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CITY OF HOLLY SPRINGS, MISSISSIPPI

**Audited Financial Statements and
Special Reports**

September 30, 2015



CITY OF HOLLY SPRINGS, MISSISSIPPI

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**CITY OF HOLLY SPRINGS, MISSISSIPPI
FINANCIAL SECTION**

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**WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS**



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Holly Springs
Holly Springs, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Holly Springs, Mississippi, as of and for the year ended September 30, 2015, and the related notes to financial statements, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Holly Springs, Mississippi, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability, and schedule of the City's contributions 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. Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holly Springs, Mississippi's basic financial statements. The schedule of expenditures of federal awards as required by OMB Circular A-133 and the schedule of surety bonds for municipal officials are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2017, on our consideration of the City of Holly Springs, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Holly Springs, Mississippi's internal control over financial reporting and compliance.

West Point, Mississippi
June 12, 2017

Watkins Ward and Stafford, PLLC

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BASIC FINANCIAL STATEMENTS

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Net Position
September 30, 2015

	Governmental Activities	Business-type Activities	Total
<u>Assets:</u>			
Cash and cash equivalents	\$ 672,018	1,078,427	1,750,445
Investments	1,004,640	6,724,083	7,728,723
Receivables (Net):			
Accounts		3,397,918	3,397,918
Property taxes	30,789		30,789
Lease	361,823		361,823
Other	568,169	404,472	972,641
Notes receivable (Net)	15,000		15,000
Inventories		492,562	492,562
Prepaid items		52,899	52,899
Restricted assets:			
Cash	1,757,573		1,757,573
Investments		1,270,583	1,270,583
Due from other entities		162,111	162,111
Capital assets, net of accumulated depreciation	12,652,779	35,799,519	48,452,298
Total Assets	<u>\$ 17,062,791</u>	<u>49,382,574</u>	<u>66,445,365</u>
<u>Deferred Outflow of Resources:</u>			
Deferred outflows related to pensions	799,936	954,008	1,753,944
Deferred outflows related to conservation receivables		64,699	64,699
Deferred outflows related to debt		73,367	73,367
Total deferred outflows of resources	<u>799,936</u>	<u>1,092,074</u>	<u>1,892,010</u>
<u>Liabilities:</u>			
Accounts payable	\$ 702,920	2,299,408	3,002,328
Accrued interest payable	29,926	237,596	267,522
Due to other entities	262,500		262,500
Other liabilities		300,114	300,114
Payable from restricted assets:			
Deposits		1,276,450	1,276,450
Noncurrent liabilities:			
Due within one year	648,039	596,776	1,244,815
Due in more than one year	8,263,236	11,864,966	20,128,202
Net pension liability	6,372,108	6,300,035	12,672,143
Total Liabilities	<u>16,278,729</u>	<u>22,875,345</u>	<u>39,154,074</u>

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Net Position
September 30, 2015

Deferred Inflows of Resources:

Deferred inflows related to pensions	302,046	601,232	903,278
Deferred inflows related to unearned income	<u>302,046</u>	<u>19,340</u>	<u>19,340</u>
		620,572	922,618

Net Position:

Net Investment in capital assets	3,865,104	23,337,777	27,202,881
Restricted for:			
Expendable:			-
Community development	70,615	-	70,615
Cemetery	318,060	-	318,060
Debt Service	1,587,106	1,270,583	2,857,689
Other purposes	2,351	-	2,351
Unrestricted	(4,561,284)	2,370,371	(2,190,913)
Total Net Position	<u>\$ 1,281,952</u>	<u>26,978,731</u>	<u>28,260,683</u>

The accompanying notes to financial statement are an integral part of these financial statements.

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2015

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 2,881,083	34,968	-	-	(2,846,115)	-	(2,846,115)
Public safety	2,298,820	129,574	2,420	-	(2,166,826)	-	(2,166,826)
Public works	1,221,644	561,676	10,800	360,700	(288,468)	-	(288,468)
Cemetery	496,957	25,850	-	-	(471,107)	-	(471,107)
Health and welfare	7,123	-	-	-	(7,123)	-	(7,123)
Culture and recreation	297,639	32,921	-	-	(264,718)	-	(264,718)
Community development	160,522	-	201,726	78,522	119,726	-	119,726
Intergovernmental	253,800	-	-	-	(253,800)	-	(253,800)
Interest on long-term debt	203,180	-	-	-	(203,180)	-	(203,180)
Total Governmental Activities	7,820,768	784,989	214,946	439,222	(6,381,611)	-	(6,381,611)
Business-type Activities:							
Electric	28,745,523	26,352,435	-	-	-	(2,393,088)	(2,393,088)
Water	1,740,329	1,558,243	-	-	-	(182,086)	(182,086)
Sewer	759,471	751,421	-	-	-	(8,050)	(8,050)
Gas	3,779,558	3,411,889	-	-	-	(367,669)	(367,669)
Total Business-type Activities	35,024,881	32,073,988	-	-	-	(2,950,893)	(2,950,893)
Total Government	\$ 42,845,649	32,858,977	214,946	439,222	(6,381,611)	(2,950,893)	(9,332,504)
General revenues:							
Taxes:							
Current year					\$ 1,341,354	-	1,341,354
Prior year, penalties and interest					144,093	-	144,093
Intergovernmental:							
Local					2,954,016	-	2,954,016
State					1,843,298	-	1,843,298
Interest					4,144	41,435	45,579
Miscellaneous					231,825	-	231,825
Transfers					306,640	(306,640)	-
Total General Revenues and Transfers					6,825,370	(265,205)	6,560,165
Change in net assets					443,759	(3,216,098)	(2,772,339)
Net assets at beginning of year							
As previously reported					9,562,788	36,073,170	45,635,958
Prior period adjustment					(8,724,595)	(5,878,341)	(14,602,936)
As restated					838,193	30,194,829	31,033,022
Net assets at end of year					1,281,952	26,978,731	28,260,683

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2015

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>			
Cash and cash equivalents	\$ 672,018	1,757,573	2,429,591
Investments	1,004,640		1,004,640
Receivables (Net):			
Property taxes	3,696	27,093	30,789
Lease receivable	361,823		361,823
Other	568,169		568,169
Notes receivable (Net)	15,000		15,000
Due from other funds	11,733	324,108	335,841
Total Assets	<u>\$ 2,637,079</u>	<u>2,108,774</u>	<u>4,745,853</u>
<u>Liabilities:</u>			
Accounts payable	\$ 596,717	104,801	701,518
Due to other funds	573,410	11,385	584,795
Other liabilities	1,402		1,402
Due to other entities	-	13,546	13,546
Total Liabilities	<u>1,171,529</u>	<u>129,732</u>	<u>1,301,261</u>
<u>Fund Balances:</u>			
Reserved for:			
Fire protection		833	833
Unemployment benefits		11,012	11,012
Street Paving		1,359,705	1,359,705
Home grants		14	14
Cemetery		203,714	203,714
Community development		70,615	70,615
Debt service		333,149	333,149
Unreserved	1,465,550		1,465,550
Total Fund Balances	<u>1,465,550</u>	<u>1,979,042</u>	<u>3,444,592</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 2,637,079</u>	<u>2,108,774</u>	<u>4,745,853</u>

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Reconciliation of the Governmental Funds
Balance Sheet to Statement of Net Position
September 30, 2015

Total fund balance - total governmental funds		\$	3,444,592
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.			12,652,779
Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds balance sheet.			(29,926)
Long-term liabilities are not due and payable in the current period and, therefore not reported in the governmental funds balance sheet:			
Due within one year	\$	(648,039)	
Due in more than one year		(8,263,236)	
Net pension liability		(6,372,108)	
Deferred outflows of resources		799,936	
Deferred inflows of resources		<u>(302,046)</u>	<u>(14,785,493)</u>
Net Position of Governmental Activities		\$	<u><u>1,281,952</u></u>

The accompanying notes to financial statement are an integral part of these financial statements.

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2015

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes:			
Current year	\$ 1,341,354		1,341,354
Prior year, penalties and interest	144,093		144,093
Licenses and permits	34,948		34,948
Intergovernmental:			
Federal revenue	562,425		562,425
State shared:			
Sales tax	1,315,699	316,265	1,631,964
State grants	91,742		91,742
Liquor privilege tax	6,750		6,750
TVA in-lieu	107,281		107,281
Gasoline tax	7,647		7,647
General municipal aid	3,839		3,839
Homestead reimbursement	85,817		85,817
Local revenue	3,012,787		3,012,787
Charges for services	594,597		594,597
Fines and forfeits	129,574		129,574
Miscellaneous revenues	95,599	42,731	138,330
Total Revenues	<u>7,534,152</u>	<u>358,996</u>	<u>7,893,148</u>
Expenditures:			
General government	2,676,334		2,676,334
Public Safety:			
Police	1,240,177		1,240,177
Fire	719,916	35,891	755,807
Public Works:			
Highways and streets	544,146	149,163	693,309
Sanitation	314,680		314,680
Cemetery	363,680	114,346	478,026
Health and welfare	6,412		6,412
Culture and recreation	293,091		293,091
Community development	761	159,761	160,522
Debt service:			
Principal	935,451	415,000	1,350,451
Interest and fiscal charges	183,926	19,254	203,180
Intergovernmental	253,219		253,219
Total Expenditures	<u>7,531,793</u>	<u>893,415</u>	<u>8,425,208</u>
Excess of Revenues Over Expenditures	<u>2,359</u>	<u>(534,419)</u>	<u>(532,060)</u>
Other Financing Sources (Uses):			
Operating transfers in	306,640	3,504	310,144
Operating transfers out	(3,504)		(3,504)
Proceeds from bond sale		1,508,868	1,508,868
Sale of Land	18,238		18,238
Total Other Financing Sources (Uses)	<u>321,374</u>	<u>1,512,372</u>	<u>1,833,746</u>
Excess of Revenues Over Expenditures and Other Uses	323,733	977,953	1,301,686
Fund Balances:			
October 1, 2014	1,141,817	1,001,089	2,142,906
September 30, 2015	<u>\$ 1,465,550</u>	<u>1,979,042</u>	<u>3,444,592</u>

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2015

Net change in fund balances - total governmental funds	\$	1,301,686
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Amounts reported for governmental activities in the statement
of activities are different because:

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not recorded as an expenditure in governmental funds.		(542,918)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of 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 cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items.		(149,548)
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The change in unfunded pension liability is reported in the government-wide statement of activities but does not require the use of current resources and therefore not reported as an expenditure in governmental funds.		(149,623)
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CITY OF HOLLY SPRINGS, MISSISSIPPI
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2015

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources, therefore, accrued interest expense is not reported as an expenditure in governmental funds.

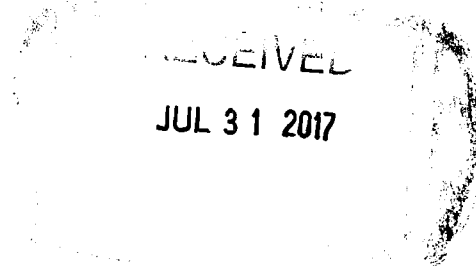
\$ (2,225)

The decrease in compensated absences liability provides a current financial resource

(13,613)

Change in Net Position of Governmental Activities

\$ 443,759



The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Fund Net Position
Proprietary Funds
September 30, 2015

	Business-type Activities Enterprise Funds				
	June 30, 2015	September 30, 2015			
	Electric Department	Water Department	Sewer Department	Gas Department	Total Proprietary Funds
Assets:					
Current Assets:					
Cash and cash equivalents	\$ 1,060,023	2,116	3,854	12,434	1,078,427
Inventories	2,591,483	1,781,520	625,524	1,725,556	6,724,083
Receivables:					
Accounts	3,397,918				3,397,918
Other	404,472				404,472
Due from other city departments	2,886,651	1,465,678	644,495		4,996,824
Inventories	376,979	54,791	13,162	47,630	492,562
Prepayments	24,871	11,987	5,456	10,585	52,899
Total Current Assets	10,742,397	3,316,092	1,292,491	1,796,205	17,147,185
Restricted Assets:					
Bond sinking funds	552,479	129,478	38,150	550,476	1,270,583
Total Restricted Assets	552,479	129,478	38,150	550,476	1,270,583
Non-current Assets:					
Capital assets:					
Land	157,020	62,092		1,118	220,230
Construction in progress	1,132,606	3,494,720	1,891,073	3,849,603	10,368,002
Other capital assets, net of accumulated depreciation	15,783,851	5,330,785	2,747,041	1,349,610	25,211,287
Total Non-current Assets	17,073,477	8,887,597	4,638,114	5,200,331	35,799,519
Total Assets	28,368,353	12,333,167	5,968,755	7,547,012	54,217,287
Deferred Inflows of Resources					
Deferred inflows related to the net pension liability	540,756	158,006	57,846	197,400	954,008
Deferred inflows related to conservation receivable	64,699				64,699
Deferred inflows related to long-term debt		57,108	12,278	3,981	73,367
Total Deferred inflows of Resources	605,455	215,114	70,124	201,381	1,092,074

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Fund Net Position
Proprietary Funds
September 30, 2015

	Business-type Activities Enterprise Funds				
	June 30, 2015	September 30, 2015			
	Electric Department	Water Department	Sewer Department	Gas Department	Total Proprietary Funds
Liabilities					
Current liabilities:					
Accounts payable	\$ 2,299,408	-	-	-	2,299,408
Customer deposits	1,049,338	65,076	-	162,036	1,276,450
Due to other city departments	899,498	2,309,055	333,889	1,292,271	4,834,713
Current portion of long-term debt	415,000	101,855	32,615	47,306	596,776
Accrued expenses	38,962	68,092	11,814	118,728	237,596
Other	176,524	47,155	13,030	63,405	300,114
Total Current Liabilities	4,878,730	2,591,233	391,348	1,683,746	9,545,057
Non-current liabilities:					
Net pension liability	3,700,530	1,111,017	464,834	1,023,654	6,300,035
Bonds payable	2,741,000	4,051,242	881,248	4,191,476	11,864,966
Total Non-current Liabilities	6,441,530	5,162,259	1,346,082	5,215,130	18,165,001
Total Liabilities	11,320,260	7,753,492	1,737,430	6,898,876	27,710,058
Deferred Inflows of Resources					
Deferred inflows related to the net pension liability	536,419	27,101	20,366	17,346	601,232
Deferred inflows related to the unearned income	19,340				19,340
Total Deferred Inflows of Resources	555,759	27,101	20,366	17,346	620,572
Net Position					
Invested in capital assets, net of related debt	13,917,477	4,734,500	3,724,251	961,549	23,337,777
Restricted for:					
Expendable:					
Debt service	552,479	129,478	38,150	550,476	1,270,583
Unrestricted	2,627,833	(96,290)	518,682	(679,854)	2,370,371
Total Net Position	\$ 17,097,789	4,767,688	4,281,083	832,171	26,978,731

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended September 30, 2015

	Business - type Activities Enterprise Funds				Total Proprietary Funds
	June 30, 2015	September 30, 2015			
	Electric Department	Water Department	Sewer Department	Gas Department	
Operating Revenues:					
Charges for services	\$ 26,352,435	1,558,243	751,421	3,411,889	32,073,988
Operating Expenses:					
Power purchased	19,123,916				19,123,916
Gas purchased				1,427,560	1,427,560
Operation and maintenance	4,947,999	1,092,284	480,403	1,801,293	8,321,979
Depreciation	1,203,959	251,460	150,653	94,675	1,700,747
Taxes	1,966,545	278,481	90,740	337,165	2,672,931
Total Operating Expenses	27,242,419	1,622,225	721,796	3,660,693	33,247,133
Operating Income (Loss)	(889,984)	(63,982)	29,625	(248,804)	(1,173,145)
Nonoperating Revenues:					
Interest revenue	22,300	7,142	3,153	8,840	41,435
Total Nonoperating Expenses	22,300	7,142	3,153	8,840	41,435
Nonoperating Expenses:					
Interest and fiscal charges	142,897	105,572	36,942	118,728	404,139
Miscellaneous	128	12,532	733	137	13,530
Extraordinary loss on meter retirement	1,360,079				1,360,079
Total Nonoperating Expenses	1,503,104	118,104	37,675	118,865	1,777,748
Net Income (Loss) before Contributions and Transfers	(2,370,788)	(174,944)	(4,897)	(358,829)	(2,909,458)
Transfers out				306,640	306,640
Total Capital Contributions	-	-	-	306,640	306,640
Change in Net Assets	(2,370,788)	(174,944)	(4,897)	(665,469)	(3,216,098)
Net Position - Beginning of Year					
As previously reported	23,202,658	5,882,602	4,702,207	2,285,703	36,073,170
Prior period adjustment	(3,734,081)	(939,970)	(416,227)	(788,063)	(5,878,341)
As restated	19,468,577	4,942,632	4,285,980	1,497,640	30,194,829
Net Position - End of Year	\$ 17,097,789	4,767,688	4,281,083	832,171	26,978,731

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2015

	Business-type Activities Enterprise Funds				
	June 30, 2015	September 30, 2015			Total
	Electric Department	Water Department	Sewer Department	Gas Department	Proprietary Funds
Cash Flows from Operating Activities:					
Cash received from customers	\$ 23,888,502	1,527,813	672,781	3,546,663	29,635,759
Other operating cash receipts	381,984	38,645	9,569	38,464	468,662
Cash payments to suppliers for goods and services	(19,180,467)	-		(1,427,560)	(20,608,027)
Operating expenses	(4,947,999)	(1,092,284)	(480,403)	(1,800,626)	(8,321,312)
Taxes	(1,966,545)	(278,481)	(14,728)	(31,202)	(2,290,956)
Net Cash Provided by Operating Activities	(1,824,525)	195,693	187,219	325,739	(1,115,874)
Cash Flows from Noncapital Financing Activities:					
Cash paid to City				(306,640)	(306,640)
Net Cash Used in Noncapital Financing Activities	-	-	-	(306,640)	(306,640)
Cash Flows from Capital and Related Financing Activities:					
Activities:					
Acquisition of capital assets (net of removal and salvage)	115,318	(429,959)	(47,420)	580,358	218,297
Proceeds from borrowing		2,360,353		1,870,511	4,230,864
Principal payment on long-term debt	(400,000)	(2,038,622)	(31,201)	(1,381,073)	(3,850,896)
Increase in sinking funds	(42,578)	(44,133)	(10,528)	(196,301)	(293,540)
Interest paid	(130,440)	(107,892)	(37,272)	(128,646)	(404,250)
Net Cash Flows in Capital and Related Financing Activities	(457,700)	(260,253)	(126,421)	744,849	(99,525)
Cash Flows from Investing Activities:					
Change in investments	20,189	64,373	(60,739)	(754,782)	(730,959)
TVA advances	23,435	-	-		23,435
Net Cash Flows from Investing Activities	43,624	64,373	(60,739)	(754,782)	(707,524)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,238,601)	(187)	59	9,166	(2,229,563)
Cash and Cash Equivalents at Beginning of Year	3,298,624	2,303	3,795	3,268	3,307,990
Cash and Cash Equivalents at End of Year	\$ 1,060,023	2,116	3,854	12,434	1,078,427

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2015

	Business-type Activities Enterprise Funds				Total Proprietary Funds
	June 30, 2015	September 30, 2015			
	Electric Department	Water Department	Sewer Department	Gas Department	
Reconciliation of income from operations to net cash provided by operating activities:					
Income (loss) from operations	\$ (889,984)	(63,982)	29,625	(248,804)	(1,173,145)
Adjustments to reconcile income from operations to net cash provided by operating activities:					
Depreciation	1,258,802	251,460	150,653	94,675	1,755,590
Loss on retirement of meters	(1,360,079)				(1,360,079)
Other	(128)	(9,123)			(9,251)
(Increase) Decrease in:					
Receivables	(544,257)	(245,668)	(60,230)		(850,155)
Inventories	35,817	677	1,663	(13,483)	24,674
Prepaid expenses	(45,575)	(1,515)	(482)	287	(47,285)
Other current assets	(21,748)	(2,711)	(717)	(522)	(25,698)
Increase (Decrease) in:					
Accounts payable and other liabilities	(256,015)	226,201	55,580	432,702	458,468
Customer deposits	36,961	213		4,940	42,114
Accrued expenses	(431)	(1)		407	(25)
Net pension liability	(37,888)	40,142	11,127	55,537	68,918
Net Cash Provided by Operating Activities	\$ (1,824,525)	195,693	187,219	325,739	(1,115,874)

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The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Fund Net Position - Fiduciary Funds
September 30, 2015

	<u>Agency Funds</u>
<u>Assets:</u>	
Receivables (net):	
Property taxes	\$ <u>24,573</u>
Total Assets	<u>24,573</u>
<u>Liabilities:</u>	
Other liabilities	<u>24,573</u>
Total Liabilities	<u>24,573</u>
<u>Net Position:</u>	
Held in Trust for Others	\$ <u><u>-</u></u>

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Fund Net Position
Fiduciary Funds
September 30, 2015

	<u>Agency Funds</u>
<u>Additions:</u>	
Property taxes	\$ 4,235,282
Total Additions	<u>4,235,282</u>
<u>Deductions:</u>	
Payments to school district	<u>4,235,282</u>
Total Deductions	<u>4,235,282</u>
Change in Net Position	<u>-</u>
Net Position - Beginning of Year	<u>-</u>
Net Position - End of Year	<u><u>\$ -</u></u>

The accompanying notes to financial statement are an integral part of these financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Holly Springs, Mississippi, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the City has elected to follow (1) all GASB pronouncements and (2) all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinion, and Accounting Research Bulletins (ARB), no matter when issued, except those that conflict with a GASB pronouncement. The more significant of the government's accounting policies are described below.

a. Financial Reporting Entity

The City of Holly Springs, located in Marshall County, Mississippi, was incorporated in 1837, and operates under an elected Mayor-Board of Aldermen form of government. The City provides the following services to the citizenry: general administration; electricity, water, sewer, gas and garbage disposal; police and fire protection; economic development; street repair and library services. The primary sources of revenues are property taxes, utility billings and sales taxes. Various criteria are applied in order to determine the various funds and activities which should be reported as part of the City. Such criteria includes oversight responsibility by the elected officials such as decision-making authority, accountability to the City, legal and fiscal responsibility, and inter-agency relationships. All agencies meeting the above criteria are included in the financial statements of the City. As required by generally accepted accounting principles, these financial statements present the entities for which the government is considered to be financially accountable. All departments have a September 30 year-end except for the Electric Department which has a June 30 year end in compliance with Tennessee Valley Authority's reporting regulations.

Included within the reporting entity:

City of Holly Springs 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.

City of Holly Springs Water Department. The Water 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.

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

City of Holly Springs Sewer Department. The Sewer 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.

City of Holly Springs Gas Department. The Gas 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:

Holly Springs School District. The Holly Springs School District's 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 daily operations or approve budgets.

City of Holly Springs Housing Authority. The Housing Authority's governing board is appointed by the City's governing body. The City does not hold title to any of the Housing Authority's assets, nor does it have any rights to its surpluses. The City does not have the ability to exercise influence over daily operations or approve budgets.

b. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position 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.

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

1. Net investment in capital assets 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Government-wide and Fund Financial Statements (Continued)

3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments.

Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Major revenue sources susceptible to accrual include: sales and use taxes, tourism taxes, property taxes, franchise taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note 5 for information describing restricted assets.

Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The City reports the following Governmental Funds:

- a) *General Fund* – The General Fund is the City's primary operating fund. It accounts for all financial resources of the City's general government, except those required to be accounted for in another fund.
- b) *Special Revenue Funds* – Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes.
- c) *Debt Service Funds* – Debt Service Funds account for the servicing of general long-term debt.
- d) *Capital Projects Funds* – Capital Projects Funds account for the acquisition of fixed assets or construction of major capital projects (other than those financed by proprietary funds).

Proprietary Funds

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City reports the following Proprietary Funds:

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds (Continued)

- a) *Enterprise Funds* – Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business, primarily through user charges or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent.

- a) *Agency Funds* – Agency Funds are custodial in nature and do not present results of operations or have a measurement focus.

d. Major Funds

For 2015, the City reports the following major Governmental Funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

The City reports the following major Enterprise Funds:

Electric Department – accounts for the operating activities of the City's electric utility services.

Water Department – accounts for the operating activities of the City's water utility services.

Sewer Department – accounts for the operating activities of the City's sewer and sewer treatment facility utility services.

Gas Department – accounts for the operating activities of the City's natural gas utility services.

e. Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market. The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. 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.

g. Inventories

Inventories of the enterprise funds are stated at cost as determined by the moving average method. The governmental funds record inventorable items as expenses when purchased, thus inventories of supplies on hand are not reported as assets.

h. Restricted Assets

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

i. 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 Position. Capital assets are recorded at historical costs or estimated historical costs based on appraisals or deflated current replacement costs. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets 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.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Capital Assets (Continued)

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 classification, as listed above.

j. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

k. Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the 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.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Compensated Employee Absences

Employees can accumulate vacation days and sick days up to a maximum at which point any additional days are lost. Employees are completely vested in vacation days up to the maximum in that they can take them or be paid for them upon termination. Sick days may be taken only for bona fide sickness and are lost upon termination of employment.

The City accrues compensated absences when vested. The current portions of the Governmental Funds' compensated absences liabilities are recorded as accrued liabilities. The current and noncurrent portions are recorded in the government-wide financial statements. The amount of vacation recognized as expense is the amount earned during the year.

m. 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 participates in the Mississippi Municipal Liability Plan to cover such losses. The City is currently a defendant in several law suits in various stages. While the litigation is at too early a stage to accurately evaluate, legal representatives for the Mississippi Municipal Liability Plan anticipate the plan covering any judgment that may be assessed against it. Settled claims have not exceeded coverage in any of the past three years.

n. Environmental Risk for Possible Clean-up from City-owned Facilities

As a distributor of water, sewer, gas, and electricity, there is a possibility that environmental conditions may arise which would require the City and its component unites to incur clean-up costs. The likelihood of such an event or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect the City's financial position or future cash flows.

o. Economic Dependency

The City depends on financial resources flowing from, or associated with, the State of Mississippi and the collection of local property taxes. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to State laws and appropriations, and the City is reliant on the continuing existence of an adequate local tax base to fund the City's operations.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. 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 Selectmen, the City's highest level of decision-making authority. This formal action is a resolution approved by the Board of Selectmen.

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 a residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Board of Selectmen pursuant to authorization established by the City's approved fund balance policy.

Unassigned fund balance is the residual classification for the general fund. This classification represent 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.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. **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. Significant estimates include allowance for doubtful accounts and depreciation.

NOTE 2: PROPERTY TAX

Taxes are levied in September each year and are payable in the subsequent year between January 1 and February 1. Property taxes attach an enforceable lien on property as of January 1 of the year subsequent to that to which the tax applies.

The tax rates applicable to 2014 are as follows:

<u>City of Holly Springs</u>	<u>Mills</u>
General fund	35.77
Fire protection	.21
Police Bond	<u>3.04</u>
	<u>39.02</u>
 <u>Separate School District</u>	
District maintenance	55.00
School special	1.00
School bond	12.62
School note	<u>3.00</u>
	<u>71.62</u>
Total	<u>110.64</u>

All real and personal property taxes are collected by Marshall County and remitted to the City the month following collection. Collected but unremitted taxes as of September 30, 2015, have been properly accrued in the financial statements.

- a. Public notice is given of the City's budget meetings being open to the public, so that a public hearing is conducted on the budget.
- b. The budget as submitted is reviewed by the Mayor and Aldermen and necessary revisions are made to the budget. Then the budget is approved prior to September 30.
- c. The budget is formally revised during July of each year or anytime a deficit is indicated.
- d. Budgetary comparisons are employed by management as a management control device during the year for all funds.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 2: PROPERTY TAX (Continued)

- e. Appropriations lapse at the end of each fiscal year.

Mississippi laws require that municipalities budget on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principal. Governmental accounting requires that the “budget to actual” statements be prepared according to budgetary laws and the statement of revenues, expenditures, and fund balance be prepared according to the modified-accrual basis (GAAP). The major reconciling items between the budgetary and GAAP presentations are presented on the “budget to actual” statements.

NOTE 3: BUDGET POLICY

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

- a. Prior to September 30, the City Clerk submits to the Mayor and Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenses and expenditures and the means of financing them.
- b. Public notice is given of the City’s budget meetings being open to the public, so that a public hearing is conducted on the budget.
- c. The budget as submitted is reviewed by the Mayor and Aldermen and necessary revisions are made to the budget. Then the budget is approved prior to September 30.
- d. The budget is formally revised during July of each year or anytime a deficit is indicated.
- e. Budgetary comparisons are employed by management as a management control device during the year for all funds.
- f. Appropriations lapse at the end of each fiscal year.

Mississippi laws require that municipalities budget on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 3: BUDGET POLICY (Continued)

All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principal. Governmental accounting requires that the "budget to actual" statements be prepared according to budgetary laws and the statement of revenues, expenditures, and fund balance be prepared according to the modified-accrual basis (GAAP). The major reconciling items between the budgetary and GAAP presentations are presented on the "budget to actual" statements.

NOTE 4: CASH AND INVESTMENTS

Deposits

The collateral for public entities' deposits in financial institutions is now 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.

All of the City's funds eligible to be included in the state's collateral pool program were properly included and fully collateralized as of September 30, 2015.

Investments

The City has certificates of deposits with local banks which it classifies as "Investments". The purpose of these investments is primarily to fund bond ordinance requirements and various construction projects. All certificates of deposit are purchased with a maturity of twelve months from the date of purchase.

NOTE 5: CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION

	<u>9/30/2015</u>				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>De- creases</u>	<u>Adjust- ments</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>					
Land	\$ 1,020,054	-	-	-	1,020,054
Buildings and equipment	10,816,142	-	-	-	10,816,142
Streets	6,883,070	-	-	-	6,883,070
Less accumulated depreciation	(5,523,569)	(542,918)	-	-	(6,066,487)
Governmental Activities					
Capital Assets, Net	\$ <u>13,195,697</u>	(<u>542,918</u>)	<u>-</u>	<u>-</u>	<u>12,652,779</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 5: CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION (CONTINUED)

	<u>9/30/2015</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclass- ifications</u>	<u>Ending Balance</u>
<u>Business-type Activities</u>					
Non-depreciable Capital Assets:					
Land	220,230	-	-	-	220,230
Construction in progress	<u>10,537,013</u>	<u>838,082</u>	<u>(1,007,093)</u>	-	<u>10,368,002</u>
Total Non-depreciable Capital Assets	<u>10,757,243</u>	<u>838,082</u>	<u>(1,007,093)</u>	-	<u>10,588,232</u>
<u>Depreciable Capital Assets</u>					
Buildings and equipment	7,204,512	792,779	(1,933,039)	-	6,064,252
Distribution and collection systems	<u>49,675,930</u>	<u>383,568</u>	-	-	<u>50,059,498</u>
Total Accumulated Depreciation	<u>56,880,442</u>	<u>1,176,347</u>	<u>(1,933,039)</u>	-	<u>56,123,750</u>
Less Accumulated Depreciation					
Buildings and equipment	(5,750,815)	(1,011,731)	709,172	374	(6,053,000)
Distribution and collection systems	<u>(24,113,464)</u>	<u>(760,619)</u>	-	<u>14,620</u>	<u>(24,859,463)</u>
Total Accumulated Depreciation	<u>(29,864,279)</u>	<u>(1,772,350)</u>	<u>709,172</u>	<u>14,994</u>	<u>(30,912,463)</u>
Total Depreciable Capital Assets, Net	<u>\$ 27,016,163</u>	<u>(596,003)</u>	<u>(1,223,867)</u>	<u>14,994</u>	<u>25,211,287</u>
Total Capital Assets, Net	<u>\$ 37,773,406</u>	<u>242,079</u>	<u>(2,230,960)</u>	<u>14,994</u>	<u>35,799,519</u>

General infrastructure assets have been recorded and depreciated since the implementation of GASB 34 on October 1, 2002.

Depreciation expense was charged to functions as follows:

<u>Governmental Activities:</u>	<u>9/30/15</u>
General government	\$ 48,355
Public Safety:	
Police	78,467
Fire	215,294
Cemetery	18,931
Street	176,031
Health and welfare	711
Recreation	4,548
Intergovernmental	<u>581</u>
Total Governmental Activities Depreciation Expense	<u>\$ 542,918</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 5: CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION (CONTINUED)

Business-type Activities:

Electric	\$ 1,203,959
Water	251,460
Sewer	94,675
Gas	<u>150,653</u>
Total Business-type Activities Depreciation Expense	\$ <u>1,700,747</u>

In addition to the above amounts charged to depreciation expense in the Electric Department, utility accounting requires certain depreciation to be charged to building and transportation expenses. The net amount in 2015 is \$71,603.

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financials for the year ended September 30, 2015:

	<u>Beginning Balance</u>	<u>Additions/ Proceeds</u>	<u>Adjustments</u>	<u>Reductions/ Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government Activities:						
Bonds payable:						
General Obligation \$		-			-	
Bonds - Police Station	2,750,000			(145,000)	2,605,000	150,000
General Obligation						
Bonds - Tourism	415,000			(415,000)	-	-
General Obligation						
Bonds - Street		1,500,000			1,500,000	105,000
Total	<u>3,165,000</u>	<u>1,500,000</u>		<u>(560,000)</u>	<u>4,105,000</u>	<u>255,000</u>
Notes Payable:						
Lund	553,056	-		(553,056)	-	-
C.I.T. Equipment	392,902	-		(22,983)	369,919	23,400
TIF (Kenlan)	126,000	-		(23,000)	103,000	24,000
State aid	526,714	-		(86,350)	440,364	86,400
Mississippi Development		-			-	-
Authority			3,000,000		3,000,000	150,000
Total	<u>1,598,672</u>	<u>-</u>	<u>3,000,000</u>	<u>(685,389)</u>	<u>3,913,283</u>	<u>283,800</u>
Capital Lease Obligations:						
Fire truck	122,636	-		(12,455)	110,181	13,009
Fire truck	161,558	-		(38,023)	123,535	39,559
Pierce Arrow Fire Truck	445,538	-		(24,592)	420,946	25,541
Street Compactor	42,806	-		(11,214)	31,592	11,581
Storm Warning System	101,917	-		(18,779)	83,138	19,549
Total	<u>874,455</u>	<u>-</u>		<u>(105,063)</u>	<u>769,392</u>	<u>109,239</u>
Compensated absences	109,987	13,613		-	123,600	-
Total Governmental Activities	<u>5,748,114</u>	<u>1,513,613</u>	<u>3,000,000</u>	<u>(1,350,452)</u>	<u>8,911,275</u>	<u>648,039</u>
Business Activities:						
Bonds payable:						
Electric department	3,556,000	-		(400,000)	3,156,000	415,000
Water department	2,069,078	2,181,450		(97,431)	4,153,097	101,855
Gas department	2,719,787	1,565,000		(46,005)	4,238,782	47,306
Sewer department	945,064	-		(31,201)	913,863	32,615
Total	<u>9,289,929</u>	<u>3,746,450</u>		<u>(574,637)</u>	<u>12,461,742</u>	<u>596,776</u>
Notes Payable:						
Water department	1,762,288	178,903		(1,941,191)	-	-
Gas department	1,029,557	305,511		(1,335,068)	-	-
	<u>2,791,845</u>	<u>484,414</u>		<u>(3,276,259)</u>	<u>-</u>	<u>-</u>
Total Business Activities	<u>\$ 12,081,774</u>	<u>4,230,864</u>		<u>(3,850,896)</u>	<u>12,461,742</u>	<u>596,776</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

Detail of bonds, notes and capital leases:

	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Range Interest Rates at Issue Date</u>	<u>Original Amount</u>	<u>Balance at 9/30/2015</u>	
					<u>Governmental Activities</u>	<u>Business Activities</u>
General Obligations Bonds:						
Police bonds	03/01/08	03/01/28	4.194%	3,500,000	2,605,000	
Water and sewer	07/02/12	04/01/32	various	2,125,000		1,805,000
Streets	08/01/15	08/01/27	various	1,500,000	1,500,000	
Notes payable - CIT	09/30/08	12/01/27	3.000%	522,174	369,919	
Notes payable - TIF	12/01/08	12/01/18	4.625%	225,000	103,000	
State aid	07/01/10	07/01/20	3.000%	873,000	440,364	
Notes payable - Mississippi Development Authority	03/01/15	03/01/25	0.000%	3,000,000	3,000,000	
Capital Lease Obligations:						
Fire truck	05/07/08	05/07/18	4.040%	360,618	123,535	
Ariel Fire Truck	08/08/12	08/08/22	4.392%	140,000	110,181	
Pierce Arrow Fire Truck	04/05/13	04/05/28	3.860%	469,216	420,946	
Street Compactor	03/26/13	02/26/17	3.225%	60,000	31,592	
Storm Warning System	04/10/14	04/10/19	4.100%	124,875	83,138	
Revenue Bonds:						
Electric	05/01/07	05/01/27	5.250%	3,250,000	-	2,330,000
Electric	12/20/13	11/01/17	2.000%	1,350,000	-	826,000
Water	05/27/08	05/27/43	4.500%	571,900	-	527,647
Water	02/25/15	02/25/50	3.000%	2,181,450	-	2,181,450
Gas	10/06/10	10/06/45	3.750%	2,850,000	-	2,673,782
Gas	05/19/15	05/19/50	3.500%	1,565,000	-	1,565,000
Sewer	06/25/09	05/27/43	4.500%	594,830	-	552,863
					<u>\$ 8,787,675</u>	<u>12,461,742</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

The annual debt service requirements of bonds, notes and capital leases are as follows:

Governmental Activities:

Fiscal Year Ending 9/30	General Obligation Bonds		Fiscal Year Ending 9/30	General Obligation Bonds		Fiscal Year Ending	Capital Leases	
	Principal	Interest		Principal	Interest		Principal	Interest
2016	105,000	43,313	2016	150,000	97,080	2016	109,239	29,939
2017	105,000	39,900	2017	160,000	93,255	2017	121,633	25,367
2018	110,000	36,488	2018	165,000	80,888	2018	105,747	20,999
2019	115,000	33,188	2019	175,000	73,530	2019	43,438	16,706
2020	120,000	29,738	2020	180,000	67,140	2020	45,201	14,037
2021-2027	945,000	108,148	2021-2027	1,775,000	266,190	2021-2028	344,134	53,163
	<u>\$ 1,500,000</u>	<u>290,775</u>		<u>\$ 2,605,000</u>	<u>678,083</u>		<u>\$ 769,392</u>	<u>160,211</u>

Fiscal Year Ending 9/30	Notes Payable CIT Equipment		Fiscal Year Ending 9/30	Notes Payable TIF (Kenlan) Bonds		Fiscal Year Ending 9/30	Notes Payable State Aid	
	Principal	Interest		Principal	Interest		Principal	Interest
2016	23,400	10,811	2016	24,000	4,232	2016	86,400	12,203
2017	25,288	9,651	2017	25,000	3,093	2017	94,431	9,725
2018	26,056	8,883	2018	26,000	1,907	2018	94,921	6,236
2019	26,824	8,115	2019	28,000	651	2019	95,411	3,021
2020	27,410	7,979				2020	69,201	2,000
2021-2028	240,941	27,552						
	<u>\$ 369,919</u>	<u>72,991</u>		<u>\$ 103,000</u>	<u>9,883</u>		<u>\$ 440,364</u>	<u>33,185</u>

Fiscal Year Ending 9/30	Notes Payable Mississippi Development Authority: Principal Interest	
	Principal	Interest
2016	150,000	-
2017	150,000	-
2018	150,000	-
2019	150,000	-
2020	150,000	-
2021-2025	2,250,000	-
	<u>\$ 3,000,000</u>	<u>-</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

The annual debt service requirements of bonds, notes and capital leases are as follows:

Business Type Activities;

Electric Revenue Bond			Water Revenue Bond			Gas Revenue Bond		
Fiscal Year	Principal	Interest	Fiscal Year	Principal	Interest	Fiscal Year	Principal	Interest
Ending 6/30			Ending 9/30			Ending		
2016	415,000	117,092	2016	9,855	89,188	2016	47,306	155,042
2017	425,000	104,362	2017	48,104	88,745	2017	49,080	153,268
2018	441,000	91,302	2018	49,702	87,146	2018	76,869	151,427
2019	170,000	81,869	2019	51,354	85,494	2019	79,686	148,610
2020	175,000	74,856	2020	53,063	83,785	2020	82,607	145,689
2021-2027	1,530,000	288,786	2021-2050	2,497,019	1,368,775	2021-2050	3,903,234	2,341,358
	<u>\$ 3,156,000</u>	<u>758,267</u>		<u>\$ 2,709,097</u>	<u>1,803,133</u>		<u>\$ 4,238,782</u>	<u>3,095,394</u>

Sewer Revenue Bond			General Obligation		
Fiscal Year	Principal	Interest	Fiscal Year	Principal	Interest
Ending 9/30			Ending 9/30		
2016	9,615	24,879	2016	115,000	52,020
2017	10,048	24,446	2017	115,000	49,720
2018	10,500	23,994	2018	120,000	47,420
2019	10,973	23,521	2019	85,000	45,020
2020	11,467	23,028	2020	90,000	43,001
2021-2044	500,260	328,320	2021-2032	1,280,000	291,814
	<u>\$ 552,863</u>	<u>448,188</u>		<u>\$ 1,805,000</u>	<u>528,995</u>

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 7: TRANSFERS IN/OUT

The following schedule reconciles transfers made among the Municipal Funds for the fiscal year ended September 30, 2015:

	<u>Transfers in</u>	<u>Transfers Out</u>
Governmental Activities:		
General fund	\$ 306,640	-
Non-major governmental funds	3,504	3,504
Business-type Activities:		
Gas Department	-	<u>306,640</u>
	<u>\$ 310,144</u>	<u>310,144</u>

NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

	<u>Due From</u>	<u>Due To</u>
Governmental Activities:		
General fund	\$ 11,733	573,410
Non-major governmental funds	<u>324,108</u>	<u>11,385</u>
	<u>335,841</u>	<u>584,795</u>
Business-type Activities:		
Water Department	225,000	
Sewer Department	<u>25,000</u>	-
	<u>250,000</u>	-
Due Other Entities:	-	<u>1,046</u>
	<u>\$ 585,841</u>	<u>585,841</u>

NOTE 9: DEFINED BENEFIT PENSION PLAN

General Information about the 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the 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, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service.

Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. 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 employer's rate as of June 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$865,581, \$848,026 and \$798,250, respectively, which equaled the required contributions for each year.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions for the Year Ended September 30, 2015

General Information about the Pension Plan

At September 30, 2015, the City reported a liability of \$12,672,143 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At September 30, 2015, the City's proportion was 0.089731 percent.

For the year ended September 30, 2015, the City recognized pension expense of \$934,497. At September 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 266,628	
Net difference between projected and actual earnings on pension plan investments		782,460
Changes in assumptions	772,873	
Change in proportion and differences between contributions and proportionate share of contributions	281,187	120,819
City contributions subsequent to the measurement date	433,256	
	<u>\$ 1,753,944</u>	<u>903,279</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)

\$430,498 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	
2016	\$ 193,016
2017	184,262
2018	43,002
2019	(2,871)
2020	-
Thereafter	-

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75 – 19.00%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
U.S. Broad	34.00	%	5.20	%
International Equity	19.00		5.00	
Emerging Markets Equity	8.00		5.45	
Fixed Income	20.00		0.25	
Real Assets	10.00		4.00	
Private Equity	8.00		6.15	
Cash	1.00		(0.50)	
Total	<u>100.00</u>	%		

Discount rate. The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>Current Discount Rate (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>Current Discount Rate (8.75%)</u>
City's proportionate share of the net pension liability	\$ 16,703,045	\$ 12,672,143	\$ 9,327,248

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 10: PRIOR PERIOD ADJUSTMENT

Statement of Revenues, Expenses and Changes in Net Position

An adjustment was made to the beginning net position of the September 30, 2015 financial statements to record a reduction in unrestricted net assets as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB68) and to record a liability to the Mississippi Development Authority for a loan to pave streets in the area known as Holly Springs Commons which had previously been treated as a grant.

<u>Explanation</u>	<u>Governmental Activities</u>	<u>Business – Type Activities</u>
Implementation of GASB 68:		
Net pension liability – proportionate share at measurement date	\$ (5,159,450)	(5,959,559)
Deferred outflows – additions, current year amortization, changes in proportion, and pension expense subsequent to measurement date	182,755	361,285
Deferred inflows – additions and current year Amortization	(747,900)	(280,067)
Total prior period adjustment related to GASB 68	(5,724,595)	(5,878,341)
To record reclassification of MDA grant to a loan	(3,000,000)	
Total prior period adjustment	<u>(8,724,595)</u>	<u>(5,878,341)</u>

NOTE 11: NO COMMITMENT DEBT

Long-term debt does not include amounts for Industrial Revenue Bonds issued under authority of Section 57-3-1 through Section 57-3-33, Miss. Code Ann. (1972). Industrial Revenue Bonds are issued to provide funds for direct financing leases to aid industries which manufacture, process or assemble agricultural or manufactured products or any industry engaged in storing or warehousing products of agriculture, mining or industry. These leases are administered by trustees with terms which provide for transfer of title of the property after all bonds are paid in full.

Bonds issued under provision of the above mentioned law do not constitute an indebtedness of the City within the meaning of any state constitutional provision or limitation, or never give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers, and such fact is plainly stated in the face of the bonds.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 11: NO COMMITMENT DEBT (CONTINUED)

The City of Holly Springs did not have adequate records regarding these Industrial Revenue Bonds. Therefore, the total Industrial Revenue bonded indebtedness at September 30, 2015, could not be determined.

NOTE 12: SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position 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 Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Subsequent events have been evaluated through June 12, 2017, which is the date the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund
Budget and Actual
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Positive
				(Negative)
Revenues:				
Taxes:				
Current year	\$ 1,425,000	1,425,000	1,341,354	(83,646)
Prior year, penalties and interest	20,000	20,000	144,093	124,093
Licenses and permits	55,000	55,000	34,948	(20,052)
Intergovernmental:				
Local revenue	3,120,098	3,120,098	3,012,787	(107,311)
State revenue	1,389,000	1,389,000	1,618,775	229,775
Federal revenue	600,000	600,000	562,425	(37,575)
Charges for services	580,000	580,000	594,597	14,597
Fines and forfeits	100,000	100,000	129,574	29,574
Miscellaneous revenues	48,998	48,998	95,599	46,601
Total Revenues	<u>7,338,096</u>	<u>7,338,096</u>	<u>7,534,152</u>	<u>196,056</u>
Expenditures:				
General government	3,870,984	3,870,984	2,676,334	1,194,650
Public Safety:				
Police	1,186,461	1,186,461	1,240,177	(53,716)
Fire	857,256	857,256	719,916	137,340
Public Works:				
Highways and streets	473,380	473,380	544,146	(70,766)
Sanitation	300,927	300,927	314,680	(13,753)
Cemetery	337,663	337,663	363,680	(26,017)
Health and welfare	10,975	10,975	6,412	4,563
Culture and recreation	290,640	290,640	293,091	(2,451)
Community development			761	(761)
Debt Service:				
Principal			935,451	(935,451)
Interest and fiscal charges			183,926	(183,926)
Intergovernmental	316,450	316,450	253,219	63,231
Total Expenditures	<u>7,644,736</u>	<u>7,644,736</u>	<u>7,531,793</u>	<u>112,943</u>
Excess of Revenues Over				
(Under) Expenditures	<u>(306,640)</u>	<u>(306,640)</u>	<u>(2,359)</u>	<u>308,999</u>
Other Financing Sources (Uses):				
Operating transfers in	306,640	306,640	306,640	-
Operating transfers out			(3,504)	(3,504)
Sale of Land			18,238	18,238
Total Other Financing Sources (Uses)	<u>306,640</u>	<u>306,640</u>	<u>321,374</u>	<u>14,734</u>
Excess of Revenues and Other Sources				
Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>323,733</u>	<u>323,733</u>
Fund Balances:				
October 1, 2014	1,141,817	1,141,817	1,141,817	-
September 30, 2015	<u>\$ 1,141,817</u>	<u>1,141,817</u>	<u>1,465,550</u>	<u>323,733</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF HOLLY SPRINGS
Schedule of the City's Proportionate Share of the Net Pension Liability
PERS
Last 10 Fiscal Years*

	<u>2015</u>
City's proportion of the net pension liability (asset)	0.089731%
City's proportionate share of the net pension liability (asset)	\$ 12,672,143
City's covered-employee payroll	\$ 5,569,041
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	228%
Plan fiduciary net position as a percentage of the total pension liability	62%

*The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the fiscal year

The schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

The accompanying notes to Required Supplementary Information are an integral part of this schedule.

CITY OF HOLLY SPRINGS
Schedule of City Contributions
PERS
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 865,581									
Contributions in relation to the contractually required contribution	865,581									
Contributions deficiency (excess)	\$ <u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
City's covered-employee payroll	5,495,752									
Contributions as a percentage of covered-employee payroll	15.75%									

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

The accompanying notes to Required Supplementary Information are an integral part of this schedule.

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to the Required Supplementary Information
For the Year Ended September 30, 2015

Budgetary Comparison Schedule

NOTE 1: BASIS OF PRESENTATION

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

NOTE 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 of selectmen. By statute, final budget revisions must be approved on or before the date established by the State of Mississippi. A budgetary comparison is presented for the General Fund consistent with accounting principles generally accepted in the United States of America.

Pension Schedules

NOTE 1 – CHANGES OF ASSUMPTIONS

In 2015 and later, the expectation of retired life mortality was changed to RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was change to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, preretirement mortality rates, disability rates and service retirement rates were also adjusted to more loosely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

NOTE 2 – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLYDETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (2015 Employer contributions are developed from 2013 valuation). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	32.2 years
Asset valuation method	5-year smoothed market
Price inflation	3.50%
Salary increase	4.25% to 19.50%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

OTHER INFORMATION

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Transportation</u>		
Passed through Mississippi Department of Transportation		
Surface Transportation Program	20.205	<u>360,700</u>
Total U.S. Department of Transportation		<u>360,700</u>
<u>Environmental Protection Agency</u>		
Direct Program		
Brownfield Assessment and Cleanup Cooperative Grant	66.818	<u>156,585</u>
Total Environmental Protection Agency		<u>156,585</u>
<u>Delta Regional Authority</u>		
Passed through Mississippi Development Authority		
Delta Regional Development	90.200	<u>58,588</u>
Total Appalachian Regional Commission		<u>58,588</u>
<u>Total for All Federal Awards</u>		\$ <u>575,873</u>
<u>Federal Loans</u>		
US Department of Agriculture		
Direct Program	10.766	<u>3,526,956</u>
Community Facilities Loans and Grants		<u>3,526,956</u>
Total US Department of Agriculture Loans		
<u>Total Federal Assistance</u>		<u>4,102,829</u>

NOTES TO SCHEDULE

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.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2015

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Kelvin O. Buck	Mayor	Travelers Casualty and Surety Company	\$ 25,000
Bernita J. Fountain-Lowe	Alderman	Travelers Casualty and Surety Company	\$ 75,000
Sharon D. Gipson	Alderman	Travelers Casualty and Surety Company	\$ 75,000
Mark Miller	Alderman	Travelers Casualty and Surety Company	\$ 75,000
Christy Owens	Alderman	Travelers Casualty and Surety Company	\$ 75,000
Tim Liddy	Alderman	Travelers Casualty and Surety Company	\$ 75,000
Belinda Hollowell	City Clerk	Travelers Casualty and Surety Company	\$100,000
Jerrica Jones	Payroll Clerk	Western Surety	\$ 50,000
Mattie Richmond	Accounts Payable Clerk	Travelers Casualty and Surety Company	\$ 50,000
Dwight Harris	Police Chief	Travelers Casualty and Surety Company	\$ 50,000
Matilda Collins	Court Clerk	Travelers Casualty and Surety Company	\$ 50,000

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COMPLIANCE SECTION

**INDEPENDENT AUDITORS' 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***



WATKINS, WARD and STAFFORD
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Certified Public Accountants

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**INDEPENDENT AUDITORS' 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***

The Honorable Mayor and Board of Aldermen
The City of Holly Springs
Holly Springs, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Springs, Mississippi as of and for the year ended September 30, 2015, and the related notes to financial statements, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements, and have issued our report thereon dated June 12, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 deficiencies described in the accompanying schedule of findings and responses as findings 2014-1, 2014-2, 2014-3 and 2014-7 to be material weaknesses.

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 2014-4, 2014-5 and 2014-6 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Holly Springs, 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 *Governmental Auditing Standards*.

City of Holly Springs, Mississippi's Response to Findings

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

Purpose of this Report

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

West Point, Mississippi
June 12, 2017

Watkins Ward and Stafford, PLLC



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Honorable Mayor and Board of Alderman
City of Holly Springs, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the City of Holly Springs, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Holly Springs, Mississippi's major federal programs for the year ended September 30, 2015. The City of Holly Springs, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Holly Springs, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Holly Springs, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Holly Springs, Mississippi's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Holly Springs, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Reports on Internal Control over Compliance

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

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

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

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

West Point, Mississippi
June 12, 2017

Watkins Ward and Stafford, PLLC

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JUL 31 2017

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



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

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

The Honorable Mayor and Board of Aldermen
The City of Holly Springs
Holly Springs, Mississippi

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Springs, Mississippi, as of and for the year ended September 30, 2015, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements and have issued our report thereon dated June 12, 2017. 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 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 did not disclose any instances of noncompliance with other state laws and regulations.

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

West Point, Mississippi
June 12, 2017

Watkins Ward and Stafford, P.C.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUL 31 2017

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015

Section I: Summary of Auditors' Report

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | Yes |
| | b. Significant deficiency(ies) identified? | None Reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | | | | | | | |
|---------------------|---|---------------------|---|--------|--|--------|--|--|
| 4. | Internal control over major programs: | | | | | | | |
| | a. Material weakness (es) identified? | No | | | | | | |
| | b. Significant deficiency (ies) identified? | None reported | | | | | | |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unmodified | | | | | | |
| 6. | Any audit findings disclosed that are required to be reported in accordance
With Section 510(a) of OMB Circular A-133? | No | | | | | | |
| 7. | Identification of major programs: | | | | | | | |
| | <table border="0" style="width: 100%;"> <tr> <td style="text-align: left;"><u>CFDA Numbers</u></td> <td style="text-align: left;"><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td>10.766</td> <td>Department of Agriculture – Community Facilities
Loans and Grants</td> </tr> <tr> <td>20.205</td> <td>Department of Transportation – Surface
Transportation Program</td> </tr> </table> | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | 10.766 | Department of Agriculture – Community Facilities
Loans and Grants | 20.205 | Department of Transportation – Surface
Transportation Program | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | | | | | | | |
| 10.766 | Department of Agriculture – Community Facilities
Loans and Grants | | | | | | | |
| 20.205 | Department of Transportation – Surface
Transportation Program | | | | | | | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 | | | | | | |
| 9. | Auditee qualified as a low-risk auditee? | No | | | | | | |

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015

Section II: Financial Statement Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

City of Holly Springs Findings

Borrowing from Restricted fund (Repeat Finding)

2015-1 Statement of Condition

Funds were borrowed by the general fund from funds that are restricted to be used for other purposes. The amount of this loan was \$241,410.

Criteria

Monies in funds legally restricted for other purposes cannot be borrowed for use in the general fund. In addition, any loan must be approved by the board. We cannot find documentation that this was obtained.

Effect

Funds were borrowed between City funds from funds that are restricted to be used for other purposes. At year end, the financial statements present this transaction as a loan to be repaid between the two funds.

Cause

The general fund of the City experienced a shortage of operating cash.

Recommendation

The City should refrain from borrowing for the general fund from restricted funds.

Response

The City was unaware a loan could not be made from the restricted fund. This loan is in the process of being repaid.

Holly Springs Proprietary Funds Findings (Electric, Water, Sewer and Gas Departments)

Audit Adjustments (Repeat Finding)

2015-2: Statement of Condition

Fifty one 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.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015

Section II: Financial Statement Findings (Continued)

Criteria

The financial statements are the responsibility of the four Holly Springs Utility Departments. Therefore, all adjustments should be completed before preparation of the financial statements.

Effect

The four Holly Springs Utility Department's net income decreased by \$359,824 as a result of these audit entries.

Cause

- a. Beginning trial balances were adjusted to actual.
- b. Cash accounts were adjusted to actual.
- c. Depreciation expense was decreased.
- d. Rent receivable and deferred rent income were adjusted to actual.
- e. Prepaid expense was adjusted to actual.
- f. Work in process was adjusted to actual.
- g. Inventory was adjusted to actual.
- h. Tax equivalent accrual was adjusted to actual.
- i. Amounts due to and due from other departments were adjusted to actual.
- j. Bonds and interest payable were adjusted to actual.
- k. Proportionate share of net pension liability was recorded.

Recommendation

The four Holly Springs Utility Department should implement policies and procedures to review all general ledger accounts monthly to insure correctness.

Response

We are reviewing all policies and procedures for the general accounting. In the process, we will be updating the policies and procedures and setting up monthly meetings with the accounting staff to review all general ledger accounts.

2015-3: Perpetual Inventory System Not Maintained (Repeat Finding)

Statement of Condition

The four Utility Departments do not maintain an accurate perpetual inventory system. (Repeat finding).

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2015

Section II: Financial Statement Findings (Continued)

Criteria

The four Utility Departments are responsible for maintaining a system which accounts for all materials that are added to the warehouse, as well as all materials that leave the warehouse.

Effect

The four Utility Departments' inventory per the general ledger was overstated by \$24,202 prior to inventory test counts being performed.

Cause

Employees are able to remove inventory at any time. As a result, materials are removed from the warehouse without updating each Utility Department's perpetual inventory records or the general ledger.

Recommendation

The four Utility Departments should maintain a record of all materials that are added and taken from the warehouse.

Response

Policies and procedures are being implemented to properly account for materials.

2015-4: Financial Statements Not Provided in a Timely Manner (Repeat Finding)

Statement of Condition

The four Utility Departments of the City of Holly Springs, Mississippi did not provide the necessary financial information in a timely manner.

Criteria

The four Utility Departments of the City of Holly Springs, Mississippi are responsible for providing the financial statements to the auditor in a timely manner so that management can make decisions based upon current operating data.

Effect

Management had no current financial information in order to make financial decisions.

Cause

The accounting staff for the four Utility Departments of the City of Holly Springs, Mississippi, had considerable difficulty completing the reconciliations and finalizing the year-end financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2015

**2015-4: Financial Statements Not Provided in a Timely Manner (Repeat Finding)
(Continued)**

Recommendation

The four Utility Departments of the City of Holly Springs, Mississippi should provide the financial statements in a timely manner.

Response

The four Utility Departments of the City of Holly Springs, Mississippi has additional help to prepare the financial statements for subsequent years.

2015-5: Bank Reconciliations (Repeat Finding)

Statement of Condition

The Electric Department of the City of Holly Springs, Mississippi's year-end reconciled balance of several of its cash accounts did not agree with the balance per the financial statements.

Criteria

All cash accounts should be reconciled to bank balances monthly to substantiate the financial statement balances.

Effect

Cash at June 30, 2015 was overstated by \$1,938,144.

Cause

The Electric Department of the City of Holly Springs, Mississippi's bank accounts were reconciled to the bank statements, but adjustments were not made to reconcile these balances to the general ledger.

Recommendation

The Electric Department of the City of Holly Springs, Mississippi should adequately investigate all variances between reconciliations and general ledger balances and make adjustments as necessary.

Response

The Electric Department of the City of Holly Springs, Mississippi will implement the necessary procedures to insure monthly cash reconciliations are prepared and are in agreement with the financial statements.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2015

2015-6: Revenue Bond Ordinance Requirements (Repeat Finding)

Statement of Condition

The Electric Department of the City of Holly Springs, Mississippi failed to adequately fund the accounts as required by the bond resolutions of its 2012 Revenue Bond issues.

Criteria

The bond resolutions of the 2012 Revenue Bond Issue require the Electric Department of the City of Holly Springs, Mississippi to segregate and fund monthly accounts as prescribed by the bond resolutions.

Effect

The Electric Department of the City of Holly Springs, Mississippi has violated the provisions of the 2012 Revenue Bond Issue's bond ordinances.

Cause

Adequate deposits as required by the 2012 Revenue Bond Issue's bond ordinances were unintentionally overlooked.

Recommendation

All required bond related accounts should be adequately funded.

Response

The Electric Department of the City of Holly Springs, Mississippi will fund all accounts relating to the 2012 Revenue Bond Issue as prescribed by bond ordinances.

2015-7: Interdepartmental Activity not Properly Recorded (Repeat Finding)

Statement of Condition

The Electric Department is responsible for paying all bills incurred by all four departments and collecting the revenue as a means of convenience for all departments. These amounts owed should be reconciled and settled on a monthly basis. This has not been done for several years.

Criteria

The amounts due to the Electric Department for bills paid and from the Electric Department for collections received is typically a very large amount. These amounts should be reconciled and settlement should be made each month.

Effect

The Electric Department is unable to provide reconciled balances for these accounts.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2015

2015-7: Interdepartmental Activity not Properly Recorded (Repeat Finding) (Continued)

Cause

The accounting staff for the Electric Department did not complete the reconciliations for these accounts and did not settle amounts owed among the departments.

Recommendation

The current process for reconciling and settling these amounts owed is not functioning as it should; therefore, the Electric Department should no longer be responsible for paying all bills and receiving all collections. Separate clearing accounts should be set up with each Department contributing their share of payroll and operating expenses. Collections by the Electric Department from billings should be settled with each of the other three departments within five days of the end of each month.

Response

Management has made changes in personnel and procedures in order to correct this situation.

Section III: Federal Award Findings and Questioned Costs

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

CITY OF HOLLY SPRINGS
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended September 30, 2015

None of the prior year findings 2014-1 through 2014-7 were corrected and are repeated in the current year as 2015-1 through 2015-7.

