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CITY OF HOLLY SPRINGS, MISSISSIPPI

**Audited Financial Statements and
Special Reports**

September 30, 2016

RECEIVED

JUL 23 2018

CITY OF HOLLY SPRINGS, MISSISSIPPI

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Holly Springs, Mississippi, as of and for the year ended September 30, 2016, and the related notes to financial statements, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements as listed in the contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Holly Springs, Mississippi, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability, and schedule of the City's contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holly Springs, Mississippi's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018, on our consideration of the City of Holly Springs, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Holly Springs, Mississippi's internal control over financial reporting and compliance.

West Point, Mississippi
June 20, 2018

Watkins Ward and Stafford, PLLC

BASIC FINANCIAL STATEMENTS

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Net Position
September 30, 2016

	Governmental Activities	Business-type Activities	Total
<u>Assets:</u>			
Cash and cash equivalents	\$ 509,383	1,203,718	1,713,101
Investments	1,160,419	5,469,651	6,630,070
Receivables (Net):			
Accounts		3,272,400	3,272,400
Property taxes	35,339		35,339
Lease	346,105		346,105
Other	600,277	1,405,101	2,005,378
Notes receivable (Net)	15,000		15,000
Inventories			
Prepaid items		532,416	532,416
Restricted assets:		85,451	85,451
Investments		1,586,224	1,586,224
Capital assets, net of accumulated depreciation	15,522,998	38,924,459	54,447,457
Total Assets	<u>\$ 18,189,521</u>	<u>52,479,420</u>	<u>70,668,941</u>
<u>Deferred Outflow of Resources:</u>			
Deferred outflows related to pensions	1,190,335	1,398,688	2,589,023
Deferred outflows related to conservation receivables		58,772	58,772
Deferred outflows related to long-term debt		69,087	69,087
Total outflows of resources	<u>1,190,335</u>	<u>1,526,547</u>	<u>2,716,882</u>
<u>Liabilities:</u>			
Accounts payable	\$ 125,254	3,322,047	3,447,301
Accrued interest payable	26,879	213,138	240,017
Salaries payable			
Due to other entities	258,487	500,744	759,231
Other liabilities		284,060	284,060
Payable from restricted assets:			
Deposits		1,332,116	1,332,116
Noncurrent liabilities:			
Due within one year	620,073	2,674,786	3,294,859
Due in more than one year	7,713,102	11,300,772	19,013,874
Net pension liability	7,411,686	7,260,398	14,672,084
Total Liabilities	<u>16,155,481</u>	<u>26,888,061</u>	<u>43,043,542</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Net Position
September 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Deferred Inflows of Resources:</u>			
Deferred inflows related to pensions	91,756	385,877	477,633
Deferred inflows related to unearned income		27,867	27,867
Total deferred inflows of resources	91,756	413,744	505,500
<u>Net Position:</u>			
Net Investment in capital assets, net of related debt		24,948,901	24,948,901
Restricted for:			
Expendable:			
Debt Service		1,556,913	1,556,913
Other purposes		198,348	198,348
Unrestricted	3,132,619		3,132,619
Total Net Position	\$ <u>3,132,619</u>	<u>26,704,162</u>	<u>29,836,781</u>

JUL 23 2018

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2016

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 760,473	31,609	47,310	-	(681,554)	-	(681,554)
Public safety	2,270,114	161,785	3,461	767,600	(1,337,268)	-	(1,337,268)
Public works	2,439,141	553,789	-	-	(1,885,352)	-	(1,885,352)
Cemetery	296,896	17,050	-	-	(279,846)	-	(279,846)
Health and welfare	5,645	-	-	-	(5,645)	-	(5,645)
Culture and recreation	389,575	26,050	52,874	-	(310,651)	-	(310,651)
Community development	315,856	-	369,225	-	53,369	-	53,369
Intergovernmental	251,589	-	-	-	(251,589)	-	(251,589)
Interest on long-term debt	172,100	-	-	-	(172,100)	-	(172,100)
Total Governmental Activities	6,901,389	790,283	472,870	767,600	(4,870,636)	-	(4,870,636)
Business-type Activities:							
Electric	26,757,155	25,444,276	-	-	-	(1,312,879)	(1,312,879)
Water	1,789,966	1,615,995	-	-	-	(173,971)	(173,971)
Sewer	1,313,026	885,026	-	-	-	(428,000)	(428,000)
Gas	2,647,527	2,521,922	-	-	-	(125,605)	(125,605)
Total Business-type Activities	32,507,674	30,467,219	-	-	-	(2,040,455)	(2,040,455)
Total Government	\$ 39,409,063	31,257,502	472,870	767,600	(4,870,636)	(2,040,455)	(6,911,091)
General revenues:							
Taxes:							
Current year					\$ 1,346,722	-	1,346,722
Prior year, penalties and interest					10,182	-	10,182
Intergovernmental:							
Local					1,877,773	-	1,877,773
State					1,872,589	-	1,872,589
Federal					1,086,366	1,078,738	2,165,104
Interest					7,826	44,482	52,308
Miscellaneous					213,205	-	213,205
Transfers					306,640	(306,640)	-
Total General Revenues and Transfers					6,721,303	816,580	7,537,883
Change in net position					1,850,667	(1,223,875)	626,792
Net position at beginning of year					1,281,952	26,978,731	28,260,683
Prior period adjustment					-	949,306	949,306
Net position at beginning, as restated					1,281,952	27,928,037	29,209,989
Net position at end of year					3,132,619	26,704,162	29,836,781

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>			
Cash and cash equivalents	\$ 185,618	330,066	515,684
Investments	1,160,419		1,160,419
Receivables (Net):			
Property taxes	11,708	23,631	35,339
Lease receivable	346,105		346,105
Other	600,277		600,277
Notes receivable (Net)	15,000		15,000
Due from other funds	11,734	373,485	385,219
Total Assets	<u>\$ 2,330,861</u>	<u>727,182</u>	<u>3,058,043</u>
<u>Liabilities:</u>			
Accounts payable	\$ 123,797	55	123,852
Due to other funds	622,788	11,385	634,173
Other liabilities	1,402		1,402
Due to other entities	-	15,834	15,834
Total Liabilities	<u>747,987</u>	<u>27,274</u>	<u>775,261</u>
<u>Fund Balances:</u>			
Reserved for:			
Police			
Fire protection		50,214	50,214
Unemployment benefits		20,815	20,815
Home grants		14	14
Cemetery		203,714	203,714
Community development		70,615	70,615
Debt service		354,536	354,536
Unreserved	1,582,874		1,582,874
Total Fund Balances	<u>1,582,874</u>	<u>699,908</u>	<u>2,282,782</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 2,330,861</u>	<u>727,182</u>	<u>3,058,043</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Reconciliation of the Governmental Funds
Balance Sheet to Statement of Net Position
September 30, 2016

Total fund balance - total governmental funds		\$	2,282,782
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.			15,522,998
Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds balance sheet.			(26,879)
Long-term liabilities are not due and payable in the current period and, therefore not reported in the governmental funds balance sheet:			
Due within one year	\$	(620,073)	
Due in more than one year		(7,713,102)	
Pension Liability		<u>(6,313,107)</u>	<u>(14,646,282)</u>
Net Position of Governmental Activities		\$	<u>3,132,619</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2016

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>			
Taxes:			
Current year	\$ 1,346,722		1,346,722
Prior year, penalties and interest	10,182		10,182
Licenses and permits	31,609		31,609
Intergovernmental:			
Federal revenue	1,086,366		1,086,366
State shared:			
Sales tax	1,368,127	336,653	1,704,780
State grants	154,104		154,104
Liquor privilege tax	6,300		6,300
TVA in-lieu	60,831		60,831
Gasoline tax	11,486		11,486
Homestead reimbursement	89,192		89,192
Local revenue	2,981,181		2,981,181
Charges for services	579,839		579,839
Fines and forfeits	161,785		161,785
Miscellaneous revenues	168,722	52,309	221,031
Total Revenues	<u>8,056,446</u>	<u>388,962</u>	<u>8,445,408</u>
<u>Expenditures:</u>			
General government	3,472,876		3,472,876
Public Safety:			
Police	1,299,677		1,299,677
Fire	761,064		761,064
Public Works:			
Highways and streets	609,132	1,362,322	1,971,454
Sanitation	292,480		292,480
Cemetery	388,065		388,065
Health and welfare	5,171		5,171
Culture and recreation	385,845		385,845
Community development	279	315,577	315,856
Debt service:			
Principal	678,745		678,745
Interest and fiscal charges	172,100		172,100
Intergovernmental	251,298		251,298
Total Expenditures	<u>8,316,732</u>	<u>1,677,899</u>	<u>9,994,631</u>
Excess of Revenues Over (Under) Expenditures	<u>(260,286)</u>	<u>(1,288,937)</u>	<u>(1,549,223)</u>
<u>Other Financing Sources (Uses):</u>			
Operating transfers in	306,640	9,803	316,443
Operating transfers out	(9,803)		(9,803)
Capital Leases	80,773		80,773
Total Other Financing Sources (Uses)	<u>377,610</u>	<u>9,803</u>	<u>387,413</u>
Excess of Revenues Over (Under) Expenditures and Other Uses	117,324	(1,279,134)	(1,161,810)
<u>Fund Balances:</u>			
October 1, 2015	\$ 1,465,550	1,979,042	3,444,592
September 30, 2016	<u>\$ 1,582,874</u>	<u>699,908</u>	<u>2,282,782</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

Net change in fund balances - total governmental funds \$ (1,161,810)

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

Governmental funds report capital outlay as expenditures. However,
in the government-wide statement of activities and changes in net
position, the cost of those assets is allocated over their estimated
useful lives as depreciation expense. This is the amount of capital
assets recorded in the current year. 3,397,538

Governmental funds report proceeds of capital leases as current year
other financing source. However, the obligation under capital leases
is shown as a liability on the Statement of Net Position. Therefore,
capital lease proceeds are not a financing source on the Statement
of activities. This is the amount of new capital leases for the current
year. (80,773)

Governmental funds report proceeds from the sale of assets as
miscellaneous income. The associated cost was an expenditure
in the year of purchase. However, capital assets are shown as an
asset on the Statement of Net Position. Therefore, an undepreciated
cost is deducted from the proceeds as recorded in miscellaneous
income. This is the amount of undepreciated cost relating to assets
sold in the current year.

Depreciation expense on capital assets is reported in the government-
wide statement of activities and changes in net position, but the do not
require the use of current financial resources. Therefore, depreciation
expense is not recorded as an expenditure in governmental funds. (527,311)

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 governments funds.
Neither transactions, however, has any effect on net position. Also,
governmental funds report the effect of issuance cost, premiums,
discounts, and similar items when debt is first issued, whereas the
amounts are deferred and amortized in the statement of activities.
This is the net effect of these differences in the treatment of long-term
debt and related items. 678,745

CITY OF HOLLY SPRINGS, MISSISSIPPI
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

Change in long-term compensated absences	\$ (19,872)
Change in accrued interest payable	3,047
Change in unfunded pension liability	<u>(438,897)</u>
Change in Net Position of Governmental Activities	\$ <u><u>1,850,667</u></u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Fund Net Position
Proprietary Funds
September 30, 2016

	Business-type Activities Enterprise Funds				
	June 30, 2016	September 30, 2016			
	Electric Department	Water Department	Sewer Department	Gas Department	Total Proprietary Funds
<u>Assets:</u>					
Current Assets:					
Cash and cash equivalents	\$ 1,119,995	1,885	7,355	74,483	1,203,718
Inventories	1,818,479	530,123	125,631	2,995,418	5,469,651
Receivables (Net):					
Accounts	3,272,400	-	-	-	3,272,400
Other	1,397,552	-	-	-	1,397,552
Due from other departments	2,796,957	347,063	332,207	-	3,476,227
Inventories	425,552	49,789	11,393	45,682	532,416
Prepaid items	38,841	18,523	7,433	20,654	85,451
Other current assets	-	1,149	189	6,211	7,549
Total Current Assets	<u>10,869,776</u>	<u>948,532</u>	<u>484,208</u>	<u>3,142,448</u>	<u>15,444,964</u>
Restricted Assets:					
Bond sinking funds	325,712	352,596	35,486	843,119	1,556,913
Investments	29,311	-	-	-	29,311
Total Restricted Assets	<u>355,023</u>	<u>352,596</u>	<u>35,486</u>	<u>843,119</u>	<u>1,586,224</u>
Non-current Assets:					
Capital assets:					
Land	157,020	62,092	-	1,118	220,230
Construction in progress	3,074,606	3,512,901	1,864,257	663,338	9,115,102
Other capital assets, net of accumulated depreciation	<u>15,735,847</u>	<u>5,120,478</u>	<u>2,969,224</u>	<u>5,763,578</u>	<u>29,589,127</u>
Total Non-current Assets	<u>18,967,473</u>	<u>8,695,471</u>	<u>4,833,481</u>	<u>6,428,034</u>	<u>38,924,459</u>
Total Assets	<u>30,192,272</u>	<u>9,996,599</u>	<u>5,353,175</u>	<u>10,413,601</u>	<u>55,955,647</u>
<u>Deferred Outflows of Resources</u>					
Deferred outflows related to the net pension liability	890,001	202,710	80,637	225,340	1,398,688
Deferred outflows related to conservation receivable	58,772	-	-	-	58,772
Deferred outflows related to long-term debt	-	53,699	11,545	3,843	69,087
Total Deferred Outflows of Resources	<u>948,773</u>	<u>256,409</u>	<u>92,182</u>	<u>229,183</u>	<u>1,526,547</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Fund Net Position
Proprietary Funds
September 30, 2016

	Business-type Activities Enterprise Funds				
	June 30, 2016	September 30, 2016			
	Electric Department	Water Department	Sewer Department	Gas Department	Total Proprietary Funds
Liabilities					
Current liabilities:					
Accounts payable	\$ 3,322,047	-	-	-	3,322,047
Customer deposits	1,102,247	65,690	-	164,179	1,332,116
Due to other departments	-	234,801	149,478	3,592,692	3,976,971
Current portion of long-term debt	455,000	137,608	33,048	49,080	674,736
Notes payable	2,000,050	-	-	-	2,000,050
Accrued interest payable	11,827	68,509	11,469	121,333	213,138
Other current liabilities	172,048	35,578	13,029	63,405	284,060
Total Current Liabilities	7,063,219	542,186	207,024	3,990,689	11,803,118
Non-current liabilities:					
Net pension liability	4,388,466	1,196,609	518,548	1,156,775	7,260,398
Bonds payable	2,446,000	3,893,125	848,200	4,113,447	11,300,772
Total Non-current Liabilities	6,834,466	5,089,734	1,366,748	5,270,222	18,561,170
Total Liabilities	13,897,685	5,631,920	1,573,772	9,260,911	30,364,288
Deferred Inflows of Resources					
Deferred inflows related to the net pension liability	331,457	20,362	16,228	17,830	385,877
Deferred inflows related to the unearned income	27,867	-	-	-	27,867
Total Deferred Inflows of Resources	359,324	20,362	16,228	17,830	413,744
Net Positions					
Invested in capital assets, net of related debt	14,066,423	4,664,738	3,952,233	2,265,507	24,948,901
Restricted:					
Debt service	325,712	352,596	35,486	843,119	1,556,913
Unrestricted (deficit)	2,491,901	(416,608)	(132,362)	(1,744,583)	198,348
Total Net Position	\$ 16,884,036	4,600,726	3,855,357	1,364,043	26,704,162

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended September 30, 2016

	Business - type Activities Enterprise Funds				
	June 30, 2016	September 30, 2016			
	Electric Department	Water Department	Sewer Department	Gas Department	Total Proprietary Funds
Operating Revenues:					
Charges for services	\$ 25,444,276	1,615,995	885,026	2,521,922	30,467,219
Operating Expenses:					
Power purchased	18,104,437	-	-	-	18,104,437
Gas purchased	-	-	-	919,678	919,678
Operation and maintenance	5,749,715	1,123,898	1,029,697	908,408	8,811,718
Depreciation	934,654	249,577	160,179	202,721	1,547,131
Taxes	1,842,136	277,892	88,721	338,197	2,546,946
Total Operating Expenses	26,630,942	1,651,367	1,278,597	2,369,004	31,929,910
Operating Income (Loss)	(1,186,666)	(35,372)	(393,571)	152,918	(1,462,691)
Nonoperating Revenues:					
Federal grant revenues	926,180	-	-	-	926,180
State grant revenues	152,558	-	-	-	152,558
Interest income	20,388	7,009	2,274	14,811	44,482
Total Nonoperating Revenues	1,099,126	7,009	2,274	14,811	1,123,220
Nonoperating Expenses:					
Interest expense	119,948	127,729	33,696	278,385	559,758
Amortization	-	3,409	733	138	4,280
Miscellaneous	6,265	7,461	-	-	13,726
Total Nonoperating Expenses	126,213	138,599	34,429	278,523	577,764
Net Income (Loss) before Transfer:	(213,753)	(166,962)	(425,726)	(110,794)	(917,235)
Transfers	-	-	-	(306,640)	(306,640)
Change in Net Position	(213,753)	(166,962)	(425,726)	(417,434)	(1,223,875)
Net Position at Beginning of Year					
As previously reported	17,097,789	4,767,688	4,281,083	832,171	26,978,731
Prior period adjustment	-	-	-	949,306	949,306
As restated	17,097,789	4,767,688	4,281,083	1,781,477	27,928,037
Net Position at End of Year	\$ 16,884,036	4,600,726	3,855,357	1,364,043	26,704,162

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2016

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	Business-type Activities Enterprise Funds				
	June 30, 2016	September 30, 2016			Total
	Electric Department	Water Department	Sewer Department	Gas Department	Proprietary Funds
Cash Flows from Operating Activities:					
Cash received from customers	\$ 23,698,032	641,656	1,447,758	6,440,798	32,228,244
Other operating cash receipts	371,307	31,742	13,320	37,365	453,734
Cash payments to suppliers for goods and services	(16,171,547)	-	-	(919,678)	(17,091,225)
Operating expenses	(5,743,124)	(1,123,898)	(1,527,497)	(1,828,086)	(10,222,605)
Taxes	(1,842,136)	(277,892)	(12,709)	(31,557)	(2,164,294)
Net Cash Provided by (Used in) Operating Activities	312,532	(728,392)	(79,128)	3,698,842	3,203,854
Cash Flows from Noncapital Financing Activities:					
Contributions paid to City	-	-	-	(306,640)	(306,640)
Net Cash Used in Noncapital Financing Activities	-	-	-	(306,640)	(306,640)
Cash Flows from Capital and Related Financing Activities					
Acquisition of capital assets (net of removal and salvage)	(2,834,677)	(57,451)	(355,546)	(5,147,372)	(8,395,046)
Retirement of capital assets	-	-	-	3,716,948	3,716,948
Proceeds from borrowing	4,205,050	-	-	-	4,205,050
Principal payment on long-term debt	(2,460,000)	(122,364)	(32,615)	(76,255)	(2,691,234)
Change in sinking funds	226,767	(223,118)	2,664	(292,643)	(286,330)
Interest paid	(147,083)	(127,312)	(34,041)	(275,780)	(584,216)
Net Cash Used in from Noncapital Financing Activities	(1,009,943)	(530,245)	(419,538)	(2,075,102)	(4,034,828)
Cash Flows from Investing Activities:					
Change in investments	764,081	1,258,406	502,167	(1,255,051)	1,269,603
TVA advances	(6,698)	-	-	-	(6,698)
Net Cash Provided by (Used in) from Investing Activities	757,383	1,258,406	502,167	(1,255,051)	1,262,905
Net Increase (Decrease) in Cash and Cash Equivalents	59,972	(231)	3,501	62,049	125,291
Cash and Cash Equivalents at Beginning of Year	1,060,023	2,116	3,854	12,434	1,078,427
Cash and Cash Equivalents at End of Year	\$ 1,119,995	1,885	7,355	74,483	1,203,718

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2016

	Business-type Activities Enterprise Funds				Total Proprietary Funds
	June 30, 2016	September 30, 2016			
	Electric Department	Water Department	Sewer Department	Gas Department	
<u>Reconciliation of income from operations to net cash provided by (Used in) from Operating Activities:</u>					
Income (loss) from operations	\$ (1,186,666)	(35,372)	(393,571)	152,918	(1,462,691)
Adjustments to reconcile income from operations to net cash provided by operating activities:					
Depreciation	940,681	249,577	160,179	202,721	1,553,158
Prior period adjustment	-	-	-	949,306	949,306
Change in net pension liability	687,936	85,592	53,714	133,121	960,363
Other adjustments	(6,265)	(7,461)	-	-	(13,726)
(Increase) Decrease in current assets:					
Receivables	300,870	-	-	-	300,870
Due from other departments	-	1,118,615	312,288	-	1,430,903
Inventories	(48,573)	5,002	1,769	1,948	(39,854)
Prepaid expenses	(13,970)	(11,091)	(2,694)	(12,257)	(40,012)
Other current assets	-	3,406	528	(4,023)	(89)
Deferred outflows of resources	(343,318)	(44,704)	(22,791)	(27,940)	(438,753)
Increase (Decrease) in current liabilities:					
Accounts payable and other liabilities	125,363	(11,577)	(1)	-	113,785
Due to other departments	-	(2,074,254)	(184,411)	2,300,421	41,756
Customer deposits	52,909	614	-	2,143	55,666
Deferred inflows of resources	(196,435)	(6,739)	(4,138)	484	(206,828)
Net Cash Provided by (Used in) Operating Activities	\$ 312,532	(728,392)	(79,128)	3,698,842	3,203,854

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Fund Net Position - Fiduciary Funds
September 30, 2016

	<u>Agency Funds</u>
<u>Assets:</u>	
Receivables (net):	
Property taxes	\$ <u>42,399</u>
Total Assets	<u>42,399</u>
<u>Liabilities:</u>	
Other liabilities	<u>42,399</u>
Total Liabilities	<u>42,399</u>
<u>Net Position:</u>	
Held in Trust for Others	\$ <u><u>-</u></u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Fund Net Position
Fiduciary Funds
September 30, 2016

	<u>Agency Funds</u>
<u>Additions:</u>	
Property taxes	\$ 4,200,775
Total Additions	<u>4,200,775</u>
<u>Deductions:</u>	
Payments to school district	4,200,775
Total Deductions	<u>4,200,775</u>
Change in Net Position	<u>-</u>
Net Position - Beginning of Year	<u>-</u>
Net Position - End of Year	<u>\$ -</u>

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

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

Included within the reporting entity:

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

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Excluded from the reporting entity:

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

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

b. Government-wide and Fund Financial Statements

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

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

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Governmental Funds

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

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

Proprietary Funds

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds (Continued)

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

Fiduciary Funds

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

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

d. Major Funds

For 2016, the City reports the following major Governmental Funds:

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

The City reports the following major Enterprise Funds:

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

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

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

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

e. Cash and Cash Equivalents

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Investments

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

g. Inventories

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

h. Restricted Assets

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

i. Capital Assets

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

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

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Capital Assets (Continued)

The following schedule details the capitalization thresholds.

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

* Leased property capitalization policy will correspond with the amounts for the asset classification, as listed above.

j. Deferred Outflows/Inflows of Resources

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

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

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

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Compensated Employee Absences

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

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

m. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Mississippi Municipal Liability Plan to cover such losses. The City is currently a defendant in several law suits in various stages. While the litigation is at too early a stage to accurately evaluate, legal representatives for the Mississippi Municipal Liability Plan anticipate the plan covering any judgment that may be assessed against it. Settled claims have not exceeded coverage in any of the past three years.

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

As a distributor of water, sewer, gas, and electricity, there is a possibility that environmental conditions may arise which would require the City and its component 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. However, management does not believe such costs, if any, would materially affect the City's financial position or future cash flows.

o. Economic Dependency

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Fund Balances

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

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

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

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

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

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

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

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Use of Estimates

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

NOTE 2: PROPERTY TAX

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

The tax rates applicable to 2015 are as follows:

<u>City of Holly Springs</u>	<u>Mills</u>
General fund	35.77
Fire protection	.21
Police Bond	<u>3.04</u>
	<u>39.02</u>
 <u>Separate School District</u>	
District maintenance	54.00
School special	1.00
School bond	12.65
School note	<u>3.00</u>
	<u>70.65</u>
Total	<u>109.67</u>

All real and personal property taxes are collected by Marshall County and remitted to the City the month following collection. Collected but unremitted taxes as of September 30, 2016, have been properly accrued in the financial statements.

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 2: PROPERTY TAX (Continued)

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

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

NOTE 3: BUDGET POLICY

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

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

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 3: BUDGET POLICY (Continued)

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

NOTE 4: CASH AND INVESTMENTS

Deposits

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

All of the City's funds eligible to be included in the state's collateral pool program were properly included and fully collateralized as of September 30, 2016.

Investments

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

NOTE 5: CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION

	<u>9/30/2016</u>				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>De- creases</u>	<u>Adjust- ments</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>					
Land	\$ 1,020,054	-	-	-	1,020,054
Buildings and equipment	10,816,142	194,296	-	-	11,010,438
Streets	6,883,070	3,203,233	-	-	10,086,303
Less accumulated depreciation	(6,066,487)	(527,310)	-	-	(6,593,797)
Governmental Activities Capital Assets, Net	\$ 12,652,779	2,870,219	-	-	15,522,998

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

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

	<u>9/30/2016</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclass- ifications</u>	<u>Ending Balance</u>
<u>Business-type Activities</u>					
Non-depreciable Capital Assets:					
Land	220,230	-	-	-	220,230
Construction in progress	<u>10,368,002</u>	<u>2,464,048</u>	<u>(3,716,948)</u>	-	<u>9,115,102</u>
Total Non-depreciable Capital Assets	<u>10,588,232</u>	<u>2,464,048</u>	<u>(3,716,948)</u>	-	<u>9,335,332</u>
<u>Depreciable Capital Assets</u>					
Buildings and equipment	7,529,702	156,170	-	-	7,685,872
Distribution and collection systems	<u>48,594,048</u>	<u>5,743,011</u>	<u>(45,895)</u>	-	<u>54,291,164</u>
Total Depreciable Capital Assets	<u>56,123,750</u>	<u>5,899,181</u>	<u>(45,895)</u>	-	<u>61,977,036</u>
Accumulated Depreciation					
Buildings and equipment	<u>(6,116,548)</u>	<u>(226,789)</u>	-	-	<u>(6,343,337)</u>
Distribution and collection systems	<u>(24,795,915)</u>	<u>(1,348,959)</u>	<u>100,302</u>	-	<u>(26,044,572)</u>
Total Accumulated Depreciation	<u>(30,912,463)</u>	<u>(1,575,748)</u>	<u>100,302</u>	-	<u>(32,387,909)</u>
Total Depreciable Capital Assets, Net	<u>\$ 25,211,287</u>	<u>4,323,433</u>	<u>54,407</u>	-	<u>29,589,127</u>
Total Capital Assets, Net	<u>\$ 35,799,519</u>	<u>6,787,481</u>	<u>(3,662,541)</u>	-	<u>38,924,459</u>

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

Depreciation expense was charged to functions as follows:

<u>Governmental Activities:</u>	<u>9/30/16</u>
General government	\$ 48,357
Public Safety:	
Police	78,468
Fire	198,430
Cemetery	22,354
Street	175,206
Health and welfare	474
Recreation	3,730
Intergovernmental	291
Total Governmental Activities Depreciation Expense	<u>\$ 527,310</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

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

Business-type Activities:

Electric	\$ 934,654
Water	249,577
Sewer	160,179
Gas	<u>202,721</u>
Total Business-type Activities Depreciation Expense	<u>\$ 1,547,131</u>

In addition to the above amounts charged to depreciation expense in the Electric Department, utility accounting requires certain depreciation to be charged to building and transportation expenses. The net amount in 2016 is \$28,617.

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financials for the year ended September 30, 2016:

	<u>Beginning Balance</u>	<u>Additions/ Proceeds</u>	<u>Adjustments</u>	<u>Reductions/ Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government Activities:						
Bonds payable:						
General Obligation						
Bonds - Police Station \$	2,605,000	-	-	(150,000)	2,455,000	160,000
General Obligation						
Bonds - Street	1,500,000	-	-	(105,000)	1,395,000	105,000
Total	<u>4,105,000</u>	<u>-</u>	<u>-</u>	<u>(255,000)</u>	<u>3,850,000</u>	<u>265,000</u>
Notes Payable:						
C.I.T. Equipment	369,919	-	-	(25,368)	344,551	23,282
TIF (Kenlan)	103,000	-	-	(24,000)	79,000	25,000
State aid	440,364	-	-	(88,795)	351,569	83,237
Mississippi Development		-	-	-	-	-
Authority	3,000,000	-	-	(150,000)	2,850,000	75,000
Total	<u>3,913,283</u>	<u>-</u>	<u>-</u>	<u>(288,163)</u>	<u>3,625,120</u>	<u>206,519</u>
Capital Lease Obligations:						
Fire truck	110,181	-	-	(13,009)	97,172	13,587
Fire truck	123,535	-	-	(39,559)	83,976	41,157
Pierce Arrow Fire Truck	420,946	-	-	(25,541)	395,405	26,527
Street Compactor	31,592	-	-	(11,581)	20,011	20,012
Storm Warning System	83,138	-	-	(19,549)	63,589	20,351
Police Dodge Chargers	-	80,773	-	(26,343)	54,430	26,920
Total	<u>769,392</u>	<u>80,773</u>	<u>-</u>	<u>(135,582)</u>	<u>714,583</u>	<u>148,554</u>
Compensated absences	123,600	19,872	-	-	143,472	-
Total Governmental Activities	<u>8,911,275</u>	<u>100,645</u>	<u>-</u>	<u>(678,745)</u>	<u>8,333,175</u>	<u>620,073</u>
Business-type Activities:						
Bonds payable:						
Electric department	3,156,000	2,205,000	-	(2,460,000)	2,901,000	455,000
Water department	4,153,097	-	-	(122,364)	4,030,733	137,608
Gas department	4,238,782	-	-	(76,255)	4,162,527	49,080
Sewer department	913,863	-	-	(32,615)	881,248	33,048
Total	<u>12,461,742</u>	<u>2,205,000</u>	<u>-</u>	<u>(2,691,234)</u>	<u>11,975,508</u>	<u>674,736</u>
Notes Payable:						
Electric department	-	2,000,050	-	-	2,000,050	2,000,050
Total	<u>-</u>	<u>2,000,050</u>	<u>-</u>	<u>-</u>	<u>2,000,050</u>	<u>2,000,050</u>
Total Business Activities	<u>\$ 12,461,742</u>	<u>4,205,050</u>	<u>-</u>	<u>(2,691,234)</u>	<u>13,975,558</u>	<u>2,674,786</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financials for the year ended September 30, 2016:

	<u>Beginning Balance</u>	<u>Additions/ Proceeds</u>	<u>Adjustments</u>	<u>Reductions/ Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government Activities:						
Bonds payable:						
General Obligation						
Bonds - Police Station	\$ 2,605,000	-	-	(150,000)	2,455,000	160,000
General Obligation						
Bonds - Street	1,500,000	-	-	(105,000)	1,395,000	105,000
Total	<u>4,105,000</u>	<u>-</u>	<u>-</u>	<u>(255,000)</u>	<u>3,850,000</u>	<u>265,000</u>
Notes Payable:						
C.I.T. Equipment	369,919	-	-	(25,368)	344,551	23,282
TIF (Kenlan)	103,000	-	-	(24,000)	79,000	25,000
State aid	440,364	-	-	(88,795)	351,569	83,237
Mississippi Development		-	-	-	-	-
Authority	3,000,000	-	-	(150,000)	2,850,000	75,000
Total	<u>3,913,283</u>	<u>-</u>	<u>-</u>	<u>(288,163)</u>	<u>3,625,120</u>	<u>206,519</u>
Capital Lease Obligations:						
Fire truck	110,181	-	-	(13,009)	97,172	13,587
Fire truck	123,535	-	-	(39,559)	83,976	41,157
Pierce Arrow Fire Truck	420,946	-	-	(25,541)	395,405	26,527
Street Compactor	31,592	-	-	(11,581)	20,011	20,012
Storm Warning System	83,138	-	-	(19,549)	63,589	20,351
Police Dodge Chargers	-	80,773	-	(26,343)	54,430	26,920
Total	<u>769,392</u>	<u>80,773</u>	<u>-</u>	<u>(135,582)</u>	<u>714,583</u>	<u>148,554</u>
Compensated absences	123,600	19,872	-	-	143,472	-
Total Governmental Activities	<u>8,911,275</u>	<u>100,645</u>	<u>-</u>	<u>(678,745)</u>	<u>8,333,175</u>	<u>620,073</u>
Business-type Activities:						
Bonds payable:						
Electric department	3,156,000	2,205,000	-	(2,460,000)	2,901,000	455,000
Water department	4,153,097	-	-	(122,364)	4,030,733	137,608
Gas department	4,238,782	-	-	(76,255)	4,162,527	49,080
Sewer department	913,863	-	-	(32,615)	881,248	33,048
Total	<u>12,461,742</u>	<u>2,205,000</u>	<u>-</u>	<u>(2,691,234)</u>	<u>11,975,508</u>	<u>674,736</u>
Notes Payable:						
Electric department	-	2,000,050	-	-	2,000,050	2,000,050
Total	<u>-</u>	<u>2,000,050</u>	<u>-</u>	<u>-</u>	<u>2,000,050</u>	<u>2,000,050</u>
Total Business Activities	<u>\$ 12,461,742</u>	<u>4,205,050</u>	<u>-</u>	<u>(2,691,234)</u>	<u>13,975,558</u>	<u>2,674,786</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

Detail of bonds, notes and capital leases:

	Date Issued	Final Maturity	Range Interest Rates at Issue Date	Original Amount	Balance at 9/30/2016	
					Governmental Activities	Business Activities
General Obligations Bonds:						
Police bonds	3/1/2008	3/1/2028	4.000%	3,500,000	2,455,000	-
Water and sewer	7/2/2012	4/1/2032	various	2,125,000	-	1,690,000
Streets	8/1/2015	8/1/2027	various	1,500,000	1,395,000	-
Notes Payable:						
C.I.T. Equipment	9/30/2008	12/1/2027	3.000%	522,174	344,551	-
TIF (Kenlan)	12/1/2008	12/1/2018	5.000%	225,000	79,000	-
State aid	7/1/2010	7/1/2020	3.000%	873,000	351,569	-
Mississippi Development Authority	3/1/2015	3/1/2025	0.000%	3,000,000	2,850,000	-
Line of Credit - Electric	2/17/2016	N/A	1.150%	2,000,000	-	2,000,050
Capital Lease Obligations:						
Fire truck	8/5/2012	8/8/2022	4.392%	140,000	97,172	-
Fire Truck	5/7/2008	5/7/2018	4.040%	140,000	83,976	-
Pierce Arrow Fire Truck	4/5/2013	4/5/2028	3.860%	469,216	395,405	-
Street Compactor	3/26/2013	2/26/2017	3.225%	60,000	20,011	-
Storm Warning System	4/10/2014	4/10/2019	4.100%	124,875	63,589	-
Police Dodge Chargers	4/8/2014	4/8/2018	2.190%	106,551	54,430	-
Revenue Bonds:						
Electric	5/1/2007	5/1/2027	5.250%	3,250,000	-	150,000
Electric	12/20/2013	11/1/2017	2.000%	1,350,000	-	556,000
Electric	11/3/2015	5/1/2027	Various	2,195,000	-	2,195,000
Rural development - Water	5/27/2008	5/27/2043	4.500%	571,900	-	517,792
Rural Development - Water	2/25/2015	2/25/2050	3.000%	2,181,450	-	2,160,941
Rural development - Sewer	6/25/2009	6/25/2044	4.500%	594,830	-	543,248
Rural Development - Gas	10/6/2010	10/6/2045	3.750%	2,850,000	-	2,626,476
Rural Development - Gas	5/19/2015	5/19/2050	3.500%	1,565,000	-	1,536,051
					<u>\$ 8,189,703</u>	<u>13,975,558</u>

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

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

Governmental Activities:

Fiscal Year Ending 9/30	General Obligation Bonds		Fiscal Year Ending 9/30	General Obligation Bonds		Fiscal Year Ending	Capital Leases	
	Principal	Interest		Principal	Interest		Principal	Interest
2017	160,000	89,175	2017	105,000	39,900	2017	148,553	26,851
2018	165,000	80,888	2018	110,000	36,488	2018	132,951	21,907
2019	175,000	73,530	2019	115,000	33,188	2019	65,172	17,024
2020	180,000	67,140	2020	120,000	29,738	2020	44,868	14,371
2021	190,000	60,480	2021	120,000	26,138	2021	46,689	12,551
2022-2028	1,585,000	209,790	2022-2027	825,000	82,013	2022-2028	276,350	41,513
	<u>\$ 2,455,000</u>	<u>581,003</u>		<u>\$ 1,395,000</u>	<u>247,465</u>		<u>\$ 714,583</u>	<u>134,217</u>

Fiscal Year Ending 9/30	Notes Payable CIT Equipment		Fiscal Year Ending 9/30	Notes Payable TIF (Kenlan) Bonds		Fiscal Year Ending 9/30	Notes Payable State Aid	
	Principal	Interest		Principal	Interest		Principal	Interest
2017	25,288	9,651	2017	25,000	3,093	2017	94,431	9,725
2018	26,056	8,883	2018	1,907	1,907	2018	94,921	6,236
2019	26,824	8,115	2019	651	651	2019	95,411	3,021
2020	27,410	7,979				2020	69,201	2,000
2021	28,117	8,329						
2022-2028	236,224	19,223						
	<u>\$ 369,919</u>	<u>62,180</u>		<u>\$ 27,558</u>	<u>5,651</u>		<u>\$ 353,964</u>	<u>20,982</u>

Fiscal Year Ending 9/30	Notes Payable Mississippi Development Authority: Principal Interest	
	Principal	Interest
2017	150,000	-
2018	150,000	-
2019	150,000	-
2020	150,000	-
2021	150,000	-
2022-2025	2,100,000	-
	<u>\$ 2,850,000</u>	<u>-</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

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

Business Type Activities:

Electric Revenue Bond			Water Revenue Bond			Gas Revenue Bond		
Fiscal Year Ending 6/30	Principal	Interest	Fiscal Year Ending 9/30	Principal	Interest	Fiscal Year Ending	Principal	Interest
2017	455,000	69,723	2017	45,608	121,072	2017	49,080	155,456
2018	471,000	56,243	2018	50,241	115,059	2018	77,882	150,414
2019	195,000	50,750	2019	51,909	111,951	2019	80,735	147,561
2020	195,000	46,850	2020	53,635	109,013	2020	83,693	144,603
2021	205,000	42,950	2021	55,421	105,945	2021	86,759	141,537
2022-2027	1,380,000	140,963	2022-2050	2,421,919	1,213,040	2022-2050	3,784,378	207,723
	<u>\$ 2,901,000</u>	<u>407,479</u>		<u>\$ 2,678,733</u>	<u>1,776,080</u>		<u>\$ 4,162,527</u>	<u>947,294</u>

Sewer Revenue Bond			General Obligation		
Fiscal Year Ending 9/30	Principal	Interest	Fiscal Year Ending 9/30	Principal	Interest
2017	10,048	29,418	2017	115,000	52,020
2018	10,500	28,736	2018	120,000	49,720
2019	10,973	28,023	2019	85,000	47,420
2020	11,467	27,328	2020	90,000	45,020
2021	11,982	26,598	2021	90,000	43,001
2022-2044	488,278	305,809	2022-2032	1,190,000	291,814
	<u>\$ 543,248</u>	<u>445,912</u>		<u>\$ 1,690,000</u>	<u>528,995</u>

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CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 7: TRANSFERS IN/OUT

The following schedule reconciles transfers made among the Municipal Funds for the fiscal year ended September 30, 2016:

	<u>Transfers in</u>	<u>Transfers Out</u>
Governmental Activities:		
General fund	\$ 306,640	-
Business-type Activities:		
Gas Department	-	<u>306,640</u>
	<u>\$ 306,640</u>	<u>306,640</u>

NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

	<u>Due From</u>	<u>Due To</u>
Governmental Activities:		
General fund	\$ 11,734	622,788
Non-major governmental funds	<u>373,485</u>	<u>11,385</u>
	<u>385,219</u>	<u>634,173</u>
Business-type Activities:		
Water Department	225,000	
Sewer Department	<u>25,000</u>	-
	<u>250,000</u>	-
Due Other Entities:	-	<u>1,046</u>
	<u>\$ 635,219</u>	<u>635,219</u>

NOTE 9: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description. The City contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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

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

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2016 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, 2016, 2015 and 2014 were \$871,981 and \$848,026, respectively, which equaled the required contributions for each year.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions for the Year Ended September 30, 2016

General Information about the Pension Plan

At September 30, 2016, the City reported a liability of \$14,672,084 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the City's proportion was 0.085961 percent.

For the year ended September 30, 2016, the City recognized pension expense of \$1,190,280. At September 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 286,839	145,317
Net difference between projected and actual earnings on pension plan investments	925,713	
Changes in assumptions	863,209	27,326
Change in proportion and differences between contributions and proportionate share of contributions	83,696	304,990
City contributions subsequent to the measurement date	429,566	
	<u>\$ 2,589,023</u>	<u>477,633</u>

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)

\$441,318 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	
2016	\$ 478,469
2017	454,288
2018	201,997
2019	547,070
2020	-
Thereafter	-

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

JUL 23 2013

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

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

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

	<u>Current Discount Rate (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>Current Discount Rate (8.75%)</u>
City's proportionate share of the net pension liability	\$ 18,336,517	\$ 14,672,084	\$ 10,324,887

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Financial Statements

NOTE 10: PRIOR PERIOD ADJUSTMENT

Statement of Revenues, Expenses and Changes in Net Position

An adjustment was made in the Gas Department to the beginning net position of the September 30, 2016 financial statements to correct an entry that was made in the prior year expensing the retirement of meters.

Explanation	Amount
Correcting the retirement of meters:	
Capital Assets – Distributions and collection systems	\$ 949,306
Total prior period adjustment related retirement of meters	<u>\$ 949,306</u>

NOTE 11: NO COMMITMENT DEBT

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

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

The City of Holly Springs did not have adequate records regarding these Industrial Revenue Bonds. Therefore, the total Industrial Revenue bonded indebtedness at September 30, 2016, could not be determined.

NOTE 12: SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Subsequent events have been evaluated through June 20, 2018, which is the date the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

FILED
JUL 23 2013

CITY OF HOLLY SPRINGS, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund
Budget and Actual
For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP</u>	<u>Final Budget</u>
			<u>Basis</u>	<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Taxes:				
Current year	\$ 1,425,000	1,425,000	1,346,722	(78,278)
Prior year, penalties and interest	39,030	39,030	10,182	(28,848)
Licenses and permits	55,000	55,000	31,609	(23,391)
Intergovernmental:				
Local revenue	3,058,166	3,058,166	2,981,181	(76,985)
State revenue	1,864,000	1,864,000	2,026,693	162,693
Federal revenue	2,280,326	2,280,326	1,086,366	(1,193,960)
Charges for services	585,000	585,000	579,839	(5,161)
Fines and forfeits	130,000	130,000	161,785	31,785
Miscellaneous revenues	38,000	38,000	221,031	183,031
Total Revenues	<u>9,474,522</u>	<u>9,474,522</u>	<u>8,445,408</u>	<u>(1,029,114)</u>
Expenditures:				
General government	5,714,763	5,714,763	3,472,876	2,241,887
Public Safety:				
Police	1,210,543	1,210,543	1,299,677	(89,134)
Fire	993,554	993,554	761,064	232,490
Public Works:				
Highways and streets	554,081	554,081	1,971,454	(1,417,373)
Sanitation	325,339	325,339	292,480	32,859
Cemetery	397,700	397,700	388,065	9,635
Health and welfare	9,098	9,098	5,171	3,927
Culture and recreation	297,163	297,163	385,845	(88,682)
Community development			315,856	(315,856)
Debt Service:				
Principal			678,745	(678,745)
Interest and fiscal charges			172,100	(172,100)
Intergovernmental	278,921	278,921	251,298	27,623
Total Expenditures	<u>9,781,162</u>	<u>9,781,162</u>	<u>9,994,631</u>	<u>(213,469)</u>
Excess of Revenues Over				
(Under) Expenditures	<u>(306,640)</u>	<u>(306,640)</u>	<u>(1,549,223)</u>	<u>(1,242,583)</u>
Other Financing Sources (Uses):				
Operating transfers in	306,640	306,640	316,443	9,803
Operating transfers out			(9,803)	(9,803)
Capital leases			80,773	80,773
Sale of Land				
Other Uses				
Proceeds from borrowing				
Total Other Financing Sources (Uses)	<u>306,640</u>	<u>306,640</u>	<u>387,413</u>	<u>80,773</u>
Excess of Revenues and Other Sources				
Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>(1,161,810)</u>	<u>(1,161,810)</u>
Fund Balances:				
October 1, 2015	3,444,592	3,444,592	3,444,592	-
September 30, 2016	<u>\$ 3,444,592</u>	<u>3,444,592</u>	<u>2,282,782</u>	<u>(1,161,810)</u>

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

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

	<u>2016</u>
City's proportion of the net pension liability (asset)	0.085961%
City's proportionate share of the net pension liability (asset)	\$ 14,672,084
City's covered-employee payroll	\$ 5,827,010
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	252%
Plan fiduciary net position as a percentage of the total pension liability	57%

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

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

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 871,981	865,581								
Contributions in relation to the contractually required contribution	871,981	865,581								
Contributions deficiency (excess)	\$ <u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
City's covered-employee payroll	5,536,385	5,495,752								
Contributions as a percentage of covered-employee payroll	15.75%	15.75%								

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

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Required Supplementary Information

Budgetary Comparison Schedule

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - BUDGET AMENDMENTS AND REVISIONS

The budget is adopted by the Board of Aldermen and filed with the taxing authority. Amendments can be made on the approval of the board of selectmen. By statute, final budget revisions must be approved on or before the date established by the State of Mississippi. A budgetary comparison is presented for the General Fund consistent with accounting principles generally accepted in the United States of America.

Pension Schedules

NOTE 1 - CHANGES OF ASSUMPTIONS

- 2016
 - The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.
- 2015
 - The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.
 - The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
 - Withdrawal rates, preretirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
 - Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
 - The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Required Supplementary Information

NOTE 2 – CHANGES IN BENEFIT PROVISIONS

- 2016
 - Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

NOTE 3 - METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

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

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

OTHER INFORMATION

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Transportation</u>				
Passed through Mississippi Department of Transportation:				
Highway Planning and Construction	20.205	N/A	\$ -	854,664
Total U.S. Department of Transportation			-	854,664
<u>Environmental Protection Agency</u>				
Direct Program				
Brownfield Assessment and Cleanup Cooperative Grant	66.818	N/A	-	143,884
Total Environmental Protection Agency			-	143,884
<u>Delta Regional Authority</u>				
Passed through Mississippi Development Authority				
Delta Regional Development	90.200	N/A	-	150,000
Total Appalachian Regional Commission			-	150,000
<u>U.S. Department of the Interior</u>				
Passed through Mississippi department of Wildlife, Fisheries and Parks				
Outdoor recreation Acquisition Development and Planning	15.916	N/A	-	52,874
Total U.S. Department of the Interior			-	52,874
<u>U.S. Department of Homeland Security</u>				
Passed through Mississippi Emergency Management Agency				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4248-DR-MS		926,180
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		-	40,551
Total U.S. Department of Homeland Security			-	966,731
<u>Total Expenditures of Federal Awards</u>			\$ -	2,168,153

The accompanying notes to schedule of expenditures of federal awards is an integral part of this schedule.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Notes to Schedule of Expenditures of Federal Awards

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the City of Holly Springs, Mississippi (City), under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2016

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

COMPLIANCE SECTION

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



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

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S. Keith Winfield, CPA
William B. Stagers, CPA
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Springs, Mississippi as of and for the year ended September 30, 2016, and the related notes to financial statements, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements, and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

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

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

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

certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. **Findings 2016-2 through 2016-7.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Holly Springs, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items. **Finding 2016-1.**

City of Holly Springs, Mississippi's Response to Findings

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

Purpose of this Report

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

West Point, Mississippi
June 20, 2018

Watkins Ward and Stafford, PLLC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**



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Professional Limited Liability Company
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Holly Springs, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Holly Springs, Mississippi's major federal programs for the year ended September 30, 2016. The City of Holly Springs, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Holly Springs, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Holly Springs, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Holly Springs, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Reports on Internal Control over Compliance

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

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

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

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

West Point, Mississippi
June 20, 2018

Watkins Ward and Stafford, PLLC

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



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

James L. Stafford, CPA
Harry W. Stevens, CPA
S. Keith Winfield, CPA
William B. Staggars, 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
Jerry L. Gammel, CPA
Michael C. Knox, CPA
Clifford P. Stewart, CPA

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

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

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Springs, Mississippi, as of and for the year ended September 30, 2016, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements and have issued our report thereon dated June 20, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

West Point, Mississippi
June 20, 2018

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section I: Summary of Auditors' Report

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | Yes |
| | b. Significant deficiency(ies) identified? | None Reported |
| 3. | Noncompliance material to financial statements noted? | Yes |

Federal Awards:

- | | | | | | | | | |
|---------------------|--|---------------------|---|--------|---|--------|--|--|
| 4. | Internal control over major programs: | | | | | | | |
| | a. Material weakness (es) identified? | No | | | | | | |
| | b. Significant deficiency (ies) identified? | None reported | | | | | | |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unmodified | | | | | | |
| 6. | Any audit findings disclosed that are required to be reported in accordance 2 CFR Section 200.516(a)? | No | | | | | | |
| 7. | Identification of major programs: | | | | | | | |
| | <table border="0" style="width: 100%;"> <tr> <td style="text-align: left;"><u>CFDA Numbers</u></td> <td style="text-align: left;"><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td style="vertical-align: top;">97.036</td> <td style="vertical-align: top;">U.S. Department of Homeland Security – Disaster Grants -
Public Assistance (Presidentially Declared Disasters)</td> </tr> <tr> <td style="vertical-align: top;">20.205</td> <td style="vertical-align: top;">U.S. Department of Transportation – Highway
Planning and Construction</td> </tr> </table> | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | 97.036 | U.S. Department of Homeland Security – Disaster Grants -
Public Assistance (Presidentially Declared Disasters) | 20.205 | U.S. Department of Transportation – Highway
Planning and Construction | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | | | | | | | |
| 97.036 | U.S. Department of Homeland Security – Disaster Grants -
Public Assistance (Presidentially Declared Disasters) | | | | | | | |
| 20.205 | U.S. Department of Transportation – Highway
Planning and Construction | | | | | | | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$750,000 | | | | | | |
| 9. | Auditee qualified as a low-risk auditee? | No | | | | | | |

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section II: Financial Statement Findings

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

City of Holly Springs Findings

Borrowing from Restricted fund (Repeat Finding)

2016-1 Statement of Condition

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

Criteria

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

Effect

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

Cause

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

Recommendation

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

Response

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

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

Audit Adjustments (Repeat Finding)

2016-2: Statement of Condition

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section II: Financial Statement Findings (Continued)

Criteria

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

Effect

The four Holly Springs Utility Department's net income decreased by \$1,005,434 as a result of these audit entries.

Cause

- a. Beginning trial balances were adjusted to actual.
- b. Cash accounts were adjusted to actual.
- c. Investments were adjusted to actual.
- d. Allowance for uncollectible accounts was adjusted.
- e. Unbilled revenues were adjusted to actual.
- f. Rent receivable was adjusted to actual.
- g. Inventory was adjusted to actual.
- h. Prepaid expenses were adjusted.
- i. Deferred loss on debt defeasance was adjusted to actual.
- j. Accounts payable was adjusted to actual.
- k. Accrued salaries were adjusted to actual.
- l. Social Security withholdings were adjusted to actual.
- m. Unearned pole rental was adjusted to actual.
- n. Bonds payable and related accounts were adjusted to actual.
- o. Proportionate share of the net pension liability was adjusted to actual.
- p. Additional depreciation expense was recorded.

Recommendation

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

Response

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

2016-3: Perpetual Inventory System Not Maintained (Repeat Finding)

Statement of Condition

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016**

Section II: Financial Statement Findings (Continued)

Criteria

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

Effect

The four Utility Departments' inventory per the general ledger was understated by \$115,740 prior to inventory test counts being performed.

Cause

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

Recommendation

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

Response

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

2016-4: Financial Statements Not Provided in a Timely Manner (Repeat Finding)

Statement of Condition

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

Criteria

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

Effect

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

Cause

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

2016-4: Financial Statements Not Provided in a Timely Manner (Repeat Finding)
(Continued)

Recommendation

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

Response

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

2016-5: Bank Reconciliations (Repeat Finding)

Statement of Condition

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

Criteria

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

Effect

Cash at June 30, 2016 was overstated by \$609,595.

Cause

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

Recommendation

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

Response

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

2016-6: Revenue Bond Ordinance Requirements (Repeat Finding)

Statement of Condition

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

Criteria

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

Effect

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

Cause

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

Recommendation

All required bond related accounts should be adequately funded.

Response

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

2016-7: Interdepartmental Activity not Properly Recorded (Repeat Finding)

Statement of Condition

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

Criteria

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

Effect

The Electric Department is unable to provide reconciled balances for the gas account.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

2016-7: Interdepartmental Activity not Properly Recorded (Repeat Finding) (Continued)

Cause

The accounting staff for the Electric Department did not complete the reconciliations for the gas account and did not settle amounts owed.

Recommendation

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

Response

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

Section III: Federal Award Findings and Questioned Costs

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

CITY OF HOLLY SPRINGS, MISSISSIPPI
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2016

City of Holly Springs Findings

2015-1 Borrowing from Restricted fund

Statement of Condition

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

Recommendation

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

Status

The City was unaware a loan could not be made from the restricted fund. This loan is in the process of being repaid. This is still a finding in the current year report. See Finding 2016-1.

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

2015-2: Audit Adjustments

Statement of Condition

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

Recommendation

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

Status

Audit adjusting entries were made for the year ending September 30, 2016. This is still a finding in the current report. See Finding 2016-2.

2015-3: Perpetual Inventory System Not Maintained

Statement of Condition

The four Utility Departments do not maintain an accurate perpetual inventory system. .

Recommendation

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

Status

The four Utility Departments still fail to maintain accurate records of all material that are added and taken from the warehouse. This is still a finding the current year report. See Finding 2016-3.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2016

2015-4: Financial Statements Not Provided in a Timely Manner

Statement of Condition

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

Recommendation

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

Status

The four Utility Departments still fail to provide financial statements in a timely manner. This is still a finding the current year report. See Finding 2016-4.

2015-5: Bank Reconciliations

Statement of Condition

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

Recommendation

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

Status

The Electric Department still fails to properly reconcile its bank account balances to the general ledger. This is still a finding the current year report. See Finding 2016-5.

2015-6: Revenue Bond Ordinance Requirements

Statement of Condition

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

Recommendation

All required bond related accounts should be adequately funded.

Status

The Electric Department still fails to follow revenue bond ordinance requirements. This is still a finding the current year report. See Finding 2016-6.

CITY OF HOLLY SPRINGS, MISSISSIPPI
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2016

2015-7: Interdepartmental Activity not Properly Recorded

Statement of Condition

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

Recommendation

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

Status

The Electric Department still fails to appropriately record its interdepartmental activity. This is still a finding the current year report. See Finding 2016-7.