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BILLY VOYLES, Marshall  
BOBBY SANDERSON, City Clerk  
LIZABETH FOX AUSBERN, City Attorney  
AMES M. HOOD, JR., Prosecuting Attorney  
RICHARD NICHOLS, Public Works Supervisor  
RICHARD G. BENNETT, City Judge

# CITY OF HOUSTON

120 East Madison St.  
P.O. Box 548  
Houston, MS 38851  
662-456-2328 FAX 662-456-9535

STACEY W. PARKER, MAYOR  
THOMAS E. GRIFFIN, Ward One  
SHENIA K. JONES, Ward Two  
FRANK THOMAS, Ward Three  
WILLIE MAE MCKINNEY, Ward Four  
BARRY L. SPRINGER, Ward At Large

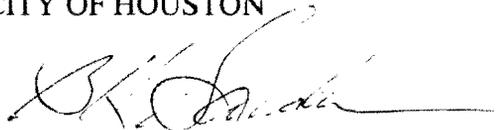
February 25, 2013

Office of the State Auditor  
P.O. Box 956  
Jackson, MS 39205

RE: Annual Municipal Audit

Accompanying this letter are two copies of the annual audit of the city of Houston, Mississippi, for the fiscal year ended September 30, 2012. A separate management letter was not written to the city in connection with this audit.

Sincerely,  
CITY OF HOUSTON



Bobby H. Sanderson,  
City Clerk

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**CITY OF HOUSTON, MISSISSIPPI**

**Audited Financial Statements  
For the Year Ended September 30, 2012**

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CITY OF HOUSTON, MISSISSIPPI

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**CITY OF HOUSTON, MISSISSIPPI**  
**FINANCIAL AUDIT REPORT**



**WATKINS, WARD and STAFFORD**

Professional Limited Liability Company  
Certified Public Accountants

James L. Stafford, CPA  
Harry W. Stevens, CPA  
S. Keith Winfield, CPA  
William B. Stagers, CPA  
Aubrey R. Holder, CPA  
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Mort Stroud, CPA  
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Wanda S. Holley, CPA  
Robin Y. McCormick, CPA/PFS  
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Kimberly S. Caskey, CPA  
Susan M. Lummus, CPA  
Thomas J. Browder, CPA  
Stephen D. Flake, CPA  
John N. Russell, CPA  
Thomas A. Davis, CPA  
Anita L. Goodrum, CPA

**INDEPENDENT AUDITOR'S REPORT**

Mayor and Board of Aldermen  
City of Houston, Mississippi

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi as of and for the year ended September 30, 2012, which collectively comprise the City of Houston, Mississippi's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Houston, 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows 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 January 15, 2013, on our consideration of the City of Houston, 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.

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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 8 and 38 through 39 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 Houston's financial statements. The Schedule of Surety Bonds for City Officials and the Reconciliation of Original Ad Valorem Tax Rolls to Fund Collections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Watkins, Ward and Stafford, PLLC  
January 15, 2013

*Watkins, Ward and Stafford, PLLC*

**CITY OF HOUSTON, MISSISSIPPI**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF HOUSTON, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

The discussion and analysis of the City of Houston's financial performance provides an overall narrative review of the city's financial activities for the years ended September 30, 2012 and 2011. The intent of this discussion and analysis is to look at the city's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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

**FINANCIAL HIGHLIGHTS**

- Total net assets decreased \$169,705 which represents a 1.84% decrease from fiscal year 2011.
- General revenues account for \$2,204,279 in revenue, or 57% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,640,569 or 43% of total revenues.
- The City had \$4,014,553 in expenses; only \$1,640,569 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$2,204,279 were inadequate to provide for these programs.
- Among the major funds, the General Fund had \$2,132,899 in revenues and \$2,143,307 in expenditures. The General Fund's fund balance decreased \$10,408 under the prior year. The Other Governmental Funds had \$806,580 in revenues and \$869,634 in expenditures. The Other Governmental Fund's fund balance decreased \$63,054 under the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$263,774.
- Long-term debt decreased by \$125,512. In addition, the liability for compensated absences increased by \$8,966 over the prior fiscal year.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements 3) proprietary fund financial statements, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the City's 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 the City's 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 only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include police, fire, public works, parks & recreation, library, and general administration.

The government-wide financial statements can be found on pages 10 - 11 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 compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds:** Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation that can be found on pages 13 and 15.

**Proprietary Funds.** When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's proprietary fund is the same as business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the financial statements.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental 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 supplemental information can be found immediately following the notes to the financial statements.

## 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, assets exceeded liabilities by \$9,075,714 as of September 30, 2012 and by \$9,245,419 as of September 30, 2011.

The City's financial position is a product of several financial transactions including the net result 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:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 1,620,488	1,635,252
Capital assets, net	11,776,797	12,040,571
<b>Total assets</b>	<u>13,397,285</u>	<u>13,675,823</u>
Current liabilities	431,795	367,603
Long-term debt outstanding	3,889,776	4,062,801
<b>Total liabilities</b>	<u>4,321,571</u>	<u>4,430,404</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	7,666,534	7,804,796
Restricted	372,807	435,404
Unrestricted	1,036,373	1,005,219
<b>Total net assets</b>	<u>\$ 9,075,714</u>	<u>9,245,419</u>

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

- The addition of \$2,100,000 from the refunding of Combined Water & Sewer Revenue Bonds.

**Changes in net assets:** The City's total revenues for the fiscal year ended September 30, 2012 and 2011 were \$3,844,848 and \$3,855,595. The total cost of all programs and services was \$4,014,553 and \$4,153,076. The following table presents a summary of the changes in net assets for the fiscal year ended September 30:

	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>		
Program revenues	\$ 1,640,569	1,632,549
General revenues	2,204,279	2,223,046
<b>Total revenues</b>	<u>3,844,848</u>	<u>3,855,595</u>
<b>Expenses:</b>		
Governmental activities	2,893,657	2,915,857
Business-type activities	1,120,896	1,237,219
<b>Total expenses</b>	<u>4,014,553</u>	<u>4,153,076</u>
<b>Increase (decrease) in net assets</b>	<u>\$ (169,705)</u>	<u>(297,481)</u>

- **Governmental activities:**

The governing officials of the City of Houston are pleased to have continued making major improvements to City infrastructure without having to resort to tax increases. The main reason for the improvements to infrastructure without the need to raise taxes is due to federal and state grant funds. The City of Houston's Mayor and Board of Aldermen have been very active in their pursuit of federal and state grants and, as a result, the City of Houston has received over \$295,500 of federal and state revenues for the purpose of improving their infrastructure. The Mayor and Board of Aldermen plan to continue their efforts in finding federal and state grant funds or low-interest loans in order to continue bringing needed improvements to the City of Houston.

#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$687,810, which represents a decrease of \$73,462 under the prior year. \$298,332, or 43%, of the fund balance constitutes unassigned fund balance, which is available for spending at the City's discretion.

The General Fund is the principal operating fund of the City. The decrease in fund balance in the General Fund for the fiscal year was \$10,408. The fund balance in the Other Governmental (Non-Major funds) decreased in the amount of \$63,054 under the prior fiscal year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City revised the annual operating budget.

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of September 30, 2012, the City's total net capital assets were \$11,776,797 including land, buildings, improvements, infrastructure, vehicles, and furniture and equipment. This amount represents an increase of \$263,774 over the previous year.

Additional information of the City's capital assets can be found in Note 4 in the notes to the financial statements.

**Debt Administration.** At September 30, 2012, the City had \$4,110,263 in long-term debt outstanding, of which \$269,661 is due within one year. In addition, the liability for compensated absences increased by \$8,966 over the previous year.

Additional information of the City's long-term debt can be found in Note 6 in the notes to the financial statements.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the City Clerk's Office at 120 East Madison Street, Houston, MS 38851, telephone 662-456-2328.

**CITY OF HOUSTON**  
**FINANCIAL STATEMENTS**

**CITY OF HOUSTON**  
**Statement of Net Assets**  
**September 30, 2012**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 671,728	711,955	1,383,683
Property tax receivable	8,465		8,465
Accounts receivable, net		104,725	104,725
Fines receivable, net	2,674		2,674
Intergovernmental receivables	5,798		5,798
Other receivables, net	25,196		25,196
Deferred charges - debt issuance cost	12,004	65,927	77,931
Internal balances			0
Inventories		12,016	12,016
Capital assets, net	6,946,130	4,830,667	11,776,797
<b>Total Assets</b>	<u>7,671,995</u>	<u>5,725,290</u>	<u>13,397,285</u>
<b>LIABILITIES</b>			
Claims payable	8,727		8,727
Accrued interest payable	15,860	24,869	40,729
Accrued wages payable	17,324	4,183	21,507
Internal balances		5,421	5,421
Customer deposits		62,338	62,338
Long-term liabilities			
Due within one year:			
Capital related debt	142,326	127,335	269,661
Non-capital debt	21,382	2,030	23,412
Due in more than one year:			
Capital related debt	1,388,487	2,452,115	3,840,602
Non-capital debt	42,765	6,409	49,174
<b>Total Liabilities</b>	<u>1,636,871</u>	<u>2,684,700</u>	<u>4,321,571</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,415,317	2,251,217	7,666,534
Restricted net assets:			
Expendable:			
Debt service	101,921		101,921
Fire protection	41,889		41,889
Culture and recreation	179,551		179,551
Capital projects	49,446		49,446
Unrestricted (deficit)	247,000	789,373	1,036,373
<b>Total Net Assets</b>	<u>\$ 6,035,124</u>	<u>3,040,590</u>	<u>9,075,714</u>

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The notes to the financial statements are an integral part of this statement.

**CITY OF HOUSTON**  
**Statement of Activities**  
**For the Year Ended September 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
<b>Primary government:</b>							
<b>Governmental activities:</b>							
General government	\$ 423,329	16,253		167,051	(240,025)		(240,025)
Public safety	1,101,734	49,991		7,996	(1,043,747)		(1,043,747)
Public works	1,050,069	217,874		120,500	(711,695)		(711,695)
Culture and recreation	257,883	86,672	26,381		(144,830)		(144,830)
Interest on long-term debt	60,642				(60,642)		(60,642)
Total Governmental Activities	2,893,657	370,790	26,381	295,547	(2,200,939)		(2,200,939)
<b>Business-type activities:</b>							
Water & Sewer	1,120,896	947,851				(173,045)	(173,045)
Total business-type activities	1,120,896	947,851		0		(173,045)	(173,045)
Total Primary Government	\$ 4,014,553	1,318,641	26,381	295,547	(2,200,939)	(173,045)	(2,373,984)
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes				\$ 984,720			984,720
Sales taxes				1,019,595			1,019,595
Franchise tax				141,020			141,020
Intergovernmental revenues				14,831			14,831
Unrestricted investment income				7,422			7,422
Miscellaneous				36,591		100	36,691
Total General Revenues				2,204,179		100	2,204,279
Transfers				15,155		(15,155)	0
Total General Revenues, Special Items, Extraordinary Items and Transfers				2,219,334		(15,055)	2,204,279
Changes in Net Assets				18,395		(188,100)	(169,705)
Net Assets - Beginning				6,016,729		3,228,690	9,245,419
Net Assets - Ending				\$ 6,035,124		3,040,590	9,075,714

The notes to the financial statements are an integral part of this statement.

**CITY OF HOUSTON**  
**Balance Sheet - Governmental Funds**  
**September 30, 2012**

	<u>Major Fund</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ 286,588	385,140	671,728
Property tax receivable	5,735	2,730	8,465
Fines receivable	2,674		2,674
Intergovernmental receivable		5,798	5,798
Other receivables	19,775		19,775
Due from other funds	5,703	6,187	11,890
<b>Total Assets</b>	<b>\$ 320,475</b>	<b>399,855</b>	<b>720,330</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Claims payable	\$	8,727	8,727
Accrued payroll	15,674	1,650	17,324
Due to other funds	6,469		6,469
<b>Total Liabilities</b>	<b>22,143</b>	<b>10,377</b>	<b>32,520</b>
<b>Fund balances:</b>			
<b>Restricted:</b>			
Debt service		117,781	117,781
Capital projects		49,446	49,446
<b>Assigned:</b>			
Fire protection		41,889	41,889
Culture and recreation		180,362	180,362
Unassigned	298,332		298,332
<b>Total Fund Balances</b>	<b>298,332</b>	<b>389,478</b>	<b>687,810</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 320,475</b>	<b>399,855</b>	<b>720,330</b>

The notes to the financial statements are an integral part of this statement

**CITY OF HOUSTON**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**September 30, 2012**

		Amount
Total fund balance - governmental funds	\$	687,810
Amounts reported for governmental services in the statement of net assets are different because:		
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds:		
Land	\$	468,337
Construction in progress		8,000
Buildings		1,364,125
Building improvements		397,513
Infrastructure		8,172,331
Equipment		437,718
Vehicles		922,084
Accumulated depreciation		<u>(4,823,978)</u>
		6,946,130
2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$	(1,375,000)
CAP loan payable		(115,813)
Note payable		(40,000)
Deferred charges - debt issuance cost		12,004
Accrued interest payable		(15,860)
Compensated absences		<u>(64,147)</u>
		(1,598,816)
 Net Assets of governmental activities	 \$	 <u><u>6,035,124</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF HOUSTON**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds**  
**For the Year Ended September 30, 2012**

	<u>Major Fund</u>		Total Governmental Funds
	General Fund	Other Governmental Funds	
<b>REVENUES</b>			
Property taxes	\$ 762,348	363,392	1,125,740
Licenses, commissions and other revenue	16,253	86,672	102,925
Fines and forfeitures	49,991		49,991
Intergovernmental revenues	1,042,422	313,932	1,356,354
Charges for services	217,874		217,874
Interest income	7,422		7,422
Miscellaneous revenues	36,589	2	36,591
Total Revenues	<u>2,132,899</u>	<u>763,998</u>	<u>2,896,897</u>
<b>EXPENDITURES</b>			
Current:			
General government	313,951	172,141	486,092
Public safety	1,069,127		1,069,127
Public works	732,802	260,832	993,634
Culture and recreation		241,479	241,479
Debt service:			
Principal		134,176	134,176
Interest		59,506	59,506
Other		1,500	1,500
Total Expenditures	<u>2,115,880</u>	<u>869,634</u>	<u>2,985,514</u>
Excess of Revenues over (under) Expenditures	<u>17,019</u>	<u>(105,636)</u>	<u>(88,617)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		42,582	42,582
Transfers out	(27,427)		(27,427)
Total Other Financing Sources and Uses	<u>(27,427)</u>	<u>42,582</u>	<u>15,155</u>
Net Changes in Fund Balances	<u>(10,408)</u>	<u>(63,054)</u>	<u>(73,462)</u>
Fund Balances - Beginning	<u>308,740</u>	<u>452,532</u>	<u>761,272</u>
Fund Balances - Ending	<u>\$ 298,332</u>	<u>389,478</u>	<u>687,810</u>

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The notes to the financial statements are an integral part of this statement.

**CITY OF HOUSTON**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended September 30, 2012**

Net changes in fund balances - total governmental funds \$ (73,462)

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

1. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:				
Capital outlay	\$	324,767		
Depreciation expense		<u>(359,389)</u>	(34,622)	
2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.				(2,500)
3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment for the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:				
Bonds and notes issued	\$			
Payments of debt principal		134,176		
Accrued interest payable		1,287		
Deferred issuance costs		<u>          </u>	135,463	
4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:				
Change in compensated absences	\$	(5,561)		
Amortization of deferred charges - bond issue costs		<u>(923)</u>	<u>(6,484)</u>	
Change in Net Assets of Governmental Activities				\$ <u><u>18,395</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF HOUSTON**  
**Statement of Net Assets**  
**Proprietary Funds**  
**September 30, 2012**

	<u>Proprietary Fund</u>
	<u>Water and Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 711,955
Accounts receivable, net	104,725
Inventories	12,016
Deferred charges - debt issuance costs	65,927
Total Current Assets	894,623
Noncurrent assets:	
Capital assets:	
Land	137,099
Buildings	61,800
Infrastructure	8,671,032
Machinery & equipment	156,266
Vehicles	59,960
Less accumulated depreciation	(4,255,490)
Total Noncurrent assets	4,830,667
Total assets	5,725,290
<b>LIABILITIES</b>	
Current Liabilities:	
Accrued wages payable	4,183
Internal balances	5,421
Customer Deposits	62,338
Noncapital related debt	2,030
Bonds, notes, and loans payable	127,335
Total Current Liabilities	201,307
Noncurrent Liabilities:	
Noncapital related debt	4,061
Accrued interest payable	24,869
Premium on bonds	2,348
Bonds, notes, and loans payable	2,452,115
Total noncurrent liabilities	2,483,393
Total liabilities	2,684,700
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,251,217
Unrestricted	789,373
Total Net Assets	\$ 3,040,590

The notes to the financial statements are an integral part of this statement.

**CITY OF HOUSTON**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Proprietary Funds**  
**For the Year Ended September 30, 2012**

	<b>Proprietary Fund</b>
	<b>Water and Sewer</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 947,851
Miscellaneous	100
Total operating revenues	947,951
<b>OPERATING EXPENSES</b>	
Personal services	388,242
Materials and supplies	97,028
Utilities	129,450
Repairs and maintenance	145,944
Depreciation	226,652
Miscellaneous	10,862
Total operating expenses	998,178
Operating income(loss)	(50,227)
<b>NONOPERATING REVENUES</b>	
<b>(EXPENSES)</b>	
Interest expense	122,718
Transfer out	15,155
Total nonoperating revenue (expenses)	137,873
Change in net assets	(188,100)
Total net assets beginning	3,228,690
Total net assets ending	\$ 3,040,590

The notes to the financials are an integral part of this statement.

**CITY OF HOUSTON**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended September 30, 2012**

	<u>Proprietary Fund</u>
	<u>Water and Sewer</u>
<b><u>Cash Flows From Operating Activities</u></b>	
Receipts from customers	\$ 933,513
Payments to suppliers	(367,588)
Payments to employees	(387,185)
Payments for other services and charges	(10,862)
Other receipts (payments)	
Net cash provided (used) by operating activities	<u>167,878</u>
<b><u>Cash Flows From Financing Activities</u></b>	
Purchase of capital assets	
Principal paid on capital debt	(2,157,263)
Interest paid on capital debt	(98,123)
Proceeds from issuance of debt	2,102,348
Net cash provided (used) by financing activities	<u>(153,038)</u>
<b><u>Cash Flows From Investing Activities</u></b>	
Transfer out	(15,155)
Net Cash Flows From Investing Activities	<u>(15,155)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(315)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>712,270</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 711,955</u>
Reconciliation of Operating Income (Loss) to Cash	
Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (50,227)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	226,652
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(14,438)
Increase (decrease) in customer deposits	2,134
Increase (decrease) in other liabilities	2,700
Increase (decrease) in compensated absences	1,057
Total Adjustments	<u>218,105</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 167,878</u>

The notes to the financial statements are an integral part of this statement

**CITY OF HOUSTON**  
**Statement of Fiduciary Assets and Liabilities**  
**September 30, 2012**

	<u>Private-Purpose Trust Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,475
Total Assets	<u>5,475</u>
<b>LIABILITIES</b>	
Accounts payable	<u>0</u>
Total Liabilities	<u>0</u>
<b>Net Assets</b>	
Reserved for endowments	5,475
Total Net Assets	<u>\$ 5,475</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF HOUSTON**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended September 30, 2012**

	<b>Private-Purpose Trust Fund</b>
<b>Additions</b>	
Interest earned	\$ 24
Total Additions	<u>24</u>
<b>Deductions</b>	
Book purchases	0
Total deductions	<u>0</u>
<b>Net Assets</b>	
Beginning	5,451
Ending	<u>\$ 5,475</u>

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

**Note 1 – Summary of Significant Accounting Policies**

The accompanying financial statements of the City of Houston, Mississippi have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the city's accounting policies are described below:

**A. Basis of Presentation**

In February, 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

**B. Financial Reporting Entity**

The City of Houston was incorporated in 1837 under the laws of the State of Mississippi and operates under a Mayor-Board of Aldermen form of government and provides public safety, streets and sidewalks, water and sewerage, sanitation, health and social services, culture, recreation, education, public improvements, planning and zoning and general administrative services.

As defined by accounting principles generally accepted in the United States of America, the city is considered a "stand-alone government."

For financial reporting purposes, the City of Houston has included all funds and organizations. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the city.

**C. Government-wide and Fund Financial Statements**

Government-wide Financial Statements - The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. The net assets are reported in three categories:

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enable legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The City reports the following major governmental funds:

General Fund – This is the City's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The City also reports fiduciary funds (agency funds) which focus on assets and changes in net assets.

The City's fiduciary fund includes no major funds.

Additionally, the city reports the following fund types:

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

**Governmental Funds**

**General Fund**

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

**Capital Project Funds**

Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

**Debt Service Funds**

The Debt Service Funds account for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the city other than debt service payments made by enterprise funds. Ad valorem taxes are used for the payment of principle and interest on the City's judgment.

**Proprietary Fund**

**Enterprise Fund**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City's only enterprise fund consists of the Water and Sewer fund.

**Fiduciary Funds (Not included in government wide statements)**

**Private-purpose Trust Fund**

Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments. The trust fund is used to account for funds that are to be used for book purchases by the City.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

The Board of 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.

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.

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.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The effect of inter-fund activity has been eliminated from the government-wide statements.

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

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**E. Encumbrances**

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

**F. Assets, liabilities, and net assets / fund balances**

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The City deposits excess funds in the financial institutions selected by the board of aldermen. State statutes specify how these depositories are to be selected.

Investments

The City can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the City are reported at fair market value.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Receivables are reported net of allowances for uncollectible accounts, where applicable.

Advances between funds, as reported in the fund financial statements, are offset by as fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes.

6. Capital Assets.

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the city as assets with an initial, individual cost in excess of the thresholds in the table below.

Capital acquisitions and construction are reflected as expenditures in the governmental fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statement.

The following schedule details the capitalization thresholds.

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	n/a
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(\*) Leased property capitalization policy will correspond with the amounts for the asset classifications, as listed above.

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

7. **Compensated Absences**

The City has adopted a policy of compensation for accumulated unpaid employee benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

8. **Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

9. **Fund Balances**

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the city:

*Nonspendable fund balance* includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

*Restricted fund balance* includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

*Committed fund balance* includes amounts that can be used for the specific purposes pursuant to constraints imposed by a formal action of the board of aldermen, the City's highest level of decision-making authority. This formal action is a resolution approved by the board of aldermen.

*Assigned fund balance* includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the board of aldermen pursuant to authorization established by the City's approved fund balance policy.

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

*Unassigned fund balance* is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

**Note 2 – Cash and Cash Equivalents and Investments**

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

**Deposits.** The city must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the city's 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 Deposit Insurance Corporation.

**Investments.** Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the City to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (3), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (3) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations; not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects) bond sinking funds (Debt Service Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

**Cash and Cash Equivalents**

The carrying amount of the City's deposits with financial institutions at September 30, 2012, reported in the governmental funds, enterprise fund, and fiduciary fund was \$834,454, \$711,955, and \$12,314, respectively.

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

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the city. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the city. As of September 30, 2012, none of the City's bank balance of \$1,558,723 was exposed to custodial credit risk.

**Investments**

As of September 30, 2012, the city had no investments.

**Note 3 – Inter-fund Receivables, Payables, Transfers and Intergovernmental Receivables**

The following is a summary of inter-fund balances at September 30, 2012:

A. Due From/To Other Funds:

	Due From	Due To
<b>Major Funds:</b>		
City General Fund	\$ 5,703	6,469
<b>Non-major Governmental Funds:</b>		
Fire Protection	3,258	
Houston Airport	229	
EECBG	2,700	
<b>Enterprise Funds:</b>		
Water & Sewer Fund		5,421
	\$ 11,890	11,890

The amounts due to or due from other funds primarily represent amounts loaned between funds for timing differences between revenues and expenditures and cash balances.

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

**B. Inter-fund Transfers**

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
City General Fund	\$	27,427
Non-major Governmental Funds:		
WIN Job Center	22,340	
Houston Airport Fund	5,087	
EECBG	15,155	
Enterprise Funds:		
Water & Sewer Fund		15,155
	\$ 42,582	42,582

All inter-fund transfers were routine and consistent with the activities of the fund making the transfer.

**C Inter-governmental Receivables**

The following is a summary of inter-governmental receivables at September 30, 2012:

State of Mississippi – Aeronautics Grant	\$	72
FAA – Airport Grant		5,726
	\$	5,798

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

**Note 4 – Capital Assets**

The following is a summary of capital assets activity for the year ended September 30, 2012.

	Balance 10/1/2011	Additions	Deletions	Balance 9/30/2012
<u>Governmental Activities:</u>				
Non-depreciable capital assets:				
Land	\$ 468,337			468,337
Construction in progress	398,239	178,650	(568,889)	8,000
Total non-depreciable capital assets	<u>866,576</u>	<u>178,650</u>	<u>(568,889)</u>	<u>476,337</u>
Depreciable capital assets:				
Buildings	1,364,125			1,364,125
Improvements	397,513			397,513
Infrastructure	7,478,264	694,066		8,172,330
Furniture and equipment	437,718			437,718
Vehicles	901,145	20,940		922,085
Total depreciable capital assets	<u>10,578,765</u>	<u>715,006</u>	<u>-</u>	<u>11,293,771</u>
Less accumulated depreciation for:				
Buildings	573,068	22,589		595,657
Improvements	158,533	11,933		170,466
Infrastructure	2,805,276	269,821		3,075,097
Furniture and equipment	350,385	9,134		359,519
Vehicles	577,327	45,912		623,239
Total accumulated depreciation	<u>4,464,589</u>	<u>359,389</u>	<u>-</u>	<u>4,823,978</u>
Total depreciable capital assets, net	<u>6,114,176</u>	<u>355,617</u>	<u>-</u>	<u>6,469,793</u>
Governmental activities capital assets, net	<u>\$ 6,980,752</u>	<u>534,267</u>	<u>(568,889)</u>	<u>6,946,130</u>
<u>Business-type Activities:</u>				
Land	\$ 137,099			137,099
Construction in progress	-			-
Buildings	61,800			61,800
Improvements	-			-
Infrastructure	8,671,032			8,671,032
Machinery and Equipment	156,266			156,266
Vehicles	59,960			59,960
Total capital assets	<u>9,086,157</u>	<u>-</u>	<u>-</u>	<u>9,086,157</u>
Less accumulated depreciation for:				
Buildings	46,930	1,235		48,165
Improvements	-			-
Infrastructure	3,817,982	216,776		4,034,758
Machinery and Equipment	118,317	4,464		122,781
Vehicles	45,609	4,177		49,786
Total accumulated depreciation	<u>4,028,838</u>	<u>226,652</u>	<u>-</u>	<u>4,255,490</u>
Business-type activities capital assets, net	<u>\$ 5,057,319</u>	<u>(226,652)</u>	<u>-</u>	<u>4,830,667</u>

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

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities	
General government	\$ 107,664
Public safety	49,927
Public works	186,205
Culture and recreation	15,593
Total governmental activities depreciation expense	\$ 359,389

Construction projects included in governmental activities are funded with grants, proceeds from the issuance of long-term debt and funds that have been transferred from the General Fund to various Capital Project Funds to be used for the renovation and construction of major capital facilities.

**Note 5 – Claims and Judgments**

Risk Financing

The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for law enforcement personnel and \$350,000 for all other employees for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

**Note 6 – Long-term Liabilities**

The following is a summary of changes in long-term debt for the year ended September 30, 2012.

	Balance		Amounts		
	10/1/2011	Additions	Deductions	9/30/2012	Due Within One Year
Governmental Activities					
G.O. Bonds Payable	\$ 1,475,000		100,000	1,375,000	105,000
Loans Payable	189,989		34,176	155,813	37,326
Compensated Absences	58,586	5,561		64,147	21,382
Total Governmental Activities	\$ 1,723,575	5,561	134,176	1,594,960	163,708
Business-Type Activities					
Revenue Bonds	\$ 2,069,443	2,100,000	2,069,443	2,100,000	105,000
Loans Payable	501,343		21,893	479,450	22,335
Compensated Absences	5,034	3,405		8,439	2,030
Total Business-Type Activities	\$ 2,575,820	2,103,405	2,091,336	2,587,889	129,365

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

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 142,326	53,303	127,335	51,811
2014	117,676	50,200	142,785	59,344
2015	103,032	45,192	148,245	55,884
2016	108,397	42,448	153,715	52,758
2017	113,768	39,196	154,193	49,680
2018-2022	560,614	139,906	823,458	199,173
2023-2027	385,000	31,400	937,460	90,646
2028-2032			92,259	2,873
Total	\$ <u>1,530,813</u>	<u>401,645</u>	<u>2,579,450</u>	<u>562,169</u>

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

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

**Governmental Activities:**

As of September, 30 2012, the governmental long-term debt of the financial reporting entity consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<b>A. General Obligation Bonds</b>			
\$1,500,000 Public Improvements Bonds, Series 2010, due in annual installments of \$75,000 to \$135,000 with interest paid semi-annually	\$ 1,350,000	2.80-4.00%	8/1/2025
\$220,000 Street Improvement Bonds, Series 2002, due in annual installments of \$25,000 with interest paid semi-annually.	25,000	4.10%	11/1/2012
Total General Obligation Bonds	<u>\$ 1,375,000</u>		
Current Portion	\$ 105,000		
Noncurrent Portion	\$ 1,270,000		
<b>B. Loans Payable</b>			
\$176,460 Capital Improvement Loan issued January 1, 2009, due in monthly installments of \$1,623 (Fire Truck)	\$ 115,813	2.00%	1/1/2019
\$100,000 Negotiable Note issued July 21, 2009, due in annual installments \$22,412 (WIN Job Center)	40,000	3.90%	7/17/2014
Total Loans Payable	<u>\$ 155,813</u>		
Current Portion	\$ 37,326		
Noncurrent Portion	\$ 118,487		
<b>C. Compensated Absences:</b>			
Current Portion	\$ 21,382		
Noncurrent Portion	\$ 42,765		
	<u>\$ 64,147</u>		
Total Governmental Activities Debt	<u>\$ 1,594,960</u>		
Current Portion	\$ 163,708		
Noncurrent Portion	\$ 1,431,252		

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

As of September 30, 2012, the long-term debt payable from proprietary fund resources consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
<b><u>A. Revenue Bonds</u></b>			
\$2,100,000, 2012 Series, combined water and sewer system refunding bonds, due in annual installments of \$105,000 to \$160,000 with interest paid semi-annually	\$ 2,100,000	2.50-3.125%	4/1/2026
Total Revenue Bonds	<u>\$ 2,100,000</u>		
Current Portion	\$ 105,000		
Noncurrent Portion	\$ 1,995,000		
<b><u>B. Loans Payable</u></b>			
\$519,832 Capital Improvement Loan, due in monthly installments of \$2,643 (Sewer Improvements)	\$ 479,450	2.00%	9/1/2030
Total Loans Payable	<u>\$ 479,450</u>		
Current Portion	\$ 22,335		
Noncurrent Portion	\$ 457,115		
<b><u>C. Compensated Absences</u></b>			
Current Portion	\$ 2,030		
Noncurrent Portion	\$ 6,409		
	<u>\$ 8,439</u>		
Total Business-type Activities Debt	<u>\$ 2,587,889</u>		
Current Portion	\$ 129,365		
Noncurrent Portion	\$ 2,458,524		

**Legal Debt Margin** – The amount of debt, excluding specific exempted debt, that can be incurred by the City is limited by the state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2012, the amount of outstanding debt was equal to 7.0 % of the latest property assessments.

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

**Note 7 – Use of Estimates**

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

**Note 8 – Contingencies**

Federal Grants – The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the city. No provision for any liability that may result has been recognized in the city's financial statements.

Litigation – The city is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the city with respect to the various proceedings. However, the city's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the city.

**Note 9 – Defined Benefit Pension Plan**

Plan Description. City of Houston, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 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 12.93% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The city's contributions (employer share only) to PERS for the years ending September 30, 2012, 2011, and 2010 were \$156,149, \$144,422, and \$143,558, respectively, equal to the required contributions for each year.

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

**Note 10 – Subsequent Events.**

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the City of Houston evaluated the activity of the City through January 15, 2013, (the date the financial statements were available to be issued), and determined that no subsequent events have occurred that would require disclosure in the notes to the financial statements.

**REQUIRED SUPPLEMENTAL INFORMATION**

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**CITY OF HOUSTON, MISSISSIPPI**  
**Budgetary Comparison Schedule -**  
**Budget and Actual (Non-GAAP Basis)**  
**General Fund**  
**For the Year Ended September 30, 2012**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 755,800	751,800	762,348	10,548
Licenses, commissions and other revenue	9,000	10,200	16,253	6,053
Fines and forfeitures	35,000	45,000	49,991	4,991
Intergovernmental revenues	996,100	1,047,100	1,042,422	(4,678)
Charges for services	219,000	219,000	217,874.00	(1,126)
Interest income	10,000	7,800	7,422	(378)
Miscellaneous revenues	27,000	29,430	36,589	7,159
Total Revenues	<u>2,051,900</u>	<u>2,110,330</u>	<u>2,132,899</u>	<u>22,569</u>
<b>EXPENDITURES</b>				
Current:				
General government	332,600	368,950	313,951	54,999
Public safety	1,075,700	1,089,500	1,069,127	20,373
Public works	772,800	772,800	732,802	39,998
Total Expenditures	<u>2,181,100</u>	<u>2,231,250</u>	<u>2,115,880</u>	<u>115,370</u>
<b>Excess of Revenues over (under) Expenditures</b>	<u>(129,200)</u>	<u>(120,920)</u>	<u>17,019</u>	<u>137,939</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(2,340)	(22,340)	(27,427.00)	(5,087)
Total Other Financing Sources and Uses	<u>(2,340)</u>	<u>(22,340)</u>	<u>(27,427.00)</u>	<u>(5,087)</u>
Net Change in Fund Balance	(131,540)	(143,260)	(10,408)	132,852
Fund Balances - Beginning	308,740	308,740	308,740	0
Fund Balances - Ending	<u>\$ 177,200</u>	<u>165,480</u>	<u>298,332</u>	<u>132,852</u>

The accompanying notes to the Required Supplemental Information are an integral part of this statement.

CITY OF HOUSTON, MISSISSIPPI

Notes to the Required Supplemental Information  
For the Year Ended September 30, 2012

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on the non-GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and revisions.

The budget is adopted by the board of aldermen and filed with the taxing authority. Amendments can be made on the approval of the board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

**SUPPLEMENTAL INFORMATION**

**CITY OF HOUSTON, MISSISSIPPI  
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS  
September 30, 2012**

EMPLOYEE	POSITION	SURETY	AMOUNT OF BOND
Bobby H. Sanderson	City Clerk	Brierfield Ins.	50,000
Barbara Buggs	Deputy Clerk	Brierfield Ins.	50,000
Shequala Jones	Deputy Clerk	Brierfield Ins.	50,000
Paula Harville	Deputy Clerk	Brierfield Ins.	50,000
Kathy Smith	Deputy Clerk	Brierfield Ins.	50,000
Billy Voyles	Police Chief	Brierfield Ins.	50,000
Policemen *	Officers	Fidelity & Deposit	25,000
Dispatchers *	Dispatchers	Fidelity & Deposit	25,000
Stacey W. Parker	Mayor	Travelers	50,000
Barry Springer	Alderman	Travelers	100,000
Willie Mae McKinney	Alderman	Travelers	100,000
Frank Thomas	Alderman	Travelers	100,000
Shenia Jones	Alderwoman	Travelers	100,000
Raymond Uhiren	Alderman	Travelers	100,000
Lisa Mims	Librarian	Brierfield Ins.	50,000
John Gravat, Jr.	Park & Rec Director	Brierfield Ins.	50,000

\* Commercial Insurance – Public employee dishonesty coverage for policemen and dispatchers.

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**CITY OF HOUSTON, MISSISSIPPI  
RECONCILIATION OF ORIGINAL AD VALOREM TAX ROLLS TO FUND COLLECTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<u>Assessed Valuation and Millage:</u>	<u>Assessed Values</u>	<u>Mills</u>	<u>Amount</u>	
Realty	\$ 15,605,158	85.55	1,335,021	
Personal	8,497,202	85.55	726,936	
Utility	568,492	85.55	<u>48,634</u>	
Total Assessment				\$ 2,110,591
Adjustments:				
Less: Homestead Exemption			\$ (231,956)	
Industrial Realty Exemption			(8,858)	
Industrial Personal Realty Exemption			(65,338)	
Delinquent Personal Property Tax			(4,102)	
Delinquent Real Property Tax			(2,080)	
Add: Sewer & Street Assessment			9,388	
Priviledge Licenses			10,168	
Property cleanup			1,915	
Interest Charges			<u>9,031</u>	
Net Adjustment				<u>(281,832)</u>
Total To Account For				<u>\$ 1,828,759</u>
Collection Credit to Funds:				
General Fund			\$ 465,036	
Library Fund			42,926	
Park Fund			81,764	
School Maintenance			1,046,757	
Sewer and Paving Receipts			156,375	
Interest and Penalty			9,031	
Priviledge License			10,168	
Special St. G.O.			9,388	
Rails to Trails			5,399	
Property cleanup			<u>1,915</u>	
Total Accounted For				<u>\$ 1,828,759</u>

CITY OF HOUSTON, MISSISSIPPI

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



**WATKINS, WARD and STAFFORD**  
Professional Limited Liability Company  
Certified Public Accountants

James L. Stafford, CPA  
Harry W. Stevens, CPA  
S. Keith Winfield, CPA  
William B. Stagers, CPA  
Aubrey R. Holder, CPA  
Michael W. McCully, CPA  
Mort Stroud, CPA  
R. Steve Sinclair, CPA  
Michael L. Pierce, CPA  
Marsha L. McDonald, CPA

Wanda S. Holley, CPA  
Robin Y. McCormick, CPA/PFS  
J. Randy Scrivner, CPA  
Kimberly S. Caskey, CPA  
Susan M. Lummus, CPA  
Thomas J. Browder, CPA  
Stephen D. Flake, CPA  
John N. Russell, CPA  
Thomas A. Davis, CPA  
Anita L. Goodrum, CPA

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

Mayor and Board of Aldermen  
City of Houston, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Houston, Mississippi as of and for the year ended September 30, 2012, which collectively comprise the City of Houston, Mississippi's basic financial statements and have issued our report thereon dated January 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Houston, 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 Houston, Mississippi's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Houston, Mississippi's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2012-02 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses, as finding 2012-01 to be a significant deficiency.

Compliance and Other Matters

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

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

Watkins, Ward and Stafford, PLLC  
January 15, 2013

*Watkins, Ward and Stafford, PLLC*

CITY OF HOUSTON, MISSISSIPPI

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



**WATKINS, WARD and STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

James L. Stafford, CPA  
 Harry W. Stevens, CPA  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
 STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen  
 City of Houston, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi as of and for the year ended September 30, 2012, which collectively comprise the City of Houston, Mississippi's basic financial statements and have issued our report thereon dated January 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed no instances of noncompliance.

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

Watkins, Ward and Stafford, PLLC  
 January 15, 2013

*Watkins, Ward and Stafford, PLLC*

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CITY OF HOUSTON, MISSISSIPPI

SCHEDULE OF FINDINGS AND RESPONSES

**CITY OF HOUSTON, MISSISSIPPI**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2012**

Section 1: Financial Statement Findings

Significant Deficiency

**2012-01      Statement of Condition**

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; however, management does not have the ability to evaluate the completeness of financial statement disclosures. The absence of this control procedure is considered a significant deficiency because the potential exists that a more than inconsequential but less than a material misstatement of the financial statements could occur and not be detected by the city's internal control.

**Criteria**

Preparation of the financial statements including the required note disclosures is the responsibility of the City of Houston. Our responsibility as auditors is to express an opinion on the financial statements.

**Cause of Condition**

The City of Houston is capable of preparation of the financial statements. However, they lack the expertise to prepare the required disclosures.

**Effect of Condition**

A control deficiency exists due to the city lacking controls and procedures necessary for the preparation of the financial statements, which include the required note disclosures.

**Recommendation**

Management of the City of Houston should review, approve, and accept auditor prepared financial statements, including the note disclosures prior to their issuance.

**Auditee Response**

Management of the City of Houston should review, approve, and accept auditor-prepared financial statements, including the note disclosures, prior to their issuance.

Significant Deficiency Considered to be a Material Weakness

**2012-02      Statement of Condition**

Eighty-five (85) adjustments were made to the accounting records subsequent to the start of the auditing process. Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.

**Criteria**

The financial statements are the responsibility of the City of Houston. Therefore, all adjustments should be completed before preparation of the financial statements.

**Cause of Condition**

The adjustments were necessary to correct account coding and misclassifications and to record additional receivables, liabilities and depreciation.

**CITY OF HOUSTON, MISSISSIPPI**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2012**

**Effect of Condition**

The City of Houston's net expenditures over revenues increased by \$266,299 as a result of these audit entries.

**Recommendation**

We recommend that the city implement policies and procedures to ensure the correct account coding of all journal entries. We also recommend that all receivables, payables and depreciation expense be recorded prior to the start of the audit.

**Auditee Response**

Policies and procedures will be implemented to ensure the correct account coding of all journal entries, and to record all receivables, payables and depreciation expense prior to the start of the audit.