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CITY OF HOUSTON, MISSISSIPPI

**Audited Financial Statements
and Special Reports**

September 30, 2016

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

CITY OF HOUSTON, MISSISSIPPI

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Houston, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi, as of and for the year ended September 30, 2016, and the related notes to financial statements, which collectively comprise the City of Houston, 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 Houston, 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 City Contributions on pages 4-7 and 42-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In addition, the other information section contains the Schedule of Surety Bonds of City Officials and the Reconciliation of Original Ad Valorem Rolls to Fund Collections has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2017, on our consideration of the City of Houston, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Houston, Mississippi's internal control over financial reporting and compliance.

Okolona, Mississippi
July 5, 2017

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HOUSTON, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

The discussion and analysis of the City of Houston's financial performance provides an overall narrative review of the city's financial activities for the years ended September 30, 2016 and 2015. The intent of this discussion and analysis is to look at the city's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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

FINANCIAL HIGHLIGHTS

- Total net position for 2016 increased \$1,429,430, which represents a 21% increase from fiscal year 2015.
- General revenues for 2016 accounted for \$2,477,160 in revenue, or 47% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,801,387 or 53% of total revenues.
- The City had \$3,849,117 in expenses; only \$2,801,387 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$2,477,160 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$2,231,671 in revenues and \$1,896,872 in expenditures. The General Fund's fund balance increased \$344,799 over the prior year. The Other Governmental Funds had \$624,541 in revenues, and \$531,543 in expenditures. The Other Governmental Fund's fund balance increased \$92,998 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$1,924,795.
- Long-term debt decreased by \$302,032 from the prior year. In addition, the liability for compensated absences decreased by \$11,523 under the prior fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

CITY OF HOUSTON, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position: Net position may serve over time as a useful indicator of government's financial position. In the case of the City, assets exceeded liabilities by \$8,379,291 as of September 30, 2016 and by \$6,949,861 as of September 30, 2015.

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

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

CITY OF HOUSTON, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

	<u>2016</u>	<u>2015</u>
Current assets	\$ 2,510,258	2,843,303
Capital assets, net	<u>14,618,929</u>	<u>12,694,134</u>
Total assets	<u>17,129,187</u>	<u>15,537,437</u>
 Deferred outflows of resources	 <u>545,477</u>	 <u>358,141</u>
Current liabilities	410,649	389,665
Long-term debt outstanding	<u>8,641,909</u>	<u>8,492,944</u>
Total liabilities	<u>9,052,558</u>	<u>8,882,609</u>
 Deferred inflows of resources	 <u>242,815</u>	 <u>63,108</u>
 Net assets:		
Net investment in capital assets	9,110,240	7,192,747
Restricted	562,219	468,193
Unrestricted	<u>(1,293,168)</u>	<u>(711,079)</u>
Total net assets	<u>\$ 8,379,291</u>	<u>6,949,861</u>

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

- The decrease in current assets, particularly cash and cash equivalents, of \$333,045, due to construction expenses being paid during the year for the Water Meter project.
- The addition of \$1,924,795 of capital assets, net of accumulated depreciation.
- The increase of total liabilities by \$169,949 from the incurrence of current payables and the issuance of long-term debt.

Changes in Net Position: The City's total revenues for the fiscal year ended September 30, 2016 and 2015 were \$5,278,547 and \$3,956,311. The total cost of all programs and services was \$3,849,117 and \$4,150,198, respectively. The following table presents a summary of the changes in net position for the fiscal year ended September 30:

	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues	\$ 2,801,387	1,530,489
General revenues	<u>2,477,160</u>	<u>2,425,822</u>
Total revenues	<u>5,278,547</u>	<u>3,956,311</u>
 Expenses:		
Governmental activities	2,657,441	3,047,688
Business-type activities	<u>1,191,676</u>	<u>1,102,510</u>
Total expenses	<u>3,849,117</u>	<u>4,150,198</u>
 Increase (decrease) in net assets	 <u>\$ 1,429,430</u>	 <u>(193,887)</u>
 Net position - beginning, as prev reported	 6,949,861	 9,460,020
Prior period adjustment		<u>(2,316,272)</u>
Net position - beginning, as restated	<u>6,949,861</u>	<u>7,143,748</u>
 Net position - ending	 <u>8,379,291</u>	 <u>6,949,861</u>

CITY OF HOUSTON, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$1,286,544, which represents an increase of \$427,797 over the prior year. \$712,723, or 56%, of the fund balance constitutes unassigned fund balance, which is available for spending at the City's discretion.

The General Fund is the principal operating fund of the City. The increase in fund balance in the General Fund for the fiscal year was \$334,799. The fund balance in the Other Governmental (Non-Major funds) increased in the amount of \$92,998 under the prior fiscal year.

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of September 30, 2016, the City's total net capital assets were \$14,618,929 including land, buildings, improvements, infrastructure, vehicles, and furniture and equipment. This amount represents an increase of \$1,924,795 over the previous year.

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

Debt Administration. At September 30, 2016, the City had \$5,506,967 in long-term debt outstanding, of which \$372,553 is due within one year. In addition, the liability for compensated absences decreased by \$11,523 under the previous year.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

City of Houston
Statement of Net Position
September 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,243,742	619,078	1,862,820
Property tax receivable	9,604		9,604
Accounts receivable, net		130,854	130,854
Fines receivable, net	3,399		3,399
Intergovernmental receivables	18,018	364,000	382,018
Other receivables, net	28,330		28,330
Regulatory assets		81,217	81,217
Inventory		12,016	12,016
Capital assets, non-depreciable			
Land	538,862	137,099	675,961
Construction in progress	-	2,629,375	2,629,375
Capital assets, net of accumulated depreciation			
Buildings	950,323	12,360	962,683
Building improvements	179,316	-	179,316
Infrastructure	4,419,137	5,340,030	9,759,167
Furniture and equipment	70,651	92,237	162,888
Vehicles	243,542	5,997	249,539
Total assets	<u>7,704,924</u>	<u>9,424,263</u>	<u>17,129,187</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows related to pensions	430,927	114,550	545,477
Total deferred outflows of resources	<u>430,927</u>	<u>114,550</u>	<u>545,477</u>
<u>LIABILITIES</u>			
Accounts payable	-	256,847	256,847
Accrued liabilities	16,549	4,293	20,842
Unearned revenue	-		-
Interest payable on long-term liabilities	11,602	43,975	55,577
Due to other funds		5,420	5,420
Customer deposits		71,963	71,963
Long-term liabilities, due within one year:			
Capital related liabilities	142,749	229,804	372,553
Long-term liabilities, due beyond one year:			
Capital related liabilities	1,424,573	3,854,312	5,278,885
Non-capital related liabilities	36,620	6,388	43,008
Net pension liability	2,441,267	648,945	3,090,212
Total liabilities	<u>4,073,360</u>	<u>5,121,947</u>	<u>9,195,307</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows related to pensions	191,824	50,991	242,815
Total deferred inflows of resources	<u>191,824</u>	<u>50,991</u>	<u>242,815</u>

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

City of Houston
Statement of Net Position
September 30, 2016

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
NET POSITION			
Invested in capital assets, net of related debt	4,977,258	4,132,982	9,110,240
Restricted for:			
Expendable:			
Fire protection	27,685		27,685
Debt service	195,952		195,952
Capital improvements	16,515		16,515
Culture and recreation	137,030		137,030
Other	185,037		185,037
Unrestricted	(1,526,061)	232,893	(1,293,168)
Total Net Position	\$ 4,013,416	4,365,875	8,379,291

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

City of Houston
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 521,660	14,871	-	-	(506,789)
Public safety	1,051,495	29,304	-	30,236	(991,955)
Public works	720,864	217,677	-	18,018	(485,169)
Culture and recreation	220,123	71,355	-	-	(148,768)
Pension expense	88,379	-	-	-	(88,379)
Interest on long-term debt	54,920	-	-	-	(54,920)
Total governmental activities	<u>2,657,441</u>	<u>333,207</u>	<u>-</u>	<u>48,254</u>	<u>(2,275,980)</u>
Business-type Activities					
Water and sewer department	1,030,124	1,184,000	-	1,235,926	1,389,802
Interest on long-term debt	161,552	-	-	-	(161,552)
Total business-type activities	<u>1,191,676</u>	<u>1,184,000</u>	<u>-</u>	<u>1,235,926</u>	<u>1,228,250</u>
Total primary government	<u>\$ 3,849,117</u>	<u>1,517,207</u>	<u>-</u>	<u>1,284,180</u>	<u>(1,047,730)</u>
			Governmental Activities	Business-type Activities	Total
Changes in Net Position:					
Net (expense) revenue		\$ (2,275,980)		1,228,250	(1,047,730)
General revenues					
Taxes					
Property taxes			1,134,257		1,134,257
Sales and use taxes			1,076,962		1,076,962
Other taxes			14,693		14,693
Investment income			2,190	2,409	4,599
Unrestricted grants and contributions			5,405		5,405
Other			241,244	-	241,244
Total general revenues and transfers			<u>2,474,751</u>	<u>2,409</u>	<u>2,477,160</u>
Change in net position			198,771	1,230,659	1,429,430
Net Position - Beginning			<u>3,814,645</u>	<u>3,135,216</u>	<u>6,949,861</u>
Net Position, Ending			<u>\$ 4,013,416</u>	<u>4,365,875</u>	<u>8,379,291</u>

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

City of Houston
Balance Sheet – Governmental Funds
September 30, 2016

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 696,719	547,023	1,243,742
Property tax receivable	6,407	3,197	9,604
Fines receivable	3,399	-	3,399
Intergovernmental receivable	-	18,018	18,018
Other receivables, net	19,410	3,500	22,910
Due from other funds	5,420	3,433	8,853
Total assets	<u>\$ 731,355</u>	<u>575,171</u>	<u>1,306,526</u>
Liabilities and Fund Balances			
Liabilities:			
Claims payable	\$ -	-	-
Accrued payroll	15,199	1,350	16,549
Due to other funds	3,433	-	3,433
Total Liabilities	<u>18,632</u>	<u>1,350</u>	<u>19,982</u>
Fund Balances:			
Restricted:			
Debt service	-	207,554	207,554
Capital projects	-	16,515	16,515
Assigned:			
Fire protection	-	27,685	27,685
Culture and recreation	-	137,030	137,030
Other	-	185,037	185,037
Unassigned	<u>712,723</u>		<u>712,723</u>
Total Fund Balances	<u>712,723</u>	<u>573,821</u>	<u>1,286,544</u>
Total Liabilities and Fund Balances	<u>\$ 731,355</u>	<u>575,171</u>	<u>1,306,526</u>

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

City of Houston**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position****September 30, 2016**

Total fund balances for governmental funds \$ 1,286,544

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

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

Land	\$ 538,862	
Buildings	1,648,700	
Building improvements	397,513	
Infrastructure	8,482,112	
Furniture and equipment	466,748	
Vehicles	1,085,550	
Accumulated depreciation	<u>(6,217,654)</u>	6,401,831

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

Net pension liability	(2,441,267)	
Deferred outflows of resources related to pensions	430,927	
Deferred inflows of resources related to pensions	<u>(191,824)</u>	(2,202,164)

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

General obligation bonds	\$ (1,015,000)	
Notes payable	(250,607)	
CAP loan payable	(158,966)	
Compensated absences	(36,620)	
Accrued interest payable	<u>(11,602)</u>	(1,472,795)

Net position of governmental activities \$ 4,013,416

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

City of Houston**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2016**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 788,500	345,757	1,134,257
License, commissions, and other revenue	14,871	71,355	86,226
Fines and forfeitures	29,304	-	29,304
Intergovernmental revenues	1,097,204	48,255	1,145,459
Charges for services	217,677	-	217,677
Interest income	2,190	-	2,190
Miscellaneous revenues	81,925	159,174	241,099
Total Revenues	2,231,671	624,541	2,856,212
Expenditures:			
General government	282,070	137,545	419,615
Public safety	1,001,614	-	1,001,614
Public works	613,188	-	613,188
Culture and recreation	-	201,445	201,445
Debt service:			
Principal	-	136,605	136,605
Interest	-	55,198	55,198
Other	-	750	750
Total Expenditures	1,896,872	531,543	2,428,415
Excess of Revenues over Expenditures	334,799	92,998	427,797
Other Financing Sources:			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total Other Financing Sources	-	-	-
Net Change in Fund Balances	334,799	92,998	427,797
Fund Balances:			
Fund Balance - Beginning	377,924	480,823	858,747
Fund Balance - Ending	\$ 712,723	573,821	1,286,544

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

City of Houston
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2016

Net change in fund balances - total governmental funds **\$ 427,797**

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

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

Capital outlay	\$	15,000	
Depreciation expense		(301,682)	(286,682)

2. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal		136,605	
Accrued interest payable		1,028	137,633

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

Change in compensated absences		8,402	
Net change in unfunded pension liability		(88,379)	(79,977)

Change in net position of governmental activities	\$	198,771

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

City of Houston
Statement of Net Position – Proprietary Fund
September 30, 2016

	Water & Sewer Department
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 619,078
Accounts receivables, net	130,854
Intergovernmental receivable	364,000
Regulatory assets	81,217
Inventory	12,016
Total current assets	<u>1,207,165</u>
Non-current assets:	
Capital assets:	
Fixed assets, net of depreciation	<u>8,217,098</u>
Total non-current assets	<u>8,217,098</u>
Total Assets	<u>9,424,263</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	<u>114,550</u>
Total deferred outflows of resources	<u>114,550</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 256,847
Accrued payroll	4,293
Due to other funds	5,420
Accrued interest - long-term debt	43,975
Capital related debt, current	229,804
Total current liabilities	<u>540,339</u>
Non-current liabilities:	
Customer deposits	71,963
Capital related debt, non-current	3,854,312
Noncapital related debt, non-current	6,388
Net pension liability	648,945
Total non-current liabilities	<u>4,581,608</u>
Total Liabilities	<u>5,121,947</u>

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

City of Houston
Statement of Net Position – Proprietary Fund
September 30, 2016

	Water & Sewer Department
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows related to pensions	50,991
Total deferred inflows of resources	<u>50,991</u>
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	4,132,982
Unrestricted	<u>232,893</u>
Total Net Position	<u><u>4,365,875</u></u>

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

City of Houston

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

For the Year Ended September 30, 2016

	Water & Sewer Department
<u>OPERATING REVENUES</u>	
Charges for services	\$ 1,184,000
Total operating revenues	<u>1,184,000</u>
<u>OPERATING EXPENSES</u>	
Operating and maintenance	713,667
Depreciation	235,660
Pension Expense	<u>57,178</u>
Total operating expenses	<u>1,006,505</u>
Operating income	<u>177,495</u>
<u>NON-OPERATING REVENUES</u>	
Intergovernmental revenue	1,235,926
Interest income	2,409
Other revenue	-
Amortization expense	(6,923)
Interest and fiscal charges	(161,552)
Other expenses	<u>(16,696)</u>
Total non-operating revenues	<u>1,053,164</u>
Change in net position	1,230,659
Net Position - Beginning	<u>3,135,216</u>
Net Position - Ending	\$ <u><u>4,365,875</u></u>

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

City of Houston
Statement of Cash Flows – Proprietary Fund
For the Year Ended September 30, 2016

	Water & Sewer Department
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,155,118
Cash paid to employees	(220,824)
Cash paid to suppliers	(544,435)
Other payments	(32,747)
Net Cash Flows from Operating Activities	357,112
<u>Cash Flows from Capital and Related Financing Activities</u>	
Proceeds from issuance of debt	371,217
Payment of debt	(227,310)
Payment of interest	(139,392)
Purchase of capital assets	(2,447,137)
Other receipts	947,505
Net Cash Flows from Capital and Related Financing Activities	(1,495,117)
Net Change in Cash	(1,138,005)
Cash and Cash Equivalents, October 1, 2015	1,757,083
Cash and Cash Equivalents, September 30, 2016	\$ 619,078
<u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u>	
Operating Income	\$ 177,495
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	235,660
Changes in operating assets and liabilities:	
Increase in receivables	(28,882)
Increase in other assets	(35,809)
Increase in accounts payable	5,586
Increase in accrued liabilities	845
Increase in customer deposits	2,217
Total adjustments	179,617
Net cash provided by operating activities	\$ 357,112

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

City of Houston
Statement of Fiduciary Net Position – Fiduciary Funds
September 30, 2016

	Private-Purpose Trust Funds
Assets	
Cash and cash equivalents - restricted	\$ 5,504
Total Assets	<u>5,504</u>
Liabilities	
Accounts payable and accrued liabilities	-
Total Liabilities	<u>-</u>
Net Position	
Restricted for endowments	5,504
Total Net Position	\$ <u><u>5,504</u></u>

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

City of Houston
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
For the Year Ended September 30, 2016

	Private-Purpose Trust Funds
Additions	
Interest on investments	\$ 7
Total Additions	<u>7</u>
Deductions	
Book Purchases	<u>0</u>
Total Deductions	0
Change in Net Position	7
Net Position	
Net Position - Beginning	5,497
Net Position - Ending	<u>\$ 5,504</u>

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

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

a. Financial Reporting Entity

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

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

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

Excluded from the reporting entity:

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

b. Government-wide and Fund Financial Statements

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

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

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

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (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 the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or

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

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

The City reports the following major governmental funds:

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

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

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

The City's fiduciary fund includes no major funds.

Additionally, the city reports the following fund types:

Governmental Funds

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

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

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

Proprietary Fund

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

Note 1 – Summary of Significant Accounting Policies (Continued)

Fiduciary Funds (Not included in government wide statements)

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

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

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

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

d. Encumbrances

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

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

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

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

2. Receivables and Payables

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

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

3. Due from Other Governments

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

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets.

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

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

The following schedule details the capitalization thresholds.

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

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

See Note 7 for further details.

8. Compensated Absences

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

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

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

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

10. Pensions

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

11. Fund Balances

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

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

f. Use of Estimates

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

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

As a distributor of water and sewer services, there is a possibility that environmental conditions may arise which would require the City and its component units to incur clean-up costs. The likelihood of such an event or the amount of such costs, if any, cannot be determined at this time.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

h. Economic Dependency

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

Note 2 – Cash and Cash Equivalents and Investments

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

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

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

Cash and Cash Equivalents

The carrying amount of the City's deposits with financial institutions at September 30, 2016, reported in the governmental funds, enterprise fund, and fiduciary fund was \$1,243,742, \$619,078, and \$5,504, respectively.

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

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

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

coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the city. As of September 30, 2016, none of the City's bank balance of \$1,867,923.21 was exposed to custodial credit risk.

Investments

As of September 30, 2016, the city had no investments.

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund balances at September 30, 2016:

A. Due From/To Other Funds:

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

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

B. Inter-fund Transfers

The City reported no inter-fund transfers during the fiscal year.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 4 – Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2016:

	Balance 10/1/2015	Additions	Deletions	Balance 9/30/2016
<u>Governmental Activities:</u>				
Non-depreciable capital assets:				
Land	\$ 538,862			538,862
Total non-depreciable capital assets	<u>538,862</u>	<u>-</u>	<u>-</u>	<u>538,862</u>
Depreciable capital assets:				
Buildings	1,648,700			1,648,700
Improvements	397,513			397,513
Infrastructure	8,482,112			8,482,112
Furniture and equipment	451,748	15,000		466,748
Vehicles	1,085,550			1,085,550
Total depreciable capital assets	<u>12,065,623</u>	<u>15,000</u>	<u>-</u>	<u>12,080,623</u>
Less accumulated depreciation for:				
Buildings	672,298	26,079		698,377
Improvements	206,264	11,933		218,197
Infrastructure	3,855,322	207,653		4,062,975
Furniture and equipment	388,314	7,783		396,097
Vehicles	793,774	48,234		842,008
Total accumulated depreciation	<u>5,915,972</u>	<u>301,682</u>	<u>-</u>	<u>6,217,654</u>
Total depreciable capital assets, net	<u>6,149,651</u>	<u>(286,682)</u>	<u>-</u>	<u>5,862,969</u>
Governmental activities capital assets, net	<u>\$ 6,688,513</u>	<u>(286,682)</u>	<u>-</u>	<u>6,401,831</u>
<u>Business-type Activities:</u>				
Land	\$ 137,099			137,099
Construction in progress	438,718	2,447,137	256,480	2,629,375
Buildings	61,800			61,800
Infrastructure	10,016,153	256,480		10,272,633
Machinery and Equipment	258,888			258,888
Vehicles	59,960			59,960
Total capital assets	<u>10,972,618</u>	<u>2,703,617</u>	<u>256,480</u>	<u>13,419,755</u>
Less accumulated depreciation for:				
Buildings	49,440			49,440
Infrastructure	4,711,500	221,103		4,932,603
Machinery and Equipment	152,094	14,557		166,651
Vehicles	53,963			53,963
Total accumulated depreciation	<u>4,966,997</u>	<u>235,660</u>	<u>-</u>	<u>5,202,657</u>
Business-type activities capital assets, net	<u>\$ 6,005,621</u>	<u>2,467,957</u>	<u>256,480</u>	<u>8,217,098</u>

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 4 – Capital Assets (Continued)

Depreciation expense was charged to the following functions:

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 104,204
Public safety	51,836
Public works	127,524
Culture and recreation	<u>18,118</u>
Total governmental activities depreciation expense	<u>\$ 301,682</u>

Construction projects included in business type activities are funded with grants, proceeds from the issuance of long-term debt and local funds to be used for the renovation and construction of major capital facilities.

Note 5 – Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended September 30, 2016.

	Balance			Balance	Amounts Due Within
Governmental Activities	10/1/2015	Additions	Deductions	9/30/2016	One Year
G.O. Bonds Payable	\$ 1,105,000		90,000	1,015,000	95,000
Loans Payable	456,178		46,605	409,573	47,749
Compensated Absences	45,022		8,402	36,620	
Total Governmental Activities	<u>\$ 1,606,200</u>	<u>0</u>	<u>145,007</u>	<u>1,461,193</u>	<u>142,749</u>
Business-Type Activities					
Revenue Bonds	\$ 3,165,901	249,912	189,451	3,226,362	185,567
Loans Payable	772,430	121,305	37,702	856,033	44,237
Compensated Absences	9,509		3,121	6,388	
Revenue Bond Premium	1,878		157	1,721	N/A
Total Business-Type Activities	<u>\$ 3,949,718</u>	<u>371,217</u>	<u>230,431</u>	<u>4,090,504</u>	<u>229,804</u>

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 5 – Long-term Liabilities

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

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 142,749	51,173	229,804	115,286
2018	149,065	46,721	235,992	109,585
2019	142,238	41,941	242,205	103,760
2020	136,896	37,235	248,445	97,758
2021	142,937	32,203	249,713	91,340
2022-2026	650,654	75,600	1,383,582	345,605
2027-2031	60,034	2,129	858,552	162,658
2032-2036			634,102	60,623
Total	<u>\$ 1,424,573</u>	<u>287,002</u>	<u>4,082,395</u>	<u>1,086,615</u>

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

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 5 – Long-term Liabilities (Continued)

Governmental Activities

As of September, 30 2016, the governmental long-term debt of the financial reporting entity consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<u>A. General Obligation Bonds</u>			
\$1,500,000 Public Improvements Bonds, Series 2010, due in annual installments of \$75,000 to \$135,000 with interest paid semi-annually	\$ 1,015,000	2.80–4.00%	8/1/2025
Total General Obligation Bonds	<u>\$ 1,015,000</u>		
Current Portion	\$ 95,000		
Noncurrent Portion	\$ 920,000		
<u>B. Loans Payable</u>			
\$176,460 Capital Improvement Loan issued January 1, 2009, due in monthly installments of \$1,623 (Fire Truck)	\$ 44,263	2.00%	1/1/2019
\$250,000 Note Payable issued May 21, 2013, due in monthly installments of \$1,849 (Industrial Building Construction)	206,609	4.00%	6/30/2028
\$53,240 Note Payable issued May 21, 2013, due in monthly installments of \$394 (Industrial Building Construction)	43,998	4.00%	6/30/2028
\$71,164 Capital Improvement Loan issued May 28, 2012, due in monthly installments of \$655 (Fire Truck)	45,573	2.00%	1/30/2023
\$80,100 Capital Improvement Loan issued July 23, 2012, due in monthly installments of \$515 (Fire Station)	69,130	2.00%	5/1/2029
Total Loans Payable	<u>\$ 409,573</u>		
Current Portion	\$ 47,749		
Noncurrent Portion	\$ 361,824		

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 5 – Long-term Liabilities (Continued)

Governmental Activities (Continued)

Description and Purpose	Amount Outstanding
<u>C. Compensated Absences:</u>	
Noncurrent Portion	\$ 36,620
	<u>\$ 36,620</u>
Total Governmental Activities Debt	\$ 1,461,193
Current Portion	\$ 142,749
Noncurrent Portion	\$ 1,318,444

Business-type Activities

As of September 30, 2016, the long-term debt payable from proprietary fund resources consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<u>A. Revenue Bonds</u>			
\$2,100,000, 2012 Series, combined water and sewer system refunding bonds, due in annual installments of \$105,000 to \$160,000 with interest paid semi-annually	\$ 1,620,000	2.50–3.125%	4/1/2026
\$1,300,000, 2015 Series, combined water and sewer system refunding bonds, due in annual installments of \$130,000 to \$170,000 with interest paid semi-annually	1,255,000	4.00–4.25%	9/30/2035
\$448,000, 2015 Series, combined water and sewer system bonds, due in monthly installments of \$1,675 (Purchase of water meters)	351,361	2.75%	6/1/2035
Total Revenue Bonds	<u>\$ 3,226,361</u>		
Current Portion	\$ 175,000		
Noncurrent Portion	\$ 3,051,361		

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 5 – Long-term Liabilities (Continued)

Business-type (Continued)

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<u>B. Loans Payable</u>			
\$519,832 Capital Improvement Loan, due in monthly installments of \$2,643 (Sewer Improvements)	\$ 387,734	2.00%	9/1/2030
\$482,248 Capital Improvement Loan, due in monthly installments of \$2,640 (Water and Sewer Improvements)	468,299	0.00%	1/0/1900
Total Loans Payable	\$ <u>856,033</u>		
Current Portion	\$ 44,237		
Noncurrent Portion	\$ 811,796		
<u>C. Compensated Absences</u>			
Noncurrent Portion	\$ <u>6,388</u>		
	\$ <u>6,388</u>		
<u>D. Premium on 2012 Refunding Bonds</u>			
	\$ 1,721		
Total Business-type Activities Debt	\$ <u>4,090,503</u>		
Current Portion	\$ 219,237		
Noncurrent Portion	\$ 3,871,266		

Legal Debt Margin – The amount of debt, excluding specific exempted debt that can be incurred by the City, is limited by the state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2016, the amount of outstanding debt was equal to 5.82% of the latest property assessments.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 6 – Contingencies

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

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

Note 7 – Defined Benefit Pension Plan

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

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the city is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 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 \$166,844, \$187,958, and \$189,879, respectively, which equaled the required contributions for each year.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 7 – Defined Benefit Pension Plan (Continued)

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

At September 30, 2016, the city reported a liability of \$3,090,213 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 0.01700 percent.

For the year ended September 30, 2016, the city recognized pension expense of \$145,558. At September 30, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 82,527	\$
Net difference between projected and actual earnings on pension plan investments	289,956	
Changes of assumptions	116,985	(8,212)
Changes in proportion and differences between the entity's contributions and proportionate share of overall contributions		(234,604)
Entity's contributions subsequent to the measurement date	56,007	
Total	<u>\$ 545,475</u>	<u>\$ (242,816)</u>

\$56,067 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 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:

Total Amortization of Deferred Amounts	Current Year	Prior Year	Total
	Amortization	Amortization	Amortization
9/30/2017	2,781	97,189	99,970
9/30/2018	2,781	65,557	68,338
9/30/2019	33,079	(15,777)	17,302
9/30/2020	61,043		61,043
9/30/2021			

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 7 – Defined Benefit Pension Plan (Continued)

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	3.0 percent
Salary increases	3.75 – 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

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

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

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

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

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

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 7 – Defined Benefit Pension Plan (Continued)

Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	\$ 3,962,345	\$ 3,090,213	\$ 2,366,625

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

Note 8 – Related Party Transactions

An Alderman for the City has a financial interest and is an officer for a vendor with which the City purchased goods from during the fiscal year. See Finding 2016-01 for further details on these related party transactions.

Note 9 - Risk Management

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

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three years.

Under GASB Statement No. 10, *Accounting and Financial Reporting for Risks Financing and Related Issues*, a liability for claims must be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. As of the date of this audit report, there were no known claims above the amount of coverage purchased for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters at September 30, 2016; therefore, no liability has been accrued at this time.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 10 – Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Houston evaluated the activity of the City through July 5, 2017, (the date the financial statements were available to be issued), and determined that the following subsequent event had occurred that would require disclosure in the notes to financial statements:

On October 8, 2016, the city approved the issuance of a \$250,000 short-term loan at a 1% interest rate that will be used toward the Fire-Loop construction.

REQUIRED SUPPLEMENTARY INFORMATION

City of Houston
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)		
	Original	Final		Original to Final	Final to Actual	
Revenues:						
Property taxes	\$ 785,000	812,210	788,500	27,210	(23,710)	
Licenses, commissions and other revenue	10,900	11,425	14,871	525	3,446	
Fines and forfeitures	44,000	29,315	29,304	(14,685)	(11)	
Intergovernmental revenues	1,016,420	1,069,820	1,097,204	53,400	27,384	
Charges for services	207,000	201,180	217,677	(5,820)	16,497	
Interest income	1,700	2,200	2,190	500	(10)	
Miscellaneous	55,000	86,343	81,925	31,343	(4,418)	
Total Revenues	2,120,020	2,212,493	2,231,671	92,473	19,178	
Expenditures:						
General government	390,440	286,784	282,070	103,656	4,714	
Public safety	1,049,420	1,000,526	1,001,614	48,894	(1,088)	
Public works	702,500	585,492	613,188	117,008	(27,696)	
Total Expenditures	2,142,360	1,872,802	1,896,872	269,558	(24,070)	
Excess (Deficiency) of Revenues						
over (under) Expenditures	(22,340)	339,691	334,799	362,031	(4,892)	
Other Financing Sources (Uses):						
Operating transfers in	-	-	-	-	-	
Operating transfers out	-	-	-	-	-	
Total Other Financing Sources (Uses)	-	-	-	-	-	
Net Change in Fund Balance						
	(22,340)	339,691	334,799	362,031	(4,892)	
Fund Balance:						
October 1, 2015	377,924	377,924	377,924	-	-	
September 30, 2016	\$ 355,584	717,615	712,723	362,031	(4,892)	

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

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

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0190%	0.0190%
City's proportionate share of the net pension liability	\$ 3,090,212	\$ 2,937,026
City's covered-employee payroll	\$ 1,084,707	\$ 1,206,369
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	284.89%	243.46%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

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

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

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

City of Houston
Schedule of City Contributions
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 166,304	187,958
Contribution in relation to the contractually required contribution	166,304	187,958
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>
City's covered-employee payroll	1,055,898	1,193,384
Contributions as a percentage of its 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 notes to the required supplementary information are an integral part of this schedule.

CITY OF HOUSTON

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and revisions.

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

Pension Schedules

(1) Changes of Assumptions.

In 2015 and later, 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. In 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, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

(2) 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 percent
Salary Increase	4.25 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment Expense, including inflation

OTHER INFORMATION

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

Federal Grantor / Pass-through Grantor / Program Title	Grant Identifying Number	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Direct Program	N/A		
Water and Waste Disposal Systems for Rural Communities		10.761	241,440
Total U.S. Department of Agriculture			<u>241,440</u>
<u>U.S. Department of Commerce</u>			
Passed through Economic Development Administration			
Investments for Public Works and Economic Development Facilities	04-01-06924	11.300	1,027,370
Total U.S. Department of Transportation			<u>1,027,370</u>
<u>Appalachian Regional Commission</u>			
Direct Program			
Appalachian Area Development - Water and Sewer Improvements	04-01-06924	23.002	208,558
Total Appalachian Regional Commission			<u>208,558</u>
Total for All Federal Awards			<u><u>\$ 1,477,368</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards

CITY OF HOUSTON, MISSISSIPPI
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Houston, Mississippi 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 of Houston, Mississippi it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Houston, Mississippi.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursements. The City of Houston, Mississippi has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF HOUSTON, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2016**

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

* Commercial Insurance– Public employee dishonesty coverage for policemen and dispatcher

**CITY OF HOUSTON, MISSISSIPPI
RECONCILIATION OF ORIGINAL AD VALOREM TAX ROLLS TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

<u>Assessed Valuation and Millage:</u>	<u>Assessed Values</u>	<u>Mills</u>	<u>Amount</u>
Realty	\$ 15,767,675	96.96	1,528,834
Personal	8,647,722	96.96	838,483
Utility	506,810	96.96	49,140
Total Assessment			\$ 2,416,457

Adjustments:

Less: Homestead Exemption	\$ (241,039)	
Industrial Realty Exemption	(7,411)	
Industrial Personal Realty Exemption	(56,998)	
Add: Sewer & Street Assessment		
Privilege Licenses	10,614	
Property Cleanup	1,000	
Interest Charges	10,193	
Net Adjustment		(283,641)
Total To Account For		\$ 2,132,816

Collection Credit to Funds:

General Fund	\$ 527,766	
Library Fund	38,576	
Park Fund	95,380	
School Maintenance	1,299,935	
Street G.O. Bond 2012	141,797	
Interest and Penalty	11,193	
Privilege License	10,614	
Rails to Trails	5,300	
Total		\$ 2,130,561

Balance Represented By:

Unaccounted for (shortage)	2,255
Total Accounted For	\$ 2,132,816

COMPLIANCE SECTION



WATKINS, WARD and STAFFORD

Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Board of Aldermen
City of Houston, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Houston, Mississippi as of and for the year ended September 30, 2016, and the related notes to financial statements, which collectively comprise the City of Houston, Mississippi's basic financial statements, and have issued our report thereon dated July 5, 2017.

Internal Control Over Financial Reporting

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

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

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 questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness identified as Finding 2016-001.

Compliance and Other Matters

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

City of Houston, Mississippi's Response to Findings

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

Purpose of this Report

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

Okolona, Mississippi
July 5, 2017

Watkins Ward and Stafford, PLLC



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

Honorable Mayor and Board of Aldermen
City of Houston, Mississippi

Report on Compliance for the Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City of Houston, Mississippi's major federal program 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Houston, 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 the major federal program. However, our audit does not provide a legal determination on the city's compliance.

Opinion on Major Federal Program

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

Report on Internal Control Over Compliance

Management of the City of Houston, 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 Houston, Mississippi's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on

compliance for the 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 Houston, 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.

Okolona, Mississippi
July 5, 2017

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS



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

Honorable Mayor and Board of Aldermen
City of Houston, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Houston, Mississippi as of and for the year ended September 30, 2016, which collectively comprise City of Houston, Mississippi's basic financial statements and have issued our report thereon dated July 5, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of procedures performed to test compliance with certain state laws and regulations and our audit of the financial statements disclosed one instance of noncompliance. Our finding, recommendation, and your response is disclosed below:

Board of Aldermen

Finding

Section 25-4-105(3)(a), Miss. Code Ann.(1972), states that no public servant shall be a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent, other than in his contract of employment, or have a material financial interest in any business which is a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent. An Alderman of the City has a financial interest in and was an officer for a vendor with which the City purchased goods from during the fiscal year.

Recommendation

The City should not contract with vendors who are in violation of Section 25-4-105(3)(a), Miss. Code Ann.(1972)

Response

The City ceased all purchases from the vendor in violation of Section 25-4-105(3)(a), Miss. Code Ann.(1972) during the current fiscal year.

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

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

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

Okolona, Mississippi
July 5, 2017

Watkins Ward and Stafford, PLLC

CITY OF HOUSTON, MISSISSIPPI
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2016

In connection with our audit of the financial statements of City of Houston, Mississippi, as required by the *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and *Audits of States, Local Governments, and Nonprofit Organizations*, the status of all prior year audit findings must be reported and are as follows:

2015-01 *Condition:* An Alderman for the City has a financial interest in and was an officer for a vendor with which the City purchased goods during the fiscal year. Public Servants are prohibited from engaging in financial transactions with the entity of which they serve as an officer or have a financial interest in.

Recommendation: The City should not contract with vendors of which an Alderman has a financial interest in or is an officer.

Status: During the current fiscal year, the City ceased all transactions with vendors in whom City Aldermen have a financial interest in or are officers. See current finding 2016-001.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section I: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | | | | | | |
|---------------------|--|---------------------|---|--------|--|--|
| 4. | Internal control over major programs: | | | | | |
| a. | Material weakness (es) identified? | No | | | | |
| b. | Significant deficiency (ies) identified? | None reported | | | | |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unmodified | | | | |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 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>11.300</td> <td>Investments for Public Works and Economic Development Facilities</td> </tr> </table> | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | 11.300 | Investments for Public Works and Economic Development Facilities | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | | | | | |
| 11.300 | Investments for Public Works and Economic Development Facilities | | | | | |
| 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 HOUSTON, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section II: Financial Statement Findings

Material Weakness

2016-001

Criteria

Management is responsible for establishing and maintaining effective internal controls and systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements.

Condition

An Alderman for the City has a financial interest in and is an officer for a vendor with which the City purchased goods during the fiscal year. Public servants are prohibited from engaging in financial transactions with the entity of which they serve as an officer, per Section 25-4-105(3)(a), Miss. Code Ann. (1972), which states "no public servant shall be a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent, other than in his contract of employment, or have a material financial interest in any business which is a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent".

Cause of Condition

The City did not implement effective internal controls which would prevent, detect, or correct noncompliance with laws or regulations.

Effect of Condition

Due to the violation of Section 25-4-105(3)(a), Miss. Code Ann. (1972) there is a reasonable possibility that a material misstatement of the entity's financial statements would not be prevented, or detected and corrected on a timely basis.

Recommendation

Management should establish and maintain effective internal controls and systems that provide for the adherence to applicable laws and regulations.

Views of Responsible Officials

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

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

Section III: Federal Findings and Questioned Cost

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