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

120 E. Madison St., P.O. Box 548  
38851



BILLY VOYLES, Marshall  
City Clerk  
ELIZABETH FOX AUSBERN, City Attorney  
JAMES M. HOOD, JR., Prosecuting Attorney  
Public Works Supervisor  
RICHARD G. BENNETT, City Judge

662.456.2328 FAX 662.456.9535  
Mayor 662.456.3339

October 18, 2016

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

Re: Annual Municipal Audit

Accompanying this letter is a two hard copies of the annual audit compilation of the City of Houston, Mississippi, for the fiscal year ended September 30, 2016. A separate management letter was not written to the city in connection with this audit.

Also enclosed is a certified copy a Resolution Fixing the Levy for the City of Houston and the Houston School District for the fiscal year 2016-2017.

Please feel free to contact us if any additional information is deemed necessary.

Sincerely,

THE CITY OF HOUSTON, MS

  
Stacey W. Parker  
Mayor

SWP:bkb

001-1-2016



**RESOLUTION OF THE MAYOR AND BOARD OF ALDERMEN  
OF THE CITY OF HOUSTON, MISSISSIPPI  
FIXING THE LEVY FOR THE CITY OF HOUSTON  
AND THE HOUSTON SCHOOL DISTRICT  
FOR THE FISCAL YEAR 2016-2017**

**BE IT RESOLVED BY THE MAYOR AND BOARD OF ALDERMEN OF THE CITY OF HOUSTON, MISSISSIPPI:**

**SECTION 1.** That the following tax rates be and they are hereby levied and imposed for the year ending September 30, 2017 (City) and June 30, 2017 (School), as it is hereinafter specified for said municipality and Municipal Separate School District, to-wit:

**LEVY FOR MUNICIPAL PURPOSES:**

For General Fund there is hereby levied.....	24.90 mills
For Library Fund there is hereby levied.....	1.86 mills
(Senate Bill 195, Chapter 213, Laws of 1944)	
For Park Fund there is hereby levied.....	4.50 mills
(Senate Bill 164, Chapter 491, Laws of 1950)	
Street Assessment, Series 2010.....	6.65 mills
Rails-To-Trails District (M.C.A. Section 55-25-7) .....	<u>0.25 mills</u>
<b>Total for Municipal Purposes.....</b>	<b>38.16 mills</b>

**LEVY FOR SCHOOL PURPOSES:**

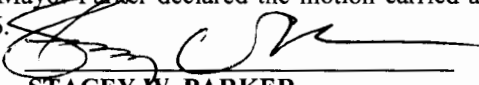
For District Maintenance Fund (Section 37-57-107).....	55.00 mills
For Ten-Twenty Yr Notes (Section 37-59-107).....	2.70 mills
For Shortfall Note – 2014 (Section 37-57-108).....	<u>0.73 mills</u>
<b>Total for School Purposes.....</b>	<b>58.43 mills</b>

**TOTAL FOR ALL PURPOSES (MUNICIPAL & SCHOOL)..... 96.59 mills**

Alderman Frank Thomas moved to adopt the foregoing resolution, which was duly seconded by Alderman Raymond A. Uhiren and, the question being put to a vote, the result was as follows:

Alderman Raymond A. Uhiren, Ward One, voted: aye  
Alderman Shenia K. Jones, Ward Two, voted: absent  
Alderman Frank Thomas, Ward Three, voted: aye  
Alderman Willie Mae McKinney, Ward Four, voted: aye  
Alderman Barry Springer, Ward-at-Large, voted: aye

The motion having received the affirmative vote, Mayor Parker declared the motion carried and the resolution adopted this the 13<sup>th</sup> day of September, 2016.

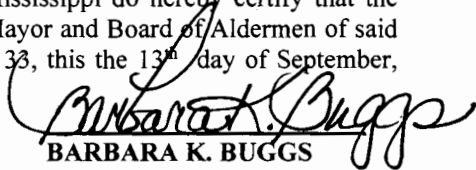
  
**STACEY W. PARKER**  
MAYOR

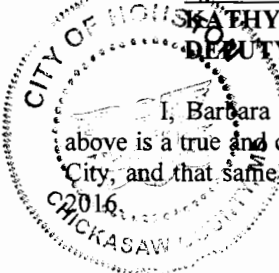
ATTEST:

  
**KATHY SMITH**  
DEPUTY CLERK

**CERTIFICATION**

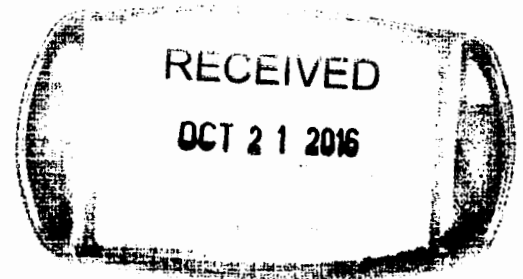
I, Barbara Buggs, Deputy Clerk of the City of Houston, Mississippi do hereby certify that the above is a true and correct copy of a resolution duly adopted by the Mayor and Board of Aldermen of said City, and that same appears in the official minutes in Book Number 33, this the 13<sup>th</sup> day of September, 2016.

  
**BARBARA K. BUGGS**  
DEPUTY CLERK





**CITY OF HOUSTON, MISSISSIPPI**  
**Independent Auditors' Report**  
**For the Year Ended September 30, 2015**





CITY OF HOUSTON, MISSISSIPPI

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FINANCIAL SECTION





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

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Stagers, CPA	Stephen D. Flake, CPA
Michael W. McCully, CPA	John N. Russell, CPA
Mort Stroud, CPA	Thomas A. Davis, CPA
R. Steve Sinclair, CPA	Anita L. Goodrum, CPA
Marsha L. McDonald, CPA	Ricky D. Allen, CPA
Wanda S. Holley, CPA	Jason D. Brooks, CPA
Robin Y. McCormick, CPA/PFS	Robert E. Cordle, Jr., CPA
J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Board of Aldermen  
City of Houston, 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 Houston, Mississippi, as of and for the year ended September 30, 2015, and the related notes to financial statements, which collectively comprise the City of Houston, 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 Houston, 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 City Contributions on pages 4-7 and 42-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Houston, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds of City Officials and the Reconciliation of Original Ad Valorem Rolls to Fund Collections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Surety Bonds of City Officials and the Reconciliation of Original Ad Valorem Rolls to Fund Collections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Surety Bonds of City Officials and the Reconciliation of Original Ad Valorem Rolls to Fund Collections is 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 27, 2016, on our consideration of the City of Houston, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Houston, Mississippi's internal control over financial reporting and compliance.

Okolona, Mississippi  
June 27, 2016

*Watkins Ward and Stafford, PLLC*



MANAGEMENT'S DISCUSSION AND ANALYSIS





CITY OF HOUSTON, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

The discussion and analysis of the City of Houston's financial performance provides an overall narrative review of the city's financial activities for the years ended September 30, 2015 and 2014. The intent of this discussion and analysis is to look at the city's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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

### FINANCIAL HIGHLIGHTS

- Total net position for 2015 decreased \$2,510,259, including a prior adjustment of (\$2,316,272), which represents a 27% decrease from fiscal year 2014.
- General revenues for 2015 accounted for \$2,425,822 in revenue, or 61% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,530,489 or 39% of total revenues.
- The City had \$4,150,198 in expenses; only \$1,530,489 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$2,425,822 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$2,167,046 in revenues and \$2,055,498 in expenditures. The General Fund's fund balance increased \$243,651 over the prior year. The Other Governmental Funds had \$739,792 in revenues, and \$639,954 in expenditures. The Other Governmental Fund's fund balance decreased \$32,265 under the prior year.
- Capital assets, net of accumulated depreciation, increased by \$62,724.
- Long-term debt increased by \$1,272,309, primarily due to the issuance of Water-Sewer Revenue Bonds. In addition, the liability for compensated absences increased by \$10.395 over the prior fiscal year.

### OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the



CITY OF HOUSTON, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

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

The government-wide financial statements can be found on pages 9 - 11 of this report.

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

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

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

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

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's budget process. The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplemental information can be found immediately following the notes to the financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net position:** Net position may serve over time as a useful indicator of government's financial position. In the case of the City, assets exceeded liabilities by \$6,970,082 as of September 30, 2015 and by \$9,460,020 as of September 30, 2014.

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

The following table presents a summary of the City's net position for the fiscal year ended September 30:



CITY OF HOUSTON, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	2015	2014
Current assets	\$ 2,843,303	1,305,620
Capital assets, net	<u>12,694,134</u>	<u>12,631,410</u>
<b>Total assets</b>	<u><b>15,537,437</b></u>	<u><b>13,937,030</b></u>
 <b>Deferred outflows of resources</b>	 <u><b>358,141</b></u>	 <u><b>0</b></u>
Current liabilities	389,665	196,544
Long-term debt outstanding	<u>8,492,944</u>	<u>4,280,466</u>
<b>Total liabilities</b>	<u><b>8,882,609</b></u>	<u><b>4,477,010</b></u>
 <b>Deferred inflows of resources</b>	 <u><b>63,108</b></u>	 <u><b>0</b></u>
 <b>Net assets:</b>		
Net investment in capital assets	7,192,747	8,402,332
Restricted	468,193	499,486
Unrestricted	<u>(711,079)</u>	<u>558,202</u>
<b>Total net assets</b>	<u><b>\$ 6,949,861</b></u>	<u><b>9,460,020</b></u>

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

- The increase in current assets, particularly cash and cash equivalents, of \$1,537,683, due to proceeds of Water Sewer Revenue Bonds of \$1,300,000 of which the majority of cash proceeds have not yet been spent by the City.
- The addition of \$62,724 of capital assets, net of accumulated depreciation.
- The increase of total liabilities by \$3,908,345 from the incurrence of current payables and the issuance of long-term debt.

**Changes in Net Position:** The City's total revenues for the fiscal year ended September 30, 2015 and 2014 were \$3,956,311 and \$4,261,468. The total cost of all programs and services was \$4,150,198 and \$3,993,464, respectively. The following table presents a summary of the changes in net position for the fiscal year ended September 30:

	2015	2014
<b>Revenues:</b>		
Program revenues	\$ 1,530,489	1,866,822
General revenues	<u>2,425,822</u>	<u>2,394,646</u>
<b>Total revenues</b>	<u><b>3,956,311</b></u>	<u><b>4,261,468</b></u>
 <b>Expenses:</b>		
Governmental activities	3,047,688	2,955,720
Business-type activities	<u>1,102,510</u>	<u>1,037,744</u>
<b>Total expenses</b>	<u><b>4,150,198</b></u>	<u><b>3,993,464</b></u>
 <b>Increase (decrease) in net assets</b>	 <u><b>\$ (193,887)</b></u>	 <u><b>268,004</b></u>
 <b>Net position - beginning, as prev reported</b>	 9,460,020	 9,192,016
Prior period adjustment	<u>(2,316,272)</u>	<u>0</u>
<b>Net position - beginning, as restated</b>	<u><b>7,143,748</b></u>	<u><b>9,192,016</b></u>
 <b>Net position - ending</b>	 <u><b>6,949,861</b></u>	 <u><b>9,460,020</b></u>



CITY OF HOUSTON, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$858,747, which represents an increase of \$211,386 over the prior year. \$377,924, or 44%, of the fund balance constitutes unassigned fund balance, which is available for spending at the City's discretion.

The General Fund is the principal operating fund of the City. The increase in fund balance in the General Fund for the fiscal year was \$243,651. The fund balance in the Other Governmental (Non-Major funds) decreased in the amount of \$32,265 under the prior fiscal year.

## **BUDGETARY HIGHLIGHTS**

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

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of September 30, 2015, the City's total net capital assets were \$12,694,134 including land, buildings, improvements, infrastructure, vehicles, and furniture and equipment. This amount represents an increase of \$62,724 over the previous year.

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

**Debt Administration.** At September 30, 2015, the City had \$5,501,387 in long-term debt outstanding, of which \$33,412 is due within one year. In addition, the liability for compensated absences increased by \$10,395 under the previous year.

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

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

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





GOVERNMENT-WIDE FINANCIAL STATEMENTS



City of Houston  
Statement of Net Position  
September 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 851,005	1,757,083	2,608,088
Property tax receivable	6,787		6,787
Accounts receivable, net		101,972	101,972
Fines receivable, net	2,637		2,637
Other receivables, net	23,663		23,663
Regulatory assets		88,140	88,140
Inventory		12,016	12,016
Capital assets, non-depreciable			
Land	538,862	137,099	675,961
Construction in progress	-	438,718	438,718
Capital assets, net of accumulated depreciation			
Buildings	976,402	12,360	988,762
Building improvements	191,249	-	191,249
Infrastructure	4,626,790	5,304,653	9,931,443
Furniture and equipment	63,434	106,794	170,228
Vehicles	291,776	5,997	297,773
Total assets	<u>7,572,605</u>	<u>7,964,832</u>	<u>15,537,437</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred outflows related to pensions	286,323	71,818	358,141
Total deferred outflows of resources	<u>286,323</u>	<u>71,818</u>	<u>358,141</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	10,305	251,261	261,566
Accrued liabilities	15,040	3,448	18,488
Unearned revenue	-		-
Interest payable on long-term liabilities	12,630	21,815	34,445
Due to other funds		5,420	5,420
Customer deposits		69,746	69,746
Long-term liabilities, due within one year:			
Capital related liabilities	133,861	199,551	333,412
Long-term liabilities, due beyond one year:			
Capital related liabilities	1,427,317	3,740,658	5,167,975
Non-capital related liabilities	45,022	9,509	54,531
Net pension liability	2,349,622	587,404	2,937,026
Total liabilities	<u>3,993,797</u>	<u>4,888,812</u>	<u>8,882,609</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred inflows related to pensions	50,486	12,622	63,108
Total deferred inflows of resources	<u>50,486</u>	<u>12,622</u>	<u>63,108</u>

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



City of Houston  
Statement of Net Position  
September 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<b><u>NET POSITION</u></b>			
Invested in capital assets, net of related debt	5,127,335	2,065,412	7,192,747
Restricted for:			
Expendable:			
Fire protection	30,976		30,976
Debt service	153,629		153,629
Capital improvements	16,515		16,515
Culture and recreation	94,053		94,053
Other	173,020		173,020
Unrestricted	(1,780,883)	1,069,804	(711,079)
Total Net Position	<u>\$ 3,814,645</u>	<u>3,135,216</u>	<u>6,949,861</u>

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



City of Houston  
Statement of Activities  
For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
General government	\$ 585,115	14,962	-	122,286	(447,867)
Public safety	1,048,497	45,157	-	26,713	(976,627)
Public works	831,162	218,509	-	-	(612,653)
Culture and recreation	223,000	62,894	-	-	(160,106)
Pension expense	301,277	-	-	-	(301,277)
Interest on long-term debt	58,637	-	-	-	(58,637)
Total governmental activities	3,047,688	341,522	-	148,999	(2,557,167)
<b>Business-type Activities</b>					
Water and sewer department	966,131	1,000,350	-	39,618	73,837
Pension expense	75,319	-	-	-	(75,319)
Interest on long-term debt	61,060	-	-	-	(61,060)
Total business-type activities	1,102,510	1,000,350	-	39,618	(62,542)
Total primary government	\$ 4,150,198	1,341,872	-	188,617	(2,619,709)
		<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
Changes in Net Position:					
Net (expense) revenue		\$ (2,557,167)	(62,542)	(2,619,709)	
<b>General revenues</b>					
Taxes					
Property taxes			1,139,376	1,139,376	
Sales and use taxes			1,015,175	1,015,175	
Other taxes			15,200	15,200	
Investment income			1,899	354	2,253
Unrestricted grants and contributions			5,405	5,405	
Other			239,262	9,151	248,413
Total general revenues and transfers			2,416,317	9,505	2,425,822
Change in net position			(140,850)	(53,037)	(193,887)
Net Position - Beginning, as previously reported			5,808,513	3,651,507	9,460,020
Prior Period Adjustments			(1,853,018)	(463,254)	(2,316,272)
Net Position - Beginning, as restated			3,955,495	3,188,253	7,143,748
Net Position, Ending			\$ 3,814,645	3,135,216	6,949,861

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

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**City of Houston**  
**Balance Sheet – Governmental Funds**  
**September 30, 2015**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 364,621	486,384	851,005
Property tax receivable	4,526	2,261	6,787
Fines receivable	2,637	-	2,637
Other receivables, net	18,243	-	18,243
Due from other funds	5,420	3,433	8,853
Total assets	<u>\$ 395,447</u>	<u>492,078</u>	<u>887,525</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Claims payable	\$ -	10,305	10,305
Accrued payroll	14,090	950	15,040
Due to other funds	3,433	-	3,433
Total Liabilities	<u>17,523</u>	<u>11,255</u>	<u>28,778</u>
<b>Fund Balances:</b>			
<b>Restricted:</b>			
Debt service	-	166,259	166,259
Capital projects	-	16,515	16,515
<b>Assigned:</b>			
Fire protection	-	30,976	30,976
Culture and recreation	-	94,053	94,053
Other	-	173,020	173,020
<b>Unassigned</b>	<u>377,924</u>		<u>377,924</u>
Total Fund Balances	<u>377,924</u>	<u>480,823</u>	<u>858,747</u>
Total Liabilities and Fund Balances	<u>\$ 395,447</u>	<u>492,078</u>	<u>887,525</u>

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



City of Houston

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

September 30, 2015

Total fund balances for governmental funds	\$	858,747
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Amounts reported for governmental activities in the statement of net position are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$	538,862	
Buildings		1,648,700	
Building improvements		397,513	
Infrastructure		8,482,112	
Furniture and equipment		451,748	
Vehicles		1,085,550	
Accumulated depreciation		<u>(5,915,972)</u>	6,688,513

2. Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(2,349,622)
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Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	286,323	
Deferred inflows of resources related to pensions	<u>(50,486)</u>	(2,113,785)

3. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	\$	(1,105,000)	
Notes payable		(267,139)	
CAP loan payable		(189,039)	
Compensated absences		(45,022)	
Accrued interest payable		<u>(12,630)</u>	(1,618,830)

Net position of governmental activities	\$	<u>3,814,645</u>
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The accompanying notes to financial statements are an integral part of these financial statements.



**City of Houston**

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds**

**For the Year Ended September 30, 2015**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 799,822	339,554	1,139,376
License, commissions, and other revenue	14,962	62,894	77,856
Fines and forfeitures	45,157	-	45,157
Intergovernmental revenues	1,035,780	148,999	1,184,779
Charges for services	218,509	-	218,509
Interest income	1,899	-	1,899
Miscellaneous revenues	50,917	188,345	239,262
<b>Total Revenues</b>	<b>2,167,046</b>	<b>739,792</b>	<b>2,906,838</b>
<b>Expenditures:</b>			
General government	384,946	227,902	612,848
Public safety	1,009,115	-	1,009,115
Public works	661,437	-	661,437
Culture and recreation	-	222,118	222,118
Debt service:			
Principal	-	130,325	130,325
Interest	-	58,859	58,859
Other	-	750	750
<b>Total Expenditures</b>	<b>2,055,498</b>	<b>639,954</b>	<b>2,695,452</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>111,548</b>	<b>99,838</b>	<b>211,386</b>
<b>Other Financing Sources (Uses):</b>			
Operating transfers in	138,714	28,611	167,325
Operating transfers out	(6,611)	(160,714)	(167,325)
<b>Total Other Financing Sources (Uses)</b>	<b>132,103</b>	<b>(132,103)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>243,651</b>	<b>(32,265)</b>	<b>211,386</b>
<b>Fund Balances:</b>			
October 1, 2014	134,273	513,088	647,361
September 30, 2015	\$ 377,924	480,823	858,747

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



**City of Houston**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended September 30, 2015**

**Net change in fund balances - total governmental funds** **\$ 211,386**

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

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 142,750	
Depreciation expense	<u>(362,595)</u>	(219,845)

2. 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 position. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	130,325	
Accrued interest payable	<u>972</u>	131,297

3. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	(2,921)	
City's pension contributions	40,510	
Pension expense	<u>(301,277)</u>	(263,688)

<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>(140,850)</u></b>
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The accompanying notes to financial statements are an integral part of these financial statements.

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City of Houston  
Statement of Net Position – Proprietary Fund  
September 30, 2015

	<u>Water &amp; Sewer Department</u>
<b><u>ASSETS</u></b>	
Current assets:	
Cash and cash equivalents	\$ 1,757,083
Accounts receivables, net	101,972
Regulatory assets	88,140
Inventory	12,016
Total current assets	<u>1,959,211</u>
Non-current assets:	
Capital assets:	
Fixed assets, net of depreciation	<u>6,005,621</u>
Total non-current assets	<u>6,005,621</u>
Total Assets	<u>7,964,832</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>	
Deferred outflows related to pensions	<u>71,818</u>
Total deferred outflows of resources	<u>71,818</u>
<b><u>Total Assets and Deferred Outflows of Resources</u></b>	<b><u>\$ 8,036,650</u></b>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable	\$ 251,261
Accrued payroll	3,448
Due to other funds	5,420
Accrued interest - long-term debt	21,815
Capital related debt, current	<u>199,551</u>
Total current liabilities	<u>481,495</u>
Non-current liabilities:	
Customer deposits	69,746
Capital related debt, non-current	3,740,658
Noncapital related debt, non-current	9,509
Net pension liability	<u>587,404</u>
Total non-current liabilities	<u>4,407,317</u>
Total Liabilities	<u>4,888,812</u>

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



City of Houston  
Statement of Net Position – Proprietary Fund  
September 30, 2015

	<u>Water &amp; Sewer Department</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred inflows related to pensions	12,622
Total deferred inflows of resources	<u>12,622</u>
<b><u>NET POSITION</u></b>	
Invested in capital assets, net of related debt	2,065,412
Unrestricted	1,069,804
Total Net Position	<u>3,135,216</u>
<b><u>Total Liabilities, Deferred Inflows of Resources, and Net Position</u></b>	<b>\$ <u>8,036,650</u></b>

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



City of Houston

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund

For the Year Ended September 30, 2015

	<u>Water &amp; Sewer Department</u>
<b><u>OPERATING REVENUES</u></b>	
Charges for services	\$ 1,000,350
Total operating revenues	<u>1,000,350</u>
<b><u>OPERATING EXPENSES</u></b>	
Operating and maintenance	704,396
Depreciation	<u>230,838</u>
Total operating expenses	<u>935,234</u>
Operating income (loss)	<u>65,116</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>	
Intergovernmental revenue	39,618
Interest income	354
Other revenue	9,151
Amortization expense	(6,923)
Pension expense	(75,319)
Interest and fiscal charges	(61,060)
Other expenses	<u>(23,974)</u>
Total non-operating revenues (expenses)	<u>(118,153)</u>
Change in net position	<u>(53,037)</u>
Net Position - Beginning, as previously reported	<u>3,651,507</u>
Prior Period Adjustments	<u>(463,254)</u>
Net Position - Beginning, as restated	<u>3,188,253</u>
Net Position - Ending	<u>\$ 3,135,216</u>

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



City of Houston  
Statement of Cash Flows – Proprietary Fund  
For the Year Ended September 30, 2015

	<u>Water &amp; Sewer Department</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Cash received from customers	\$ 1,001,398
Cash paid to employees	(238,851)
Cash paid to suppliers	(263,376)
Other receipts (payments)	11,239
<b>Net Cash Flows from Operating Activities</b>	<u>510,410</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Proceeds from issuance of debt	1,551,141
Payment of debt	(148,285)
Payment of interest	(62,618)
Purchase of capital assets	(513,407)
Other receipts (payments)	7,861
<b>Net Cash Flows from Capital and Related Financing Activities</b>	<u>834,692</u>
<b>Net Change in Cash</b>	1,345,102
<b>Cash and Cash Equivalents, October 1, 2014</b>	<u>411,981</u>
<b>Cash and Cash Equivalents, September 30, 2015</b>	<u>\$ 1,757,083</u>
<b><u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u></b>	
Operating Income (Loss)	\$ 65,116
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	230,838
Changes in operating assets and liabilities:	
(Increase) decrease in receivables	40,388
(Increase) decrease in other assets	(31,003)
Increase (decrease) in accounts payable	202,169
Increase (decrease) in accrued liabilities	21
Increase (decrease) in customer deposits	2,881
Total adjustments	<u>445,294</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 510,410</u>

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





**City of Houston**  
**Statement of Fiduciary Net Position – Fiduciary Funds**  
**September 30, 2015**

	Private-Purpose Trust Funds
<b>Assets</b>	
Cash and cash equivalents - restricted	\$ 5,497
Total Assets	<u>5,497</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	<u>-</u>
Total Liabilities	<u>-</u>
<b>Net Position</b>	
Restricted for endowments	5,497
Total Net Position	<u>\$ 5,497</u>

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



**City of Houston**  
**Statement of Changes in Fiduciary Net Position – Fiduciary Funds**  
**For the Year Ended September 30, 2015**

	<u>Private-Purpose Trust Funds</u>
<b>Additions</b>	
Interest on investments	\$ <u>6</u>
Total Additions	<u>6</u>
<b>Deductions</b>	
Book Purchases	<u>0</u>
Total Deductions	<u>0</u>
Change in Net Position	<u>6</u>
<b>Net Position</b>	
October 1, 2014	<u>5,491</u>
September 30, 2015	\$ <u><u>5,497</u></u>

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



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

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

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

**a. Financial Reporting Entity**

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

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

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

**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. 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.
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 the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

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

The City reports the following major governmental funds:

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

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

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

The City's fiduciary fund includes no major funds.

Additionally, the city reports the following fund types:

**Governmental Funds**

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

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

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

**Proprietary Fund**

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

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

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





CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

The Board of Aldermen, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

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



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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

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

**d. Encumbrances**

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

**e. Assets, liabilities, and net position / fund balances**

**1. Cash, Cash Equivalents, and Investments**

**Cash and Cash Equivalents**

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

**Investments**

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

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

Investments for the City are reported at fair market value.

**2. Receivables and Payables**

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

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

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



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets.

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

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

The following schedule details the capitalization thresholds.

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

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



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

7. 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(s) 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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

See Note 8 for further details.

8. Compensated Absences

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

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

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

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

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. 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.





CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

**f. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 revenues and expenses during the reporting period. Actual results could differ from the estimates.

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

As a distributor of water and sewer services, there is a possibility that environmental conditions may arise which would require the City and its component units 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.

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CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

However, management does not believe such costs, if any, would materially affect the City's financial position or future cash flows.

**h. 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.

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

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

**Deposits.** The city must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the city's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

**Cash and Cash Equivalents**

The carrying amount of the City's deposits with financial institutions at September 30, 2015, reported in the governmental funds, enterprise fund, and fiduciary fund was \$851,005, \$1,757,083, and \$5,497, respectively.

**Custodial Credit Risk – Deposits.** Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the city. Deposits above FDIC



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 2 – Cash and Cash Equivalents and Investments (Continued)**

coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the city. As of September 30, 2015, none of the City's bank balance of \$1,504,190 was exposed to custodial credit risk.

**Investments**

As of September 30, 2015, the city had no investments.

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

The following is a summary of inter-fund balances at September 30, 2015:

**A. Due From/To Other Funds:**

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
City General Fund	\$ 5,420	3,433
Non-major Governmental Funds:		
Fire Protection	3,258	
Airport Fund	175	
Enterprise Funds:		
Water & Sewer Fund		5,420
	<u>\$ 8,853</u>	<u>8,853</u>

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

**B. Inter-fund Transfers**

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
City General Fund	\$ 138,714	6,611
Non-major Governmental Funds:		
Houston Airport Fund	6,611	
Park and Recreation Fund	22,000	
Softball/Baseball P&R Fund		22,000
GO Bond Debt Service Fund		138,714
	<u>\$ 167,325</u>	<u>167,325</u>

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



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 4 – Capital Assets**

The following is a summary of capital assets activity for the year ended September 30, 2015:

	Balance 10/1/2014	Additions	Deletions	Balance 9/30/2015
<b><u>Governmental Activities:</u></b>				
Non-depreciable capital assets:				
Land	\$ 538,862			538,862
Total non-depreciable capital assets	<u>538,862</u>	<u>-</u>	<u>-</u>	<u>538,862</u>
Depreciable capital assets:				
Buildings	1,648,700			1,648,700
Improvements	397,513			397,513
Infrastructure	8,353,392	128,720		8,482,112
Furniture and equipment	437,718	14,030		451,748
Vehicles	1,085,550			1,085,550
Total depreciable capital assets	<u>11,922,873</u>	<u>142,750</u>	<u>-</u>	<u>12,065,623</u>
Less accumulated depreciation for:				
Buildings	646,217	26,081		672,298
Improvements	194,332	11,932		206,264
Infrastructure	3,599,316	256,006		3,855,322
Furniture and equipment	376,583	11,731		388,314
Vehicles	736,929	56,845		793,774
Total accumulated depreciation	<u>5,553,377</u>	<u>362,595</u>	<u>-</u>	<u>5,915,972</u>
Total depreciable capital assets, net	<u>6,369,496</u>	<u>(219,845)</u>	<u>-</u>	<u>6,149,651</u>
Governmental activities capital assets, net	<u>\$ 6,908,358</u>	<u>(219,845)</u>	<u>-</u>	<u>6,688,513</u>
<b><u>Business-type Activities:</u></b>				
Land	\$ 137,099			137,099
Construction in progress	289,916	458,157	309,355	438,718
Buildings	61,800			61,800
Infrastructure	9,706,798	309,355		10,016,153
Machinery and Equipment	203,638	55,250		258,888
Vehicles	59,960			59,960
Total capital assets	<u>10,459,211</u>	<u>822,762</u>	<u>309,355</u>	<u>10,972,618</u>
Less accumulated depreciation for:				
Buildings	49,440			49,440
Infrastructure	4,495,219	216,281		4,711,500
Machinery and Equipment	137,537	14,557		152,094
Vehicles	53,963			53,963
Total accumulated depreciation	<u>4,736,159</u>	<u>230,838</u>	<u>-</u>	<u>4,966,997</u>
Business-type activities capital assets, net	<u>\$ 5,723,052</u>	<u>591,924</u>	<u>309,355</u>	<u>6,005,621</u>





CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 4 – Capital Assets (Continued)**

Depreciation expense was charged to the following functions:

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 106,945
Public safety	61,655
Public works	175,877
Culture and recreation	<u>18,118</u>
Total governmental activities depreciation expense	<u>\$ 362,595</u>

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

**Note 5 – Claims and Judgments**

**Risk Financing**

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



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 6 – Long-term Liabilities**

The following is a summary of changes in long-term debt for the year ended September 30, 2015.

	Balance			Balance	Amounts
	10/1/2014	Additions	Deductions	9/30/2015	Due Within
Governmental Activities					One Year
G.O. Bonds Payable	\$ 1,190,000		85,000	1,105,000	90,000
Loans Payable	501,503		45,325	456,178	43,861
Compensated Absences	42,101	2,921		45,022	
Total Governmental Activities	<u>\$ 1,733,604</u>	<u>2,921</u>	<u>130,325</u>	<u>1,606,200</u>	<u>133,861</u>
Business-Type Activities					
Revenue Bonds	\$ 1,875,000	1,415,901	125,000	3,165,901	175,000
Loans Payable	660,540	135,175	23,285	772,430	24,551
Compensated Absences	9,287	222		9,509	
Revenue Bond Premium	2,035		157	1,878	N/A
Total Business-Type Activities	<u>\$ 2,546,862</u>	<u>1,551,298</u>	<u>148,442</u>	<u>3,949,718</u>	<u>199,551</u>

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

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 133,861	18,108	199,551	92,305
2017	142,749	51,173	199,193	96,524
2018	149,065	46,721	204,682	91,522
2019	142,299	41,941	210,180	86,412
2020	136,895	37,234	215,688	81,142
2021-2025	764,473	133,237	1,166,430	312,794
2026-2030	91,836	4,865	830,763	141,220
2031-2035			435,000	51,125
Total	<u>\$ 1,561,178</u>	<u>333,279</u>	<u>3,461,487</u>	<u>953,044</u>

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

Water-Sewer Junior Lien Bonds for the purchase of new water meters for the City were approved for a total amount of \$448,000. As of September 30, 2015 the city has only received \$115,901 of the bond proceeds. Therefore the outstanding balance of \$115,901 is not included in the above business-type activities annual debt service requirements due to uncertainty as to repayment dates and payment amounts.

A Capital Improvement Loan in the amount of \$360,943 is not included in the above business-type activities annual debt service requirements due to uncertainty as to repayment dates and payment amounts. The payments on this loan will begin thirty days after the project is completed and the loan is for an amount not to exceed \$496,000.



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 6 – Long-term Liabilities (Continued)**

**Governmental Activities**

As of September, 30 2015, the governmental long-term debt of the financial reporting entity consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<b><u>A. General Obligation Bonds</u></b>			
\$1,500,000 Public Improvements Bonds, Series 2010, due in annual installments of \$75,000 to \$135,000 with interest paid semi-annually	\$ 1,105,000	2.80–4.00%	8/1/2025
Total General Obligation Bonds	<u>\$ 1,105,000</u>		
Current Portion	\$ 90,000		
Noncurrent Portion	\$ 1,015,000		
<b><u>B. Loans Payable</u></b>			
\$176,460 Capital Improvement Loan issued January 1, 2009, due in monthly installments of \$1,623 (Fire Truck)	\$ 62,721	2.00%	1/1/2019
\$250,000 Note Payable issued May 21, 2013, due in monthly installments of \$1,849 (Industrial Building Construction)	220,238	4.00%	6/30/2028
\$53,240 Note Payable issued May 21, 2013, due in monthly installments of \$394 (Industrial Building Construction)	46,901	4.00%	6/30/2028
\$71,164 Capital Improvement Loan issued May 28, 2012, due in monthly installments of \$655 (Fire Truck)	52,422	2.00%	1/30/2023
\$80,100 Capital Improvement Loan issued July 23, 2012, due in monthly installments of \$515 (Fire Station)	73,896	2.00%	5/1/2029
Total Loans Payable	<u>\$ 456,178</u>		
Current Portion	\$ 43,861		
Noncurrent Portion	\$ 412,317		



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 6 – Long-term Liabilities (Continued)**

**Governmental Activities (Continued)**

Description and Purpose	Amount Outstanding
<u>C. Compensated Absences:</u>	
Noncurrent Portion	\$ 45,022
	<u>\$ 45,022</u>
Total Governmental Activities Debt	<u>\$ 1,606,200</u>
Current Portion	\$ 133,861
Noncurrent Portion	\$ 1,472,339

**Business-type Activities**

As of September 30, 2015, the long-term debt payable from proprietary fund resources consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<u>A. Revenue Bonds</u>			
\$2,100,000, 2012 Series, combined water and sewer system refunding bonds, due in annual installments of \$105,000 to \$160,000 with interest paid semi-annually	\$ 1,750,000	2.50–3.125%	4/1/2026
\$1,300,000, 2015 Series, combined water and sewer system refunding bonds, due in annual installments of \$130,000 to \$170,000 with interest paid semi-annually	\$ 1,300,000	4.00–4.25%	9/30/2035
Total Revenue Bonds	<u>\$ 3,050,000</u>		
Current Portion	\$ 175,000		
Noncurrent Portion	\$ 2,875,000		





CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 6 – Long-term Liabilities (Continued)**

**Business-type (Continued)**

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<b><u>B. Loans Payable</u></b>			
\$519,832 Capital Improvement Loan, due in monthly installments of \$2,643 (Sewer Improvements)	\$ 411,487	2.00%	9/1/2030
Total Loans Payable	<u>\$ 411,487</u>		
Current Portion	\$ 24,551		
Noncurrent Portion	\$ 386,936		
<b><u>C. Compensated Absences</u></b>			
Noncurrent Portion	\$ 9,509		
	<u>\$ 9,509</u>		
<b><u>D. Premium on 2012 Refunding Bonds</u></b>			
	\$ 1,878		
Total Business-type Activities Debt	<u>\$ 3,472,874</u>		
Current Portion	\$ 199,551		
Noncurrent Portion	\$ 3,273,323		

Long term debt outstanding not included in the above schedule:

- A. Water-Sewer Junior Lien Bonds for the purchase of new water meters for the City were approved for a total amount of \$448,000. As of September 30, 2015 the city has only received \$115,901 of the bond proceeds and the final repayment dates and maturity dates have not been finalized for the bonds. The purchase and applicable construction of water meters is not yet complete and legal requirements for repayments will not begin until after the construction project has been closed.
- B. A capital improvement loan for the sewer system improvements is not included in the above schedule. The loan is for an amount not to exceed \$496,000; however, the city has drawn down only \$360,943 of the available funds as of September 30, 2015. The project is not complete and the loan payments are to begin thirty days after the completion of the project.

**Legal Debt Margin** – The amount of debt, excluding specific exempted debt, that can be incurred by the City is limited by the state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2015, the amount of outstanding debt was equal to 6% of the latest property assessments.



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 7 – Contingencies**

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

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

**Note 8 – Defined Benefit Pension Plan**

*Plan Description.* The city contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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.

*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 September 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 September 30, 2015, 2014 and 2013 were \$187,958, \$189,879, and \$183,741, respectively, which equaled the required contributions for each year.



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 8 – Defined Benefit Pension Plan (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2015, the city reported a liability of \$2,937,026 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 June 30, 2015, the city's proportion was 0.01900 percent.

For the year ended September 30, 2015, the city recognized pension expense of \$376,596. At September 30, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 49,892	\$
Net difference between projected and actual earnings on pension plan investments		63,108
Changes of assumptions	185,000	
Changes in proportion and differences between the entity's contributions and proportionate share of overall contributions	72,374	
Entity's contributions subsequent to the measurement date	50,875	
Total	<u>\$ 358,141</u>	<u>\$ 63,108</u>

\$50,875 reported as deferred outflows of resources related to pensions resulting from city 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 Ending September 30,	Deferred Outflows	Deferred Inflows
2016	\$ 112,966	\$ 15,777
2017	112,966	15,777
2018	81,334	15,777
2019	-	15,776
Total	<u>\$ 307,266</u>	<u>\$ 63,107</u>



CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 8 – Defined Benefit Pension Plan (Continued)**

*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	3.0 percent
Salary increases	3.75 – 19.00 percent, including inflation
Investment rate of return	7.75 percent, 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	34 %	5.20 %
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	100 %	

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*Discount rate.* The discount rate used to measure the total pension liability was 7.75 percent. 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 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.





CITY OF HOUSTON, MISSISSIPPI  
Notes to Financial Statements

**Note 8 – Defined Benefit Pension Plan (Continued)**

*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 percent, 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 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	\$ 3,871,268	\$ 2,937,026	\$ 2,161,778

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

**Note 9 – Related Party Transactions**

An Alderman for the City has a financial interest and is an officer for a vendor with which the City purchased goods from during the fiscal year. See Finding 2015-01 for further details on these related party transactions.

**Note 10 – Prior Period Adjustment**

A prior period adjustment is made on these financial statements to record a \$1,853,018 and \$463,254 reduction in unrestricted net position of governmental and proprietary funds, respectively, as required by Statement No. 68 of the Governmental Accounting Standards Board which addresses the accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers.

A summary of the adjustment is as follows:

Implementation of GASB 68:	
Unfunded pension liability	\$ (2,439,772)
Deferred outflows of resources	123,500
Total prior period adjustment related to GASB 68	<u>\$ (2,316,272)</u>

**Note 11 – 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. Management of the City of Houston evaluated the activity of the City through June 27, 2016, (the date the financial statements were available to be issued), and determined that no subsequent events have occurred that would require disclosure in the notes to the financial statements.



REQUIRED SUPPLEMENTARY INFORMATION



City of Houston  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budgetary Comparison Schedule – General Fund  
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Property taxes	\$ 782,000	779,687	799,822	(2,313)	20,135
Licenses, commissions and other revenue	15,800	14,400	14,962	(1,400)	562
Fines and forfeitures	43,900	43,250	45,157	(650)	1,907
Intergovernmental revenues	1,015,500	1,020,420	1,035,780	4,920	15,360
Charges for services	218,000	207,000	218,509	(11,000)	11,509
Interest income	1,300	1,800	1,899	500	99
Miscellaneous	55,000	52,500	50,917	(2,500)	(1,583)
Total Revenues	2,131,500	2,119,057	2,167,046	(12,443)	47,989
<b>Expenditures:</b>					
General government	418,900	390,661	384,946	28,239	5,715
Public safety	1,070,600	1,040,750	1,009,115	29,850	31,635
Public works	755,500	714,400	661,437	41,100	52,963
Total Expenditures	2,245,000	2,145,811	2,055,498	99,189	90,313
Excess (Deficiency) of Revenues over (under) Expenditures	(113,500)	(26,754)	111,548	86,746	138,302
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	-	-	138,714	-	138,714
Operating transfers out	-	-	(6,611)	-	(6,611)
Total Other Financing Sources (Uses)	-	-	132,103	-	132,103
Net Change in Fund Balance	(113,500)	(26,754)	243,651	86,746	270,405
<b>Fund Balance:</b>					
October 1, 2014	134,273	134,273	134,273	-	-
September 30, 2015	\$ 20,773	107,519	377,924	86,746	270,405

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



**City of Houston**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**Last 10 Fiscal Years \***

	<u>2015</u>
City's proportion of the net pension liability	0.0190%
City's proportionate share of the net pension liability	\$ 2,937,026
City's covered-employee payroll	\$ 1,205,581
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	243.62%
Plan fiduciary net position as a percentage of the total pension liability	67.21%

\* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the the fiscal year presented.

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





**City of Houston**  
**Schedule of City Contributions**  
**Last 10 Fiscal Years**

	<u>2015</u>
Contractually required contribution	\$ 187,958
Contribution in relation to the contractually required contribution	187,958
Contribution deficiency (excess)	<u>\$ 0</u>
City's covered-employee payroll	1,193,384
Contributions as a percentage of its 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.

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



**CITY OF HOUSTON**  
**Notes to the Required Supplementary Information**

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents 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.

(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 aldermen. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund consistent with accounting principles generally accepted in the United States of America.



OTHER INFORMATION



**CITY OF HOUSTON, MISSISSIPPI  
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS  
SEPTEMBER 30, 2015**

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

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





**CITY OF HOUSTON, MISSISSIPPI  
RECONCILIATION OF ORIGINAL AD VALOREM TAX ROLLS TO FUND COLLECTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

<u>Assessed Valuation and Millage:</u>	<u>Assessed Values</u>	<u>Mills</u>	<u>Amount</u>
Realty	\$ 15,755,310	96.96	1,527,635
Personal	8,363,174	96.96	810,893
Utility	527,712	96.96	<u>51,167</u>
Total Assessment			\$ 2,389,695
<u>Adjustments:</u>			
Less: Homestead Exemption			\$ (241,975)
Industrial Realty Exemption			(7,631)
Industrial Personal Realty Exemption			(67,202)
Add: Sewer & Street Assessment			1,501
Privilege Licenses			10,515
Property Cleanup			306
Interest Charges			<u>9,909</u>
Net Adjustment			<u>(294,577)</u>
Total To Account For			\$ <u>2,095,118</u>
<u>Collection Credit to Funds:</u>			
General Fund			\$ 513,635
Library Fund			37,543
Park Fund			92,825
School Maintenance			1,285,320
Street G.O. Bond 2012			138,001
Special Street G.O. 2002			1,501
Interest and Penalty			9,909
Privilege License			10,515
Rails to Trails			5,455
Property Cleanup			<u>306</u>
Total			\$ 2,095,010
<u>Balance Represented By:</u>			
Unaccounted for			<u>108</u>
Total Accounted For			\$ <u>2,095,118</u>

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COMPLIANCE SECTION





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

James L. Stafford, CPA  
Harry W. Stevens, CPA  
S. Keith Winfield, CPA  
William B. Staggers, CPA  
Michael W. McCully, CPA  
Mort Stroud, CPA  
R. Steve Sinclair, CPA  
Marsha L. McDonald, CPA  
Wanda S. Holley, CPA  
Robin Y. McCormick, CPA/PFS  
J. Randy Scrivner, CPA

Kimberly S. Caskey, CPA  
Susan M. Lummus, CPA  
Thomas J. Browder, CPA  
Stephen D. Flake, CPA  
John N. Russell, CPA  
Thomas A. Davis, CPA  
Anita L. Goodrum, CPA  
Ricky D. Allen, CPA  
Jason D. Brooks, CPA  
Robert E. Cordle, Jr., CPA  
Perry C. Rackley, Jr., CPA

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

Honorable Mayor and Board of Aldermen  
City of Houston, 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 Houston, Mississippi as of and for the year ended September 30, 2015, and the related notes to financial statements, which collectively comprise the City of Houston, Mississippi's basic financial statements, and have issued our report thereon dated June 27, 2016.

**Internal Control Over Financial Reporting**

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2015-01 to be a material weakness.

**Compliance and Other Matters**

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



### **City of Houston, Mississippi's Response to Findings**

The City of Houston, Mississippi's response to the findings identified in our audit is described in the accompany schedule of findings and responses. The City of Houston, 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.

Okolona, Mississippi  
June 27, 2016

*Watkins Ward and Stafford, PLLC*







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

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Staggers, CPA	Stephen D. Flake, CPA
Michael W. McCully, CPA	John N. Russell, CPA
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J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

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

Honorable Mayor and Board of Aldermen  
City of Houston, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi as of and for the year ended September 30, 2015, which collectively comprise City of Houston, Mississippi's basic financial statements and have issued our report thereon dated June 27, 2016. 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 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 state laws and regulations and our audit of the financial statements disclosed the instance of noncompliance described in finding 2015-01 in the accompanying schedule of findings and responses.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

The City of Houston, Mississippi's response to the finding included in the schedule of findings and responses was not audited and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the city's board of aldermen and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Okolona, Mississippi  
June 27, 2016

*Watkins Ward and Stafford, PLLC*

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SCHEDULE OF FINDINGS AND RESPONSES



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

**Section I: Summary of Auditors' Results**

Financial Statements:

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditors' report issued:  | Unmodified    |
|    |   |               |
| 2. | Internal control over financial reporting:  |               |
|    | a. Material weakness identified?  | Yes           |
|    | b. Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
|    |   |               |
| 3. | Noncompliance material to financial statements noted?                                     | No            |



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

**Section II: Financial Statement Findings**

**Material Weakness**

**2015-01**

**Condition**

An Alderman for the City has a financial interest and is an officer for a vendor with which the City purchased goods during the fiscal year. Public officers are prohibited from engaging in financial transactions with the entity of which they serve as an officer, per Miss. Code section noted below.

**Criteria**

Per Section 25-4-105(3)(a), Miss. Code Ann. (1972), no public servant shall be a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent, other than in his contract of employment, or have a material financial interest in any business which is a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent.

**Cause of Condition**

The City did not adhere to the restriction of related party transactions with its public officers, and the business in which the Alderman is an officer did act as a vendor from which the City purchased goods during the fiscal year.

**Effect of Condition**

The City engaged in an prohibited relationship with the business of the alderman, in violation of Section 25-4-105(3)(a), Miss. Code Ann. (1972).

**Recommendation**

The City should cease all transactions with this business, and in the future ensure that the City does not contract in any manner with a business in which public officers are materially involved, in accordance with the state statute.

**Response**

The City is aware of this related party transaction and all purchases from this vendor with the city have been suspended.

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