay	Total Public Safety - Fire	
110,121	5,804	12,453	37,754	166,132	
Public Safety - Public Inspection	Public Safety - Public Inspection	Personal services	Supplies	Other services and charges	Capital outlay
110,121	5,804	12,453	37,754	166,132	
Public Safety - Civil Defense	Public Safety - Civil Defense	Supplies	Total Public Safety - Public Inspection	Supplies	Public Safety - Civil Defense
4,382	4,382	4,382	4,382	4,382	4,382
Total Public Safety - Civil Defense	Total Public Safety	Total Public Safety	Total Public Safety	Total Public Safety	Total Public Safety
7,389,651	8,743	1,281	7,399,675	7,399,675	7,399,675
Highways and Streets	City Streets	Personal services	Supplies	Other services and charges	Capital outlay
464,051	166,879	87,745	12,301	730,976	
Street Lights	Total City Streets	Other services and charges	Capital outlay	Total City Streets	Street Lights
446,724	446,724	446,724	446,724	446,724	446,724
Total Street Lights	Total Highways and Streets	Total Street Lights	Total Highways and Streets	Total Street Lights	Total Highways and Streets
1,177,700	1,177,700	1,177,700	1,177,700	1,177,700	1,177,700

CITY OF STARKEVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Restricted	Police	Fire	Parks and Recreation	Multi-Unit Drug Task Force Operations	Airport	Total
Health and Sanitation								
Health and welfare - animals								
Personal services	103,885	-	-	-	-	-	-	103,885
Supplies	6,969	-	-	-	-	-	-	6,969
Other services and charges	17,709	-	-	-	-	-	-	17,709
Transfer to Humane Society	106,000	-	-	-	-	-	-	106,000
Total Health and Welfare - Animals	234,563	-	-	-	-	-	-	234,563
Total Health and Sanitation	234,563	-	-	-	-	-	-	234,563
Culture and Recreation								
Parks and Recreation								
Personal services	-	-	-	-	-	-	-	-
Library	170,400	-	-	-	-	-	-	170,400
Transfer to Parks and Rec	844,400	-	-	-	-	-	-	844,400
Total Parks and Recreation	1,014,800	-	-	-	-	-	-	1,014,800
Total Culture and Recreation	1,014,800	-	-	-	-	-	-	1,014,800
Debt Service								
Principal	958,835	-	-	79,827	-	-	-	1,038,662
Interest	234,053	-	-	24,487	-	-	-	258,540
Total Debt Service	1,192,888	-	-	104,314	-	-	-	1,297,202
Miscellaneous								
Capital outlay - street improvements	409,833	-	-	-	-	-	-	409,833
Other miscellaneous	209,591	-	-	-	-	-	-	209,591
Total Miscellaneous	619,424	-	-	-	-	-	-	619,424
Total Expenditures	14,428,492	8,743	105,595	16,969	-	-	(26,575)	14,993,263
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	972,461	7,565	16,969	-	-	-	-	970,420

CITY OF STARVILLE, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BY ACTIVITY
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Activities	Restricted Police Activities	Restricted Fire Activities	Parks and Recreation Activities	Multi-Unit Drug Task Force Operations	Airport Activities	Total
Operating transfers in	25,000	-	-	-	-	23,946	48,946
Transfers from other departments	-	-	-	-	-	-	-
Operating transfers out	(123,814)	-	-	-	-	-	(123,814)
Transfers to other departments	(411,947)	-	-	-	-	-	(411,947)
Total Other Financing Sources (Uses)	(510,761)	-	-	-	-	23,946	(486,815)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	461,700	7,565	16,969	-	-	(2,629)	483,605
Fund Balances							
September 30, 2010	1,411,130	33,330	7,235	(291,223)	25,937	(38,009)	1,148,400
September 30, 2011	\$ 1,872,830	40,895	24,204	(291,223)	25,937	(40,638)	1,632,005

**CITY OF STARKVILLE, MISSISSIPPI
BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 106,602	-	537,357	643,959
Cash - restricted	-	498,446	-	498,446
Receivables (Net)	-	-	-	-
Other	114	86,364	1,895	88,373
Notes receivable (Net)	41,713	-	-	41,713
	<u>148,429</u>	<u>584,810</u>	<u>539,252</u>	<u>1,272,491</u>
Total Assets	\$ 148,429	584,810	539,252	1,272,491
<u>LIABILITIES</u>				
Accounts payable	\$ -	-	2,344	2,344
Other liabilities	6,476	-	-	6,476
	<u>6,476</u>	<u>-</u>	<u>2,344</u>	<u>8,820</u>
Total Liabilities	6,476	-	2,344	8,820
<u>FUND BALANCES</u>				
Fund balances - restricted				
Restricted for police protection	3,264	-	-	3,264
Restricted for debt service	-	584,810	-	584,810
Restricted for capital projects	-	-	534,961	534,961
Fund balances - unassigned	138,689	-	1,947	140,636
	<u>141,953</u>	<u>584,810</u>	<u>536,908</u>	<u>1,263,671</u>
Total Fund Balances	141,953	584,810	536,908	1,263,671
Total Liabilities and Fund Balances	\$ 148,429	584,810	539,252	1,272,491

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>Revenues</u>				
Intergovernmental:				
State of Mississippi	\$ -	-	-	-
Special 2% Tax	-	-	569,658	569,658
Property tax revenue	-	1,403,740	-	1,403,740
Middleton Marketplace TIF Bond	-	-	510,000	510,000
American Recovery Reinvestment Grant	-	-	159,799	159,799
Interest income	18	266	18	302
Miscellaneous income	72,535	146	-	72,681
Total Revenues	<u>72,553</u>	<u>1,404,152</u>	<u>1,239,475</u>	<u>2,716,180</u>
<u>Expenditures</u>				
Debt Service:				
Principal	53,277	1,125,000	190,000	1,368,277
Interest	3,763	260,961	187,430	452,154
Capital outlay	-	-	775,424	775,424
Miscellaneous	410	8,029	74,748	83,187
Total Expenditures	<u>57,450</u>	<u>1,393,990</u>	<u>1,227,602</u>	<u>2,679,042</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>15,103</u>	<u>10,162</u>	<u>11,873</u>	<u>37,138</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	10,000	-	180	10,180
Operating transfers out	(25,000)	-	(180)	(25,180)
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	103	10,162	11,873	22,138
<u>Fund Balances</u>				
September 30, 2010	<u>141,850</u>	<u>574,648</u>	<u>525,035</u>	<u>1,241,533</u>
September 30, 2011	<u>\$ 141,953</u>	<u>\$ 584,810</u>	<u>\$ 536,908</u>	<u>1,263,671</u>

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF NET ASSETS – NON-MAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2011**

	Sanitary Landfill Fund
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 185,479
Accounts receivables, net	32,367
Other receivables, net	716
Total current assets	\$218,562
Non-current assets:	
Capital assets:	
Fixed assets, net of depreciation	210,540
Total non-current assets	210,540
Total Assets	429,102
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	115,779
Accrued liabilities	6,091
Due to other funds	36,389
Total current liabilities	158,259
Total Liabilities	158,259
<u>NET ASSETS</u>	
Nonspendable net assets -	
Invested in capital assets, net of related debt	210,540
Unassigned net assets	60,303
Total net assets	\$ 270,843

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Sanitary Landfill Fund
<u>OPERATING REVENUES</u>	
Charges for services	\$ 287,806
Total operating revenues	287,806
<u>OPERATING EXPENSES</u>	
Operating and maintenance	235,949
Depreciation	27,565
Total operating expenses	263,514
Operating income	24,292
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Miscellaneous	(4,336)
Total non-operating revenues (expenses)	(4,336)
Change in net assets	19,956
Total net assets, beginning	250,887
Total net assets, ending	\$ 270,843

**CITY OF STARKVILLE, MISSISSIPPI
STATEMENT OF CASH FLOWS – NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Sanitary Landfill Fund</u>
<u>Cash Flows From Operating Activities</u>	
Cash received from customers	\$ 286,112
Cash paid to employees	(103,852)
Cash paid to suppliers	(316,248)
Net cash flows from operating activities	<u>(133,988)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers out	-
Net cash flows from noncapital financing activities	<u>-</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Purchase of capital assets	(33,500)
Other receipts (expenses)	-
Net cash flows from capital and related financing activities	<u>(33,500)</u>
<u>Cash Flows from Investing Activities</u>	
Receipt of interest	-
Net cash flows from investing activities	<u>-</u>
Net change in cash	(167,488)
Cash and cash equivalents, October 1, 2010	352,967
Cash and cash equivalents, September 30, 2011	<u>\$ 185,479</u>
<u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u>	
Operating income	\$ 19,956
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	27,565
Changes in operating assets and liabilities:	
(Increase) decrease in receivables	(1,694)
Increase (decrease) in payables	(213,920)
Increase (decrease) in due to other funds	34,105
Total adjustments	<u>(153,944)</u>
Net cash provided by operating activities	<u>\$ (133,988)</u>

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
SEPTEMBER 30, 2011**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Parker Wiseman	Mayor	Western Surety Co.	\$ 25,000
Richard Corey, II	Alderman	Western Surety Co.	\$ 100,000
Ben Carver	Alderman	Western Surety Co.	\$ 100,000
Sandra Sistrunk	Alderman	Western Surety Co.	\$ 100,000
Eric Parker	Alderman	Western Surety Co.	\$ 100,000
Jeremiah Dumas	Alderman	Western Surety Co.	\$ 100,000
Roy A. Perkins	Alderman	Western Surety Co.	\$ 100,000
Henry Vaughn, Sr.	Alderman	Western Surety Co.	\$ 100,000
Markeeta Outlaw	City Clerk	Western Surety Co.	\$ 300,000
Debbie L. Clark	City Accountant	Travelers Casualty	\$ 50,000
David B. Lindley	Chief of Police	Ohio Casualty	\$ 50,000
Debra Wood	Court Clerk	Western Surety Co.	\$ 50,000
Emma Gibson	Adm Asst/Dep Clerk	Travelers Casualty	\$ 50,000
Donna Betts	Deputy Court Clerk	Travelers Casualty	\$ 50,000
Tanya W. Little	Deputy Court Clerk	Travelers Casualty	\$ 50,000
Caryl Pritchard	Deputy Court Clerk	Western Surety Co.	\$ 50,000
Casandra Young	Deputy Court Clerk	Western Surety Co.	\$ 50,000
Shalonda Sykes	Deputy Court Clerk	Western Surety Co.	\$ 50,000
Sara McHann	Accting/Records Clerk	Travelers Casualty	\$ 50,000
Sara Thomas	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

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF BONDED INDEBTEDNESS
SEPTEMBER 30, 2011**

Name and Date	Maturity Date	Interest Percent	Balance 10/1/10	Transactions		Balance 9/30/11
				Issued	Redeemed	
General Obligation Bonds						
Governmental Activities:						
Parks and Recreation, Series 2007	3/1/2011	3.87	190,000	-	190,000	-
	3/1/2012	3.87	200,000	-	-	200,000
	3/1/2013	3.87	215,000	-	-	215,000
	3/1/2014	3.87	220,000	-	-	220,000
	3/1/2015	3.87	230,000	-	-	230,000
	Thereafter		3,800,000	-	-	3,800,000
Total			<u>4,855,000</u>	<u>-</u>	<u>190,000</u>	<u>4,665,000</u>
Public Improvement, Series 2007	4/1/2011	4.10	190,000	-	190,000	-
	4/1/2012	4.10	195,000	-	-	195,000
Total			<u>385,000</u>	<u>-</u>	<u>190,000</u>	<u>195,000</u>
Public Improvement, Series 2009	4/1/2011	3.00	520,000	-	520,000	-
	4/1/2012	3.00	535,000	-	-	535,000
	4/1/2013	3.00	550,000	-	-	550,000
	4/1/2014	3.00	575,000	-	-	575,000
	4/1/2015	3.00	600,000	-	-	600,000
	Thereafter		2,965,000	-	-	2,965,000
Total			<u>5,745,000</u>	<u>-</u>	<u>520,000</u>	<u>5,225,000</u>
TIF Revenue Bonds, Series 2011	5/1/2012	4.00	-	24,000	-	24,000
	5/1/2013	4.00	-	28,000	-	28,000
	5/1/2014	4.25	-	30,000	-	30,000
	5/1/2015	4.25	-	31,000	-	31,000
	5/1/2016	4.25	-	32,000	-	32,000
	Thereafter		-	365,000	-	365,000
Total			<u>-</u>	<u>510,000</u>	<u>-</u>	<u>510,000</u>
Total Bond Liability, Governmental Activities			<u>10,985,000</u>	<u>510,000</u>	<u>900,000</u>	<u>10,595,000</u>
Business-type Activities:						
System Improvements Bonds, 4/1/1996	4/1/2011		390,000	-	390,000	-
Total			<u>390,000</u>	<u>-</u>	<u>390,000</u>	<u>-</u>
Electric System Refunding Bonds, Series 2001	4/1/2011	4.00	270,000	-	270,000	-
Total			<u>270,000</u>	<u>-</u>	<u>270,000</u>	<u>-</u>
Electric System Bonds, Series 2001	4/1/2011	4.20	185,000	-	185,000	-
	4/1/2012	4.20	195,000	-	-	195,000
	4/1/2013	4.20	205,000	-	-	205,000
	4/1/2014	4.20	220,000	-	-	220,000
	4/1/2015	4.20	230,000	-	-	230,000
	Thereafter		1,700,000	-	-	1,700,000
Total			<u>2,735,000</u>	<u>-</u>	<u>185,000</u>	<u>2,550,000</u>
Electric System Revenue Bonds, Series 2004	11/1/2010	3.50	175,000	-	175,000	-
	11/1/2011	3.50	185,000	-	-	185,000
	11/1/2012	3.50	195,000	-	-	195,000
	11/1/2013	3.50	205,000	-	-	205,000
	11/1/2014	3.50	215,000	-	-	215,000
	Thereafter		1,255,000	-	-	1,255,000
Total			<u>2,230,000</u>	<u>-</u>	<u>175,000</u>	<u>2,055,000</u>
Electric System Revenue Bonds, Series 2006	11/1/2010	5.25	105,000	-	105,000	-
	11/1/2011	5.25	115,000	-	-	115,000
	11/1/2012	4.00	120,000	-	-	120,000
	11/1/2013	4.00	125,000	-	-	125,000
	11/1/2014	4.00	130,000	-	-	130,000
	Thereafter		1,105,000	-	-	1,105,000
Total			<u>1,700,000</u>	<u>-</u>	<u>105,000</u>	<u>1,595,000</u>
Total Bond Liability, Business-type Activities			<u>7,325,000</u>	<u>-</u>	<u>1,125,000</u>	<u>6,200,000</u>
Total Bond Liability			<u>18,310,000</u>	<u>510,000</u>	<u>2,025,000</u>	<u>16,795,000</u>

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF LONG-TERM NOTES
SEPTEMBER 30, 2011**

<u>Payee</u>	<u>Maturity Date</u>	<u>Interest Percent</u>	<u>Balance 10/1/2010</u>	<u>Transactions</u>		<u>Balance 9/30/2011</u>
				<u>Issued</u>	<u>Redeemed</u>	
Notes Payable						
Governmental Activities:						
Capital Improvements - Fire Truck	FY11	4.47%	79,827	-	79,827	-
	FY12	4.47%	83,467	-	-	83,467
	FY13	4.47%	87,273	-	-	87,273
	FY14	4.47%	91,253	-	-	91,253
	FY15	4.47%	95,414	-	-	95,414
	Thereafter	4.47%	99,764	-	-	99,764
Total			536,998	-	79,827	457,171
Capital Improvements Revolving Loan	FY11	5.66%	36,231	-	36,231	-
	FY12	5.66%	38,335	-	-	38,335
	FY13	5.66%	40,562	-	-	40,562
	FY14	5.66%	42,918	-	-	42,918
	FY15	5.66%	45,411	-	-	45,411
	Thereafter	5.66%	42,240	-	-	42,240
Total			245,697	-	36,231	209,466
Capital Improvements Revolving Loan	FY11	5.66%	37,268	-	37,268	-
	FY12	5.66%	39,433	-	-	39,433
	FY13	5.66%	41,528	-	-	41,528
	FY14	5.66%	43,940	-	-	43,940
	FY15	5.66%	46,492	-	-	46,492
	Thereafter	5.66%	24,250	-	-	24,250
Total			232,911	-	37,268	195,643
Capital Improvements - Police Vehicles	FY11	4.90%	101,105	-	101,105	-
	FY12	4.90%	106,059	-	-	106,059
Total			207,164	-	101,105	106,059
Capital Improvements - Excavator	FY11	5.15%	29,462	-	29,462	-
	FY12	5.15%	20,053	-	-	20,053
Total			49,515	-	29,462	20,053
Capital Improvements - Police Comm	FY11	3.84%	27,320	-	27,320	-
	FY12	3.84%	28,388	-	-	28,388
	FY13	3.84%	29,498	-	-	29,498
	FY14	3.84%	30,651	-	-	30,651
	FY15	3.84%	10,481	-	-	10,481
Total			126,338	-	27,320	99,018
Capital Improvements - Fire Comm	FY11	3.84%	17,449	-	17,449	-
	FY12	3.84%	18,131	-	-	18,131
	FY13	3.84%	18,839	-	-	18,839
	FY14	3.84%	19,576	-	-	19,576
Total			73,995	-	17,449	56,546
Capital Improvements - Pub Info Sys	FY11	3.49%	53,277	-	53,277	-
	FY12	3.49%	55,167	-	-	55,167
	FY13	3.49%	56,350	-	-	56,350
Total			164,794	-	53,277	111,517
Total Notes Payable, Governmental Activities			\$ 1,637,412	\$ -	\$ 381,939	\$ 1,255,473

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF LONG-TERM NOTES
SEPTEMBER 30, 2011**

<u>Payee</u>	<u>Maturity Date</u>	<u>Interest Percent</u>	<u>Balance 10/1/2010</u>	<u>Transactions</u>		<u>Balance 9/30/2011</u>
				<u>Issued</u>	<u>Redeemed</u>	
Business-type activities:						
Drinking Water Systems						
Improvements Revolving Loan	FY11	3.00%	29,741	-	29,741	-
	FY12	3.00%	30,637	-	-	30,637
	FY13	3.00%	31,578	-	-	31,578
	FY14	3.00%	32,539	-	-	32,539
	FY15	3.00%	33,528	-	-	33,528
	Thereafter	3.00%	272,082	-	-	272,082
Total			430,105	-	29,741	400,364
Drinking Water Systems						
Improvements Revolving Loan	FY11	3.50%	59,948	-	59,948	-
	FY12	3.50%	62,080	-	-	62,080
	FY13	3.50%	64,288	-	-	64,288
	FY14	3.50%	66,574	-	-	66,574
	FY15	3.50%	68,942	-	-	68,942
	Thereafter	3.50%	718,048	-	-	718,048
Total			1,039,880	-	59,948	979,932
Water Pollution Control						
Revolving Loan	FY11	1.75%	174,636	-	174,636	-
	FY12	1.75%	177,715	-	-	177,715
	FY13	1.75%	180,850	-	-	180,850
	FY14	1.75%	184,041	-	-	184,041
	FY15	1.75%	187,288	-	-	187,288
	Thereafter	1.75%	2,102,116	-	-	2,102,116
Total			3,006,646	-	174,636	2,832,010
Drinking Water Systems						
Improvements Revolving Loan	FY11	4.00%	59,815	-	59,815	-
	FY12	4.00%	62,252	-	-	62,252
	FY13	4.00%	64,789	-	-	64,789
	FY14	4.00%	67,428	-	-	67,428
	FY15	4.00%	70,375	-	-	70,375
	Thereafter	4.00%	1,092,264	-	-	1,092,264
Total			1,416,923	-	59,815	1,357,108
Drinking Water Systems						
Improvements Revolving Loan	FY11	2.50%	40,885	-	40,885	-
	FY12	2.50%	41,919	-	-	41,919
	FY13	2.50%	42,979	-	-	42,979
	FY14	2.50%	44,066	-	-	44,066
	FY15	2.50%	45,180	-	-	45,180
	Thereafter	2.50%	574,114	-	-	574,114
Total			789,143	-	40,885	748,258
Water Pollution Control						
Revolving Loan	FY11	2.75%	11,101	-	11,101	-
	FY12	2.75%	11,410	-	-	11,410
	FY13	2.75%	11,728	-	-	11,728
	FY14	2.75%	12,055	-	-	12,055
	FY15	2.75%	12,390	-	-	12,390
	Thereafter	2.75%	202,269	-	-	202,269
Total			260,953	-	11,101	249,852
MDA Capital Improvements Loan						
	FY11	2.00%	40,115	-	40,115	-
	FY12	2.00%	40,925	-	-	40,925
	FY13	2.00%	41,751	-	-	41,751
	FY14	2.00%	42,594	-	-	42,594
	FY15	2.00%	43,454	-	-	43,454
	Thereafter	2.00%	747,974	-	-	747,974
Total			956,813	-	40,115	916,698

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF LONG-TERM NOTES
SEPTEMBER 30, 2011**

<u>Pavee</u>	<u>Maturity Date</u>	<u>Interest Percent</u>	<u>Balance 10/1/2010</u>	<u>Transactions</u>		<u>Balance 9/30/2011</u>
				<u>Issued</u>	<u>Redeemed</u>	
CAT D6R Lease	FY11	3.27%	33,694	-	33,694	-
	FY12	3.27%	34,813	-	-	34,813
	FY13	3.27%	35,968	-	-	35,968
	FY14	3.27%	43,476	-	-	43,476
Total			<u>147,951</u>	<u>-</u>	<u>33,694</u>	<u>114,257</u>
MDA Capital Improvements Loan Prom Note #07-347-CP-01	FY11	2.00%	19,865	-	19,865	-
	FY12	2.00%	20,266	-	-	20,266
	FY13	2.00%	20,675	-	-	20,675
	FY14	2.00%	21,092	-	-	21,092
	FY15	2.00%	21,518	-	-	21,518
	Thereafter	2.00%	375,260	-	-	375,260
Total			<u>478,676</u>	<u>-</u>	<u>19,865</u>	<u>458,811</u>
2011 International 7400 Trucks Lease	FY11	3.19%	-	41,335	41,335	-
	FY12	3.19%	-	51,072	-	51,072
	FY13	3.19%	-	52,726	-	52,726
	FY14	3.19%	-	158,554	-	158,554
Total			<u>-</u>	<u>303,687</u>	<u>41,335</u>	<u>262,352</u>
Total Notes Payable, Business-type Activities			<u>\$ 8,527,090</u>	<u>\$ 303,687</u>	<u>\$ 511,135</u>	<u>\$ 8,319,642</u>
Total Notes Payable			<u>\$ 10,164,502</u>	<u>\$ 303,687</u>	<u>\$ 893,074</u>	<u>\$ 9,575,115</u>

COMPLIANCE SECTION

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



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Starkville, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the City of Starkville, Mississippi's basic financial statements and have issued our report thereon dated February 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting (Findings 2011-01, 2011-02, 2011-03, 2011-04, 2011-05 and 2011-06). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

Starkville, Mississippi
February 29, 2012

Watkins Ward & Stafford LLC

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



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

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

Compliance

We have audited the compliance of the City of Starkville, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2011. City of Starkville, Mississippi's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Starkville, Mississippi's management. Our responsibility is to express an opinion on the City of Starkville, Mississippi's compliance based on our audit.

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

In our opinion, City of Starkville, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

The management of City of Starkville, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Starkville, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major

federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Starkville, Mississippi's internal control over compliance.

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

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

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

Starkville, Mississippi
February 29, 2012

Watkins, Ward & Stafford

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



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

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

We have audited the financial statements of the City of Starkville, Mississippi, as of and for the year ended September 30, 2011, and have issued our report thereon dated February 29, 2012. We conducted our audit in accordance with generally accepted auditing standards.

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

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

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

Starkville, Mississippi
February 29, 2012

SCHEDULE OF FINDINGS

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Section 1: Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Starkville, Mississippi.
2. The audit of the financial statements did not disclose any material weaknesses in internal control.
3. No instances of noncompliance material to the financial statements of City of Starkville, Mississippi were disclosed during the audit.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. The auditors' report on compliance for the major federal award programs for City of Starkville, Mississippi expresses an unqualified opinion on all major federal programs.
6. The audit did disclose significant deficiencies in internal control which are required to be reported in accordance with Government Auditing Standards.
7. The programs tested as major programs included: the Airport Improvement Program CFDA # 20.106, the State Energy Program (ARRA) CFDA # 81.041, and the Energy Efficiency and Conservation Block Grant (EECBG) Program (ARRA) CFDA # 81.128.
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

2011-01 Finding: The accounts payable and payroll liabilities as reported in the general ledger do not reconcile to the subsidiary ledgers.

Recommendation: The accounts payable and payroll liabilities as reported in the general ledger should be reconciled monthly to the subsidiary ledgers.

Response: The accounts payable and payroll clerks will reconcile the accounts payable and payroll liabilities as reported in the general ledger to the subsidiary ledgers on a monthly basis.

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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

2011-02 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.

2011-03 Finding: The City of Starkville does not appear to have a control in place for the monthly/quarterly Section 1512 reporting where one individual gathers all of the information and creates the report and another individual reviews and approves the report prior to submitting the reports to the proper agency.

Recommendation: The city should better document its preparation and review of report submissions to ensure accurate and timely reporting of the Section 1512 reports to the proper agency/website.

Response: Management is continuing to improve its financial system related to federal awards.

2011-04 Finding: The City of Starkville does not appear to have an internal control in place for the review of the monthly/quarterly reporting whereby the various financial fields for the quarterly (Section 1512) report for the entity's grant are prepared and documented by one person and then subsequently reviewed and approved by a separate individual.

Recommendation: The city should contact the project officers with the respective programs to inform them of the errors on the reports and then follow the recommendations given by the project officer.

Response: Management is continuing to improve its financial system related to federal awards.

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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

2011-05 Finding: The City of Starkville does not maintain a financial management system that permits the preparation of required reports and tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs.

Recommendation: The city should ensure they have the most recent OMB Guidance (M-10-08), the related frequently asked questions for the most recent guidance, and the Data Recipient Reporting Model

Response: Management is continuing to improve its financial system related to federal awards.

2011-06 Finding: The City Clerk's office does not appear to have an internal control in place to ensure that accurate and timely payments of payroll taxes are made. A penalty was assessed by the IRS when a payroll tax payment was not made in the summer of 2011, and the matter went unreported until December 2011.

Recommendation: The city should establish internal control procedures that ensure that payroll tax deposits are made timely.

Response: Management is continuing to improve its control environment surrounding its financial system.

**CITY OF STARKVILLE, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Federal Agency/ Pass-through Entity/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
Passed-through Federal-State Programs:		
Community Development Block Grants (ARRA)	14.228	\$ 98,500
Total U.S. Department of Housing and Urban Development		<u>98,500</u>
<u>U.S. Department of Justice</u>		
Directed Programs		
Edward Bryne Memorial Justice Assistance Grant (JAG) Program (ARRA)	16.738	11,885
Total U.S. Department of Housing and Urban Development		<u>11,885</u>
<u>U. S. Department of Transportation</u>		
Direct Programs:		
Airport Improvement Program	20.106	172,382
Passed through Federal-State Programs:		
State and Community Highway Safety	20.600	7,297
Occupant Protection Incentive Grants	20.602	17,808
Alcohol Open Container Requirements	20.607	134,380
Total U. S. Department of Transportation		<u>331,867</u>
<u>U.S. Department of Energy</u>		
Passed through Federal-State Programs:		
State Energy Program (ARRA)	81.041	106,560
Energy Efficiency and Conservation Block Grant (EECBG) Program (ARRA)	81.128	40,804
Total U.S. Department of Energy		<u>147,364</u>
<u>U.S. Department of Health and Human Services:</u>		
Passed-through Federal-State Programs:		
Child Care and Development Block Grant	93.575	298,547
Total U.S. Department of Health and Human Services		<u>298,547</u>
<u>U.S. Department of Homeland Security</u>		
Direct Programs:		
Homeland Security Grant Program	97.067	70,490
Total U.S. Department of Health and Human Services		<u>70,490</u>
<u>Total Expenditures of Federal Awards</u>		<u>\$ 958,653</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.