

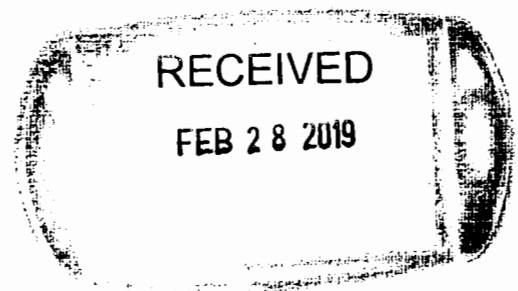


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CITY OF OKOLONA, MISSISSIPPI

**Audited Financial Statements
and Special Reports**

September 30, 2017



CITY OF OKOLONA, MISSISSIPPI

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FINANCIAL AUDIT REPORT



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

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Okolona, 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 Okolona, Mississippi, as of and for the year ended September 30, 2017, which collectively comprise the City of Okolona, 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.

Opinion

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 Okolona, Mississippi, as of September 30, 2017, 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 40-43 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 an opinion on the financial statements that collectively comprise the City of Okolona, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds of City Officials and the Schedule Reconciling Original Ad Valorem Tax Rolls to Fund Collections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Surety Bonds for City Officials and the Schedule Reconciling Original Ad Valorem Tax Rolls to Fund Collections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Surety Bonds for City Officials and the Schedule Reconciling Original Ad Valorem Tax Rolls to Fund Collections is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2018, on our consideration of the City of Okolona, 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 Okolona, Mississippi's internal control over financial reporting and compliance.

Okolona, Mississippi
July 31, 2018

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF OKOLONA, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

The following discussion and analysis of the City of Okolona's financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2017. 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 financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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

FINANCIAL HIGHLIGHTS

- General revenues account for \$2,098,219 in revenue, or 14% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$12,670,757 or 86% of total revenues.
- The City had \$14,651,762 in expenses; only \$12,670,757 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$2,098,219 were adequate to provide for these programs.
- The major fund, the General Fund, had \$2,070,158 in revenues and \$1,969,529 in expenditures. The General Fund's fund balance increased \$98,201 over the prior year. The Other Governmental Funds had \$385,746 in revenues and \$519,313 in expenditures. The Other Governmental Fund's fund balance increased \$118,861 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$369,913 under the prior year, mainly due to accumulated depreciation.
- Long-term debt, including current maturities, decreased by \$280,300 under the prior year. In addition, the liability for compensated absences increased by \$8,468 over the prior 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 financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

CITY OF OKOLONA, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

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 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 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 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 \$16,900,460 as of September 30, 2017 after the prior period adjustment and by \$16,990,577 as of September 30, 2016.

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.

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CITY OF OKOLONA, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 897,763	696,398	6,828,730	6,431,720	* 7,726,493	7,128,118
Capital assets	6,133,087	6,170,742	15,740,439	16,072,697	21,873,526	22,243,439
Total Assets	7,030,850	6,867,140	22,569,169	22,504,417	29,600,019	29,371,557
Deferred outflows	269,056	444,436	1,019,081	985,828	1,288,137	1,430,264
Current and other liabilities	357,800	268,844	2,891,823	2,827,661	3,249,623	3,096,505
Long-term liabilities	1,013,507	1,077,202	3,659,748	4,056,674	4,673,255	5,133,876
Net pension liability	1,845,195	2,247,100	3,608,665	3,407,650	5,453,860	5,654,750
Total Liabilities	3,216,502	3,593,146	10,160,236	10,291,985	13,376,738	13,885,131
Deferred inflows	367,097	39,310	243,861	94,134	610,958	133,444
Net Position:						
Net investment						
in capital assets	4,894,322	4,969,374	11,635,493	11,638,481	16,529,815	16,607,855
Restricted	467,351	349,965	59,484	59,219	526,835	409,184
Unrestricted	(1,645,366)	(1,640,219)	1,489,176	1,406,426	* (156,190)	(233,793)
Total Net Position	\$ 3,716,307	3,679,120	13,184,153	13,104,126	16,900,460	16,783,246

* The 2016 amounts include a prior period adjustment to inventory in the amount of \$207,331.

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

- The subtraction of \$369,913 of capital assets, net of accumulated depreciation.
- The decrease of long-term liabilities of \$478,426 due to payments on debt.

Changes in Net Position: The City's total revenues for the fiscal year ended September 30, 2017 and 2016 were \$14,768,976 and \$14,567,066. The total cost of all programs and services was \$14,651,762 and \$14,386,863. The following table presents a summary of the changes in net position for the fiscal year ended September 30:

	2017	2016
Revenues:		
Program revenues	\$ 12,670,757	12,050,032
General revenues	2,098,219	2,517,034
Total revenues	14,768,976	14,567,066
Expenses:		
Governmental activities	2,422,217	2,702,612
Business-type activities	12,229,545	11,684,251
Total expenses	14,651,762	14,386,863
Increase (decrease) in net position	\$ 117,214	180,203

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

CITY OF OKOLONA, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

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 \$774,606, which represents an increase of \$217,062 over the prior year. \$295,666, or 39%, 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 General Fund's fund balance increased \$98,201 over the prior year. The Other Governmental Fund's fund balance increased \$118,861 over the prior 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, 2017, the City's total net capital assets were \$21,873,526 including land, buildings, improvements, infrastructure, vehicles, and furniture and equipment. This amount represents an decrease of \$369,913 under 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, 2017, the City had \$5,343,711 in long-term debt outstanding, of which \$688,621 is due within one year. In addition, the liability for compensated absences increased by \$8,468 over the prior 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 P.O. Box 111, Okolona, Mississippi 38860.

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BASIC FINANCIAL STATEMENTS

CITY OF OKOLONA, MISSISSIPPI
Statement of Net Position
September 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 770,544	4,429,083	5,199,627
Accounts receivable, net	-	1,837,514	1,837,514
Intergovernmental receivables	43,506	-	43,506
Other receivables, net	75,392	-	75,392
Materials and supplies	-	131,562	131,562
Internal balances	8,321	(8,321)	-
Prepaid items	-	31,186	31,186
Other current assets	-	172,325	172,325
Restricted assets	-	111,643	111,643
Conservation loan receivable	-	85,390	85,390
Regulatory assets	-	38,348	38,348
Capital assets, net	6,133,087	15,740,439	21,873,526
Total assets	7,030,850	22,569,169	29,600,019
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows related to pensions	269,056	1,019,081	1,288,137
Total deferred outflows of resources	269,056	1,019,081	1,288,137
<u>LIABILITIES</u>			
Accounts payable	70,695	1,467,035	1,537,730
Intergovernmental payable	20,745	-	20,745
Accrued wages payable	29,367	107,878	137,245
Customer deposits	350	763,614	763,964
Advances from TVA for conservation loans	-	91,734	91,734
Accrued interest payable	2,878	7,066	9,944
Long-term liabilities, due within one year:			
Capital related debt	233,765	454,496	688,261
Long-term liabilities, due beyond one year:			
Capital related debt	1,005,000	3,650,450	4,655,450
Non-capital related debt	8,507	9,298	17,805
Net pension liability	1,845,195	3,608,665	5,453,860
Total liabilities	3,216,502	10,160,236	13,376,738
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred revenue	2,000	11,363	13,363
Deferred inflows related to pensions	365,097	232,498	597,595
Total deferred inflows of resources	367,097	243,861	610,958

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

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CITY OF OKOLONA, MISSISSIPPI
Statement of Net Position
September 30, 2017

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
<u>NET POSITION</u>			
Net investment in capital assets	4,894,322	11,635,493	16,529,815
Restricted for:			
Expendable:			
Capital projects	305,300		305,300
Debt service	77,173	59,484	136,657
Fire protection	84,878		84,878
Unrestricted	(1,645,366)	1,489,176	(156,190)
Total Net Position	<u>\$ 3,716,307</u>	<u>13,184,153</u>	<u>16,900,460</u>

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

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CITY OF OKOLONA, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 1,058,011	114,436	3,537	215,250	(724,788)
Public safety	837,029	4,501	18,073	-	(814,455)
Public works	104,568	662	-	-	(103,906)
Culture and recreation	111,964	-	2,050	-	(109,914)
Economic development	168,887	-	90,311	-	(78,576)
Pension expense	101,262	-	-	-	(101,262)
Interest on long-term debt	40,496	-	-	-	(40,496)
Total governmental activities	<u>2,422,217</u>	<u>119,599</u>	<u>113,971</u>	<u>215,250</u>	<u>(1,973,397)</u>
Business-type Activities:					
Water and Sewer	864,118	862,383	-	-	(1,735)
Solid Waste	390,507	281,369	-	-	(109,138)
Electric Department	10,974,920	11,078,185	-	-	103,265
Total business-type activities	<u>12,229,545</u>	<u>12,221,937</u>	<u>-</u>	<u>-</u>	<u>(7,608)</u>
Total primary government	<u>\$ 14,651,762</u>	<u>12,341,536</u>	<u>113,971</u>	<u>215,250</u>	<u>(1,981,005)</u>
		Governmental Activities	Business-type Activities	Total	
Changes in Net Position:					
Net (expense) / revenue		\$ (1,973,397)	(7,608)	(1,981,005)	
General revenues					
Taxes:					
Property taxes			1,114,059		1,114,059
Sales taxes			304,762		304,762
Franchise taxes			26,702		26,702
Licenses and permits			16,405		16,405
Fines and report fees			34,965		34,965
Intergovernmental revenues			86,177	-	86,177
Unrestricted investment income			992	7,865	8,857
Refund salaries			207,308		207,308
Insurance reimbursements			158,441	424	158,865
Miscellaneous			60,773	79,346	140,119
Total general revenues			<u>2,010,584</u>	<u>87,635</u>	<u>2,098,219</u>
Change in net position			37,187	80,027	117,214
Net Position - Beginning			<u>3,679,120</u>	<u>13,311,457</u>	<u>16,990,577</u>
Prior period adjustments			<u>-</u>	<u>(207,331)</u>	<u>(207,331)</u>
Net Position - beginning, as restated			3,679,120	13,104,126	16,783,246
Net Position - Ending			\$ 3,716,307	13,184,153	16,900,460

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

CITY OF OKOLONA, MISSISSIPPI
Balance Sheet – Governmental Funds
September 30, 2017

	Major Funds	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
Assets			
Cash and cash equivalents	\$ 267,787	502,757	770,544
Intergovernmental receivables	41,786	1,720	43,506
Other receivables	45,357	-	45,357
Due from other funds	56,485	3,999	60,484
Total assets	<u>\$ 411,415</u>	<u>508,476</u>	<u>919,891</u>
Liabilities and Fund Balances			
Liabilities:			
Claims payable	\$ 38,119	32,576	70,695
Intergovernmental payables	20,745	-	20,745
Accrued payroll	29,367	-	29,367
Due to other funds	11,386	10,742	22,128
Deposits	-	350	350
Unearned revenue	2,000	-	2,000
Total Liabilities	<u>101,617</u>	<u>43,668</u>	<u>145,285</u>
Fund Balances:			
Restricted:			
Capital projects		305,300	305,300
Debt service		80,051	80,051
Fire protection		84,878	84,878
Cemetery		-	-
Assigned	4,000	4,711	8,711
Unassigned	305,798	(10,132)	295,666
Total Fund Balances	<u>309,798</u>	<u>464,808</u>	<u>774,606</u>
Total Liabilities and Fund Balances	<u>\$ 411,415</u>	<u>508,476</u>	<u>919,891</u>

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

CITY OF OKOLONA, MISSISSIPPI

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

September 30, 2017

Total fund balances for governmental funds **\$ 774,606**

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	\$	339,253		
Construction in progress		158,407		
Buildings		4,876,693		
Building improvements		2,974,144		
Infrastructure		2,772,551		
Equipment		205,227		
Vehicles		550,053		
Accumulated depreciation		<u>(5,743,241)</u>		6,133,087

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		(1,845,195)		
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Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions		269,056		
Deferred inflows of resources related to pensions		<u>(365,097)</u>		(1,941,236)

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	\$	(1,060,000)		
Loans payable		(161,563)		
Capital lease payable		(17,202)		
Accrued interest payable		(2,878)		
Compensated absences		<u>(8,507)</u>		(1,250,150)

Net position of governmental activities			\$	<u>3,716,307</u>
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The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF OKOLONA, MISSISSIPPI

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds
For the Year Ended September 30, 2017

	Major Funds		
	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 1,006,066	107,993	1,114,059
Privilege licenses and permits	16,405	-	16,405
Franchise taxes	26,702	-	26,702
Fines and forfeitures	34,965	-	34,965
Intergovernmental revenues	489,837	230,323	720,160
Charges for services	105,149	14,450	119,599
Interest income	992	-	992
Refund salary - W/S	112,326	-	112,326
Refund salary - S/W	45,579	-	45,579
Refund salary - OED	49,403	-	49,403
Insurance reimbursements	158,441	-	158,441
Miscellaneous revenues	24,293	32,980	57,273
Total Revenues	2,070,158	385,746	2,455,904
Expenditures:			
General government	847,034	214,752	1,061,786
Public safety	806,207	-	806,207
Public works	94,957	-	94,957
Economic development	-	168,887	168,887
Culture and recreation:			-
Library	73,771	-	73,771
Park and recreation	29,957	-	29,957
Debt service:			-
Principal	117,603	95,000	212,603
Interest	-	38,734	38,734
Total Expenditures	1,969,529	519,313	2,488,842
Excess (Deficiency) of Revenues over (under) Expenditures	100,629	(133,567)	(32,938)
Other Financing Sources (Uses):			
Loan Proceeds	-	250,000	250,000
Transfers in	4,818	8,936	13,754
Transfers out	(7,246)	(6,508)	(13,754)
Total Other Financing Sources (Uses)	(2,428)	252,428	250,000
Net Change in Fund Balances	98,201	118,861	217,062
Fund Balances - Beginning	211,597	345,947	557,544
Fund Balances - Ending	\$ 309,798	464,808	774,606

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

CITY OF OKOLONA, MISSISSIPPI
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, 2017

Net change in fund balances - total governmental funds **\$ 217,062**

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	\$	183,591	
Depreciation expense		<u>(224,746)</u>	(41,155)

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:

Loan Proceeds		(250,000)	
Payments of debt principal		212,603	
Accrued interest payable		<u>178</u>	(37,219)

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		(3,739)	
Donation of assets		3,500	
Net change in unfunded pension liability		<u>(101,262)</u>	(101,501)

Change in net position of governmental activities	\$	<u>37,187</u>
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The accompanying notes to financial statements are an integral part of these financial statements.

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CITY OF OKOLONA, MISSISSIPPI
Statement of Fund Net Position – Proprietary Funds
September 30, 2017

	Water and Sewer	Solid Waste	Electric Department	Total Proprietary Funds
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 650,301	17,393	3,761,389	4,429,083
Accounts receivables, net	106,934	52,907	1,677,673	1,837,514
Materials and supplies	-	-	131,562	131,562
Internal balances	(23,177)	14,856	-	(8,321)
Prepaid expenses	-	-	31,186	31,186
Special funds	-	-	81,803	81,803
Interest receivable	-	-	193	193
Other current assets	-	-	90,329	90,329
Total current assets	<u>734,058</u>	<u>85,156</u>	<u>5,774,135</u>	<u>6,593,349</u>
Non-current assets:				
Restricted cash and cash equivalents	-	-	111,643	111,643
Conservation loan receivables	-	-	85,390	85,390
Regulatory assets	-	-	38,348	38,348
Capital assets:				
Land	26,541	1,699	21,317	49,557
Construction in progress	-	-	80,957	80,957
Electric plant in service	-	-	20,871,836	20,871,836
Infrastructure	7,798,817	-	-	7,798,817
Machinery	353,052	-	-	353,052
Vehicles	80,561	118,620	-	199,181
Less accumulated depreciation	<u>(2,979,584)</u>	<u>(106,759)</u>	<u>(10,526,618)</u>	<u>(13,612,961)</u>
Total non-current assets	<u>5,279,387</u>	<u>13,560</u>	<u>10,682,873</u>	<u>15,975,820</u>
Total Assets	<u>\$ 6,013,445</u>	<u>98,716</u>	<u>16,457,008</u>	<u>22,569,169</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred outflows related to pensions	61,810	32,723	924,548	1,019,081
Total deferred outflows of resources	<u>61,810</u>	<u>32,723</u>	<u>924,548</u>	<u>1,019,081</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	\$ 22,433	-	1,444,602	1,467,035
Accrued wages payable	7,423	5,750	94,705	107,878
Customer deposits	100,307	-	663,307	763,614
Advances - conservation loans	-	-	91,734	91,734
Compensated absences	3,520	5,778	-	9,298
Bonds, notes and loans payable	<u>195,474</u>	<u>-</u>	<u>259,022</u>	<u>454,496</u>
Total current liabilities	<u>329,157</u>	<u>11,528</u>	<u>2,553,370</u>	<u>2,894,055</u>

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

CITY OF OKOLONA, MISSISSIPPI
Statement of Fund Net Position - Proprietary Funds
September 30, 2017

	Water and Sewer	Solid Waste	Electric Department	Total Proprietary Funds
<u>LIABILITIES</u>				
Non-current liabilities:				
Accrued interest payable	1,799	-	5,267	7,066
Bonds, notes and loans payable	2,893,055	-	757,395	3,650,450
Net pension liability	423,897	224,417	2,960,351	3,608,665
Total non-current liabilities	3,318,751	224,417	3,723,013	7,266,181
Total Liabilities	3,647,908	235,945	6,276,383	10,160,236
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Revenue			11,363	11,363
Deferred inflows related to pensions	83,874	44,404	104,220	232,498
Total deferred inflows of resources	83,874	44,404	115,583	243,861
<u>NET POSITION</u>				
Net investment in capital assets	2,190,858	13,560	9,431,075	11,635,493
Restricted for debt service	59,484			59,484
Unrestricted (deficit)	93,131	(162,470)	1,558,515	1,489,176
Total Net Position	\$ 2,343,473	(148,910)	10,989,590	13,184,153

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

CITY OF OKOLONA, MISSISSIPPI

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

For the Year Ended September 30, 2017

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Electric Department</u>	<u>Total Proprietary Funds</u>
<u>OPERATING REVENUES</u>				
Water sales	\$ 449,344			449,344
Sewer service	413,039			413,039
Solid waste fees		281,369		281,369
Electric services			11,078,185	11,078,185
Intergovernmental revenues	-	-		-
Insurance Reimbursements	239	185		424
Miscellaneous	51,284	28,062		79,346
Total operating revenues	<u>913,906</u>	<u>309,616</u>	<u>11,078,185</u>	<u>12,301,707</u>
<u>OPERATING EXPENSES</u>				
Operating and maintenance	595,810	390,507	2,658,837	3,645,154
Purchased power			7,766,230	7,766,230
Depreciation	201,850	-	444,221	646,071
Miscellaneous	-	-	47,759	47,759
Total operating expenses	<u>797,660</u>	<u>390,507</u>	<u>10,917,047</u>	<u>12,105,214</u>
Operating income (loss)	116,246	(80,891)	161,138	196,493
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
Interest income	1,257	-	6,608	7,865
Gain (loss) on disposal of capital assets	-	-		-
Interfund transfers	-	-		-
Interest and amortization expense	(66,458)	-	(57,873)	(124,331)
Pension expense	-	-		-
Total non-operating revenues (expenses)	<u>(65,201)</u>	<u>-</u>	<u>(51,265)</u>	<u>(116,466)</u>
Change in net position	51,045	(80,891)	109,873	80,027
Net Position - beginning	2,292,428	(68,019)	11,087,048	13,311,457
Prior period adjustments	<u>-</u>	<u>-</u>	<u>(207,331)</u>	<u>(207,331)</u>
Net Position - beginning, as restated	2,292,428	(68,019)	10,879,717	13,104,126
Net Position - ending	<u>\$ 2,343,473</u>	<u>(148,910)</u>	<u>10,989,590</u>	<u>13,184,153</u>

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

CITY OF OKOLONA, MISSISSIPPI
Statement of Cash Flows – Proprietary Funds
For the Year Ended September 30, 2017

	Water and Sewer	Solid Waste	Electric Department	Total Proprietary Funds
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 850,131	248,836	10,780,714	11,879,681
Payments to suppliers	(274,180)	(149,825)	(8,634,003)	(9,058,008)
Payments to employees	(326,445)	(172,226)	(1,448,514)	(1,947,185)
Other receipts (payments)	51,523	28,247	(14,619)	65,151
Net Cash Flows from Operating Activities	<u>301,029</u>	<u>(44,968)</u>	<u>683,578</u>	<u>939,639</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal payment on capital debt	(170,435)		(147,261)	(317,696)
Interest payment on capital debt	(65,736)		(49,806)	(115,542)
Other receipts (payments)		-		-
Net Cash Flows from Capital and Related Financing Activities	<u>(236,171)</u>	<u>-</u>	<u>(197,067)</u>	<u>(433,238)</u>
<u>Cash Flows from Investing Activities</u>				
Purchase of capital assets			(602,042)	(602,042)
Interest revenue	1,257	-	6,513	7,770
(Increase) decrease in conservation loan receivable			29,650	29,650
(Increase) decrease in other investments	-	-	(4,171)	(4,171)
Increase (decrease) in conservation loans			(25,900)	(25,900)
Net Cash Flows from Investing Activities	<u>1,257</u>	<u>-</u>	<u>(595,950)</u>	<u>(594,693)</u>
Net Change in Cash	66,115	(44,968)	(109,439)	(88,292)
Cash and Cash Equivalents - Beginning	584,186	62,361	3,982,471	4,629,018
Cash and Cash Equivalents - Ending	\$ 650,301	17,393	3,873,032	4,540,726
Reconciliation of Operating Income (Loss) to Cash				
Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 116,246	(80,891)	161,138	196,493
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	201,850		525,119	726,969
Net pension expense	(26,465)	62,045	281,253	316,833
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(25,207)	(32,533)	(310,714)	(368,454)
(Increase) decrease in other assets	-		33,140	33,140
Increase (decrease) in accounts payable	18,936	(4,650)	(32,496)	(18,210)
Increase (decrease) in wages payable	544	(1,567)	12,895	11,872
Increase (decrease) in unearned revenue	-	-	656	656
Increase (decrease) in customer deposits	12,955		12,587	25,542
Increase (decrease) in compensated absences	2,170	2,559	-	4,729
Increase (decrease) in other liabilities	-	10,069	-	10,069
Total Adjustments	<u>184,783</u>	<u>35,923</u>	<u>522,440</u>	<u>743,146</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 301,029</u>	<u>(44,968)</u>	<u>683,578</u>	<u>939,639</u>

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

CITY OF OKOLONA, MISSISSIPPI
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
September 30, 2017

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 44,566
Certificates of deposit	25,582
Due from other funds	<u>4,715</u>
Total Assets	<u><u>74,864</u></u>
Liabilities	
Intergovernmental payables	36,043
Accrued liabilities	4,071
Due to other funds	<u>34,750</u>
Total Liabilities	\$ <u><u>74,864</u></u>

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

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CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the City of Okolona, 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 Okolona was incorporated on March 4, 1850 under the provisions of House Bill No. 214 and operates under a strong council – weak mayor form of government and provides public safety, streets and sidewalks, water and sewerage, sanitation, health and social services, culture, recreation, education, public improvement, planning and zoning and general administrative services. Electricity is distributed to consumers residing within the municipality as well as surrounding areas. This service is provided in conjunction with Tennessee Valley Authority (TVA). The primary sources of revenues are property taxes, utility billings and sales taxes. Various criteria are applied in order to determine the various funds and activities which should be reported as part of the City. Such criteria include oversight responsibility by the elected officials such as decision-making authority, accountability to the City, legal and fiscal responsibility, and inter-agency relationships. All agencies meeting the above criteria are included in the financial statements of the City.

Included within the reporting entity:

City of Okolona Electric Department. The City of Okolona Electric Department is governed by the City Council, and derives its revenue from the City's residents by providing electricity. The City is financially accountable for the City of Okolona Electric Department's activities, and the Electric Department is included in business-type activities of the City. Separate City of Okolona Electric Department component unit financial statements can be obtained from the City Clerk's office. The Electric Department has a June 30 year-end.

Excluded within the reporting entity:

Okolona Municipal Separate School District. The Okolona 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 the 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 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.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

The City reports the following major governmental fund:

General Fund – This fund is used to account for all activities of the general government for which a separate fund has not been established.

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

The City reports the following proprietary funds:

Water and Sewer Fund – This fund is used to account for all operations of the water and sewer system of the City.

Solid Waste Fund – This fund is used to account for all operations of the solid waste and sanitation services that the City offers to its residents.

City of Okolona Electric Department – This fund accounts for all the operations of the electric departments as it provides electricity to the City's residents.

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

The City's fiduciary funds include the following:

School Tax Fund – This fund accounts for school ad valorem taxes collected by the city that have not yet been remitted to the school.

Court Clearing Fund – This fund accounts for court fines and fees collected by the city that have not yet been remitted to the state.

Bond and Interest Paying Fund – This fund accounts for bond and interest payments that have not been redeemed by the bearers.

Morris Futorian Scholarship Fund – This expendable trust fund is used to account for funds used for book purchases by the City.

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.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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 Funds

Enterprise Funds – 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 enterprise funds consist of the Water and Sewer Fund, the Solid Waste Fund, and the City of Okolona Electric Department.

Fiduciary Funds (Not included in government wide statements)

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

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

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

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

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the city. 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.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied.

Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

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

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 order, work orders and contracts.

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

1. Cash and Cash Equivalents

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

Investments

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

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.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

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

The following schedule details the capitalization thresholds.

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

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

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

7. Deferred outflows/inflows of resources

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

See Note 8 for further details.

8. Compensated Absences

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

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

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. Net Position

GASB 63 requires the classification net position into three components – Invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- a) 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.
- b) 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 OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

- c) 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.

12. Fund Balances

GASB 54 requires the classification of fund balance into five components – nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

- a) *Nonspendable fund balance* – amounts that cannot be spent due to form, (such as 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. The City has the following nonspendable assets: capital assets, net of related debt, inventory, and prepaid expenses.
- b) *Restricted fund balance* – amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation. The City has the following restricted assets: restricted for fire protection, restricted for police protection, restricted for airport activities, restricted for parks and recreation, restricted for debt service and restricted for capital projects.
- c) *Committed fund balance* – amounts constrained for a specific purpose by an entity using its highest level of decision-making authority. It would require the same group to remove or change the constraints placed on the resources. The City does not have any committed assets.
- d) *Assigned fund balance* – for all funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted, or committed. The City does not have any assigned assets.
- e) *Unassigned fund balance* – for general fund, any remaining amounts not classified as nonspendable, restricted, or committed. The City has the following unassigned assets: cash and cash equivalents, accounts receivable, other receivables, notes receivables and other assets.

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 generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The principal estimates made by management that affect these financial statements are the allowance for doubtful accounts receivable and depreciation expense. Actual results could differ from those estimates.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

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

Cash and Cash Equivalents

The carrying amount of the City's deposits with financial institutions at September 30, 2017, reported in the governmental funds, enterprise funds, and fiduciary fund was \$770,544, \$4,429,083, and \$70,148, 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 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, 2017, none of the City's bank balance of \$5,054,083 was exposed to custodial credit risk.

Investments

As of September 30, 2017, the city had no investments.

Note 3 – Inter-fund Transactions and Balances

The following is a summary of inter-fund balances at September 30, 2017:

a. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
<u>Major Governmental Funds</u>		
City General Fund	\$ 56,485	11,386
<u>Non-major Governmental Funds</u>		
Airport Fund		9,542
Recreational Park Fund		1,200
Airport Construction Fund	3,999	
<u>Enterprise Funds</u>		
Water & Sewer Fund		23,177
Solid Waste Fund	24,925	10,069
<u>Fiduciary Funds</u>		
Court Clearing Fund	4,715	34,750
	<u>\$ 90,124</u>	<u>90,124</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.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 3 – Inter-fund Transactions and Balances (Continued)

b. Transfers In/Out:

	<u>Transfer In</u>	<u>Transfer Out</u>
<u>Major Governmental Funds</u>		
City General Fund	\$ 4,818	7,246
<u>Non-major Governmental Funds</u>		
Airport Fund		1,690
Airport Construction Fund	8,936	4,818
	<u>\$ 13,754</u>	<u>13,754</u>

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

c. Intergovernmental Receivables:

The following is a summary of intergovernmental receivables at September 30, 2017:

Okolona Schools	\$ 8,906
Okolona Electric Department	8,483
Airport Construction Fund - MDOT	1,720
State of MS - Sales Tax	<u>24,397</u>
	<u>\$ 43,506</u>

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CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 4 – Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2017.

	Balance 10/1/2016	Additions	Deletions	Balance 9/30/2017
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 335,753	3,500		339,253
Construction in progress	298,394	174,913	(314,900)	158,407
Total non-depreciable capital assets	634,147	178,413	(314,900)	497,660
<u>Depreciable capital assets:</u>				
Buildings	4,729,693	147,000		4,876,693
Improvements	2,806,244	167,900		2,974,144
Infrastructure	2,772,551			2,772,551
Furniture and equipment	205,227			205,227
Vehicles	541,375	8,678		550,053
Total depreciable capital assets	11,055,090	323,578	-	11,378,668
<u>Less Accumulated Depreciation:</u>				
Buildings	2,141,496	59,248		2,200,744
Improvements	1,125,507	110,576		1,236,083
Infrastructure	1,687,895	21,627		1,709,522
Furniture and equipment	156,444	11,165		167,609
Vehicles	407,153	22,130		429,283
Total accumulated depreciation	5,518,495	224,746	-	5,743,241
Governmental activities capital assets, net	\$ 6,170,742	277,245	(314,900)	6,133,087
Business-type Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 49,557			49,557
Construction in progress	362,574		(281,617)	80,957
Total non-depreciable capital assets	412,131	-	(281,617)	130,514
<u>Depreciable capital assets:</u>				
Electric plant in service	20,298,382		-	20,298,382
Infrastructure	7,798,817	546,793	(66,447)	8,279,163
Machinery and Equipment	353,052	93,108		446,160
Vehicles	199,181	-		199,181
Total Capital Assets	28,649,432	639,901	(66,447)	29,222,886
<u>Less Accumulated Depreciation:</u>				
Electric plant in service	10,104,373			10,104,373
Infrastructure	2,571,590	527,064	(102,874)	2,995,780
Machinery and Equipment	137,961	178,020		315,981
Vehicles	174,942	21,885		196,827
Total Accumulated Depreciation	12,988,866	726,969	(102,874)	13,612,961
Business-type activities capital assets, net	\$ 16,072,697	(87,068)	(245,190)	15,740,439

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 4 – Capital Assets (Continued)

Depreciation expense charged to various functions presented on the statement of activities is presented as follows:

	Governmental Activities	Business-Type Activities	Total
General Government	\$ 171,898		171,898
Public Safety	24,755		24,755
Public Works	18,289		18,289
Culture and Recreation	9,804		9,804
Water and Sewer		201,850	201,850
Electric Department		525,119	525,119
	<u>\$ 224,746</u>	<u>726,969</u>	<u>951,715</u>

Depreciation expense for the Electric Department as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds is \$444,221. The difference in this amount and the current year increases in accumulated depreciation of \$507,494 is due to difference in salvage value and allocation of depreciation to certain maintenance and overhead lines expense accounts.

The City incurred \$38,734 of total interest costs during the year.

Commitments with respect to unfinished capital projects at September 30, 2017, consisted of the following as of September 30, 2017:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>
Okolona Athletic Field and Track	\$ 134,207
Airport Construction	24,200

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 5 –Leases

a) Capital Leases

As Lessee:

The city is obligated for the following capital assets acquired through capital leases as of September 30, 2017:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile Equipment	\$ 66,802
Total	66,802
Less: Accumulated Depreciation	(48,098)
Leased Property Under Capital Leases	<u>\$ 18,704</u>

The City enters into capital leases to finance mobile equipment. The capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is the annual requirements to amortize these obligations at September 30, 2017.

Governmental Activities:

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 17,202	\$ 132
Total	<u>\$ 17,202</u>	<u>\$ 132</u>

The city is obligated for the following capital assets acquired through capital leases as of September 30, 2017.

<u>Classes of Property</u>	<u>Business-Type Activities</u>
Equipment	\$ 202,673
Total	202,673
Less: Accumulated Depreciation	(73,962)
Leased Property Under Capital Leases	<u>\$ 128,711</u>

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 5 –Leases (Continued)

The City enters into capital leases to finance equipment. The capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is the annual requirements to amortize these obligations at September 30, 2017.

Business-Type Activities:

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 93,675	\$ 9,663
2019	77,363	6,519
2020	116,136	3,495
Total	\$ 287,174	\$ 19,677

b) Master Leases

The City of Okolona entered into a Master Lease Obligation for the purpose of refunding the 2001 Bond Issue. The lease expires on August 15, 2021.

The following is a schedule by years of future minimum lease payments under the master lease, including interest:

Business-Type Activities:

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 200,089	\$ 33,359
2019	208,470	24,233
2020	218,014	14,688
2021	176,193	41,462
Total	\$ 802,766	\$ 113,742

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 6 – Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended September 30, 2017.

	Adjusted			Amounts	
	Balance			Balance	Due Within
	10/1/2016	Additions	Deductions	9/30/2017	One Year
Governmental Activities					
General Obligation Bonds Payable	\$ 1,115,000		55,000	1,060,000	55,000
Loans Payable	40,000	250,000	128,437	161,563	161,563
Capital Leases Payable	46,368		29,166	17,202	17,202
Compensated Absences	4,768	3,739		8,507	
Total Governmental Activities	\$ 1,206,136	253,739	212,603	1,247,272	233,765
Business-Type Activities					
Revenue Bonds Payable	\$ 493,704		42,172	451,532	44,077
Less: Cushion of Credit	(11,574)		(7,622)	(3,952)	(3,952)
Loans Payable	2,667,189		99,764	2,567,425	120,603
Capital Leases Payable	279,229	86,457	78,511	287,175	93,679
Master Lease Payable	994,095		191,329	802,766	200,089
Compensated Absences	4,569	4,729		9,298	
Total Business-Type Activities	\$ 4,427,212	91,186	404,154	4,114,244	454,496

Annual debt service requirements to maturity for the following debt, not including compensated absences, reported in the Statement of Net Position are as follows:

Year Ending September 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 233,765	37,692	454,496	108,603
2019	60,000	33,950	447,617	92,236
2020	60,000	31,850	500,168	75,432
2021	65,000	29,750	346,591	94,277
2022	65,000	27,800	170,993	48,411
2023 and after	755,000	142,527	2,185,081	310,585
Totals	\$ 1,238,765	303,569	4,104,946	729,544

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.

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, 2017, the amount of outstanding debt was equal to 11% of the latest property assessments.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 7 – Contingencies

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

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

Note 8 – Defined Benefit Pension Plan

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

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

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the city is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2017 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, 2017, 2016 and 2015 were \$153,913, \$161,672, and \$163,090, respectively, which equaled the required contributions for each year.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan (Continued)

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

At September 30, 2017, the city reported a liability of \$5,453,860 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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. The city's proportionate share used to calculate the September 30, 2017 net pension liability was 0.0332 percent, which was based on a measurement date of June 30, 2017. This was a decrease of 0.0002 percent from its proportionate share used to calculate the September 30, 2016 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended September 30, 2017, the city recognized pension expense of \$382,515. At September 30, 2017, 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	\$ 135,023	\$ (18,194)
Net difference between projected and actual earnings on pension plan investments	246,625	
Changes of assumptions	211,274	(12,682)
Changes in proportion and differences between the entity's contributions and proportionate share of overall contributions	334,456	(374,056)
Entity's contributions subsequent to the measurement date	193,485	
Total	<u>\$ 1,120,863</u>	<u>\$ (404,932)</u>

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan (Continued)

\$ 193,845 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:

Year Ending September 30,	Deferred Outflows	Deferred Inflows
2018	\$ 296,087	\$ 135,927
2019	294,963	135,927
2020	230,522	42,686
2021	105,806	69,008
2022	-	20,844
Thereafter	-	-
Total	<u>\$ 927,378</u>	<u>\$ 404,392</u>

Actuarial assumptions. The total pension liability in the June 30, 2017 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 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan (Continued)

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 as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	27	4.6
International Equity	18	4.5
Emerging Markets Equity	4	4.75
Global	12	4.75
Fixed Income	18	0.75
Real Assets	10	3.5
Private Equity	8	5.1
Emerging Debt	2	2.5
Cash	1	-
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 made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.75 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%)
Entity's proportionate share of the net pension liability	\$ 3,270,404	\$ 2,493,509	\$ 1,848,518

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

CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 9 – Deficit Fund Balance of Individual Funds

Included in funds of Other Governmental Activities are the following funds with deficit fund balances:

Recreational Park Fund	\$	1,200
Aiport Fund		8,932

- A deficit fund balance is not in violation of state law.

Note 10 – 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.

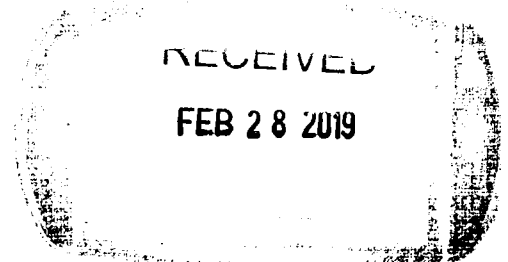
Under GASB Statement No. 10, *Accounting and Financial Reporting for Risks Financing and Related Issues*, a liability for claims must be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and 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, 2017; therefore, no liability has been accrued at this time.

Note 11 – Tax Abatements

The City of Okolona enters into property tax abatement agreements with local businesses under the Miss. Code Ann. Sec. 17-21-5 (1). Under the Code, the City has the authority in their discretion to exempt from any or all municipal ad valorem taxes, excluding ad valorem taxes for school districts, for a period of not more than seven years for the purpose of attracting or retaining businesses within their jurisdictions. The City abates the taxes for United Furniture in the amount of \$9,505.

Note 12 – Prior Period Adjustments

A prior period adjustment was made in the Okolona Electric Department, a proprietary fund, to remove prior year tornado damage from work in progress. The amount of the work order that should have been closed in the prior year was \$207,331.



CITY OF OKOLONA, MISSISSIPPI
Notes to Financial Statements

Note 13 – Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Subsequent events have been evaluated through July 31, 2018, which is the date the financial statements were available to be issued, and concluded that no subsequent event had occurred that would require disclosure in the notes to financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OKOLONA, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 1,086,449	1,086,449	1,006,066	(80,383)
Licenses, commissions and other revenue	43,674	43,674	43,107	(567)
Fines and forfeitures	45,000	45,000	34,965	(10,035)
Intergovernmental revenues	360,148	360,148	489,837	129,689
Charges for services	45,800	45,800	105,149	59,349
Interest income	1,035	1,035	992	(43)
Miscellaneous revenues	501,232	501,232	390,042	(111,190)
Total Revenues	<u>2,083,338</u>	<u>2,083,338</u>	<u>2,070,158</u>	<u>(13,180)</u>
EXPENDITURES				
General government	832,601	832,601	847,034	14,433
Public safety	1,026,585	1,026,585	806,207	(220,378)
Public works	81,022	81,022	94,957	13,935
Economic development	-	-	-	-
Culture and recreation	134,552	134,552	103,728	(30,824)
Debt Service			117,603	117,603
Total Expenditures	<u>2,074,760</u>	<u>2,074,760</u>	<u>1,969,529</u>	<u>(105,231)</u>
Excess of Revenues over (under) Expenditures	<u>8,578</u>	<u>8,578</u>	<u>100,629</u>	<u>92,051</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	4,818	4,818
Transfer out	-	-	(7,246)	(7,246)
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>(2,428)</u>	<u>(2,428)</u>
Net Change in Fund Balance	<u>8,578</u>	<u>8,578</u>	<u>98,201</u>	<u>89,623</u>
Fund Balances - Beginning	<u>211,597</u>	<u>211,597</u>	<u>211,597</u>	
Fund Balances - Ending	<u>\$ 220,175</u>	<u>220,175</u>	<u>309,798</u>	<u>89,623</u>

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

CITY OF OKOLONA, MISSISSIPPI

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0295%	0.0334%	0.0339%
City's proportionate share of the net pension liability	\$ 5,453,860	5,654,750	4,530,280
City's covered-employee payroll	\$ 2,031,492	2,093,422	1,989,873
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	268.47%	270.12%	227.67%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%

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

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CITY OF OKOLONA, MISSISSIPPI
Schedule of City Contributions
Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 298,252	319,960	329,714
Contribution in relation to the contractually required contribution	298,252	319,960	329,714
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>
City's covered-employee payroll	1,893,663	2,031,492	2,093,422
Contributions as a percentage of its covered-employee payroll	15.75%	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 OKOLONA, MISSISSIPPI
Notes to Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on the 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 the date established by the State of Mississippi. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

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. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

(2) Method and assumption 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

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OTHER INFORMATION

CITY OF OKOLONA, MISSISSIPPI
Schedule of Surety Bonds for City Officials
For the Year Ended September 30, 2017

<u>EMPLOYEE</u>	<u>POSITION</u>	<u>SURETY BOND #</u>	<u>AMOUNT OF BOND</u>
Sherman Carouthers	Mayor	106765083	\$ 50,000
Jesse Carouthers	Councilman - Ward 1	106765085	50,000
Bennett Moore	Councilman - Ward 2	105935254	50,000
Kelvin Stanfield	Councilman - Ward 3	106765086	50,000
Imogene Armstrong	Councilwoman - Ward 4	106765087	50,000
Mary L. Gates	Councilwoman - Ward 5	105935255	50,000
Anthony Floyd	Councilman - Ward 6	105935256	50,000
Kim Collins	City Clerk	70369944	50,000
Rebecca Moore	Deputy/Court Clerk	70725795	50,000
Krystal Robinson	Deputy Clerk	70725795	50,000
Stephaine Collins	Deputy Clerk	63014350	25,000
Clementine Anderson	Deputy Clerk	71513145	25,000
Willie C. Moore	Police Chief	105861980	50,000

CITY OF OKOLONA, MISSISSIPPI
Schedule Reconciling Original Ad Valorem Tax Rolls to Fund Collections
For the Year Ended September 30, 2017

Assessed Valuation in Millage:

	<u>Municipal</u>	
Realty	\$ 7,925,264	
Personal	2,690,772	
Personal - auto	1,311,290	
Personal - mobile home	42,917	
Utilities	<u>426,764</u>	
Total Municipal at <u>53.70</u> Mills	<u>12,397,007</u>	\$ 665,719

Collections Adjustments:

Add: Prior year tax collection	55,248	
Penalties and interest	<u>5,919</u>	61,167
Less: Homestead exemptions	(54,345)	
Special real and personal exemptions	(20,336)	
Refunded taxes and adjustments	(17,394)	
Cost of collections (counties)	<u>(14,123)</u>	<u>(106,198)</u>

Total to be Accounted for **\$ 620,688**

Collection Credits to Funds:

	<u>Taxes</u>	<u>Homestead</u>	<u>Total</u>
Municipal General Fund	\$ 425,761	48,135	473,896
Fire Protection Fund	11,421	1,167	12,588
Recreation Fund	22,843	2,334	25,177
Street Improvement Bond Fund	107,993		107,993
Total	<u>\$ 568,018</u>	<u>51,636</u>	<u>619,654</u>

Balance Represented By:

Unpaid property taxes		
Unaccounted for (shortage)	<u>1,034</u>	<u>1,034</u>

Total Accounted For **\$ 620,688**

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COMPLIANCE SECTION



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

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

Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA
Thomas A. Davis, CPA
Anita L. Goodrum, CPA
Ricky D. Allen, CPA
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Robert E. Cordle, Jr., CPA
Perry C. Rackley, Jr., CPA
Jerry L. Gammel, CPA
Michael C. Knox, CPA
Clifford P. Stewart, CPA

**INDEPENDENT AUDITORS' REPORT ON 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 Okolona, 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 Okolona, Mississippi as of and for the year ended September 30, 2017, and the related notes to financial statements, which collectively comprise the City of Okolona, Mississippi's basic financial statements, and have issued our report thereon dated July 31, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2017-001, 2017-002, 2017-003, and 2017-004 to be material weaknesses.

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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Okolona, 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 Okolona, Mississippi's Response to Findings

The City of Okolona, Mississippi's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of Okolona, 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 31, 2018

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS



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

James L. Stafford, CPA
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS**

Honorable Mayor and Board of Aldermen
City of Okolona, 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 City of Okolona, Mississippi as of and for the year ended September 30, 2017, which collectively comprise City of Okolona, Mississippi's basic financial statements and have issued our report thereon dated July 31, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of procedures performed to test compliance with certain state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your responses are as follows:

Finding

Under Section 25-4-119, MS Code Ann. (1972), No elected or appointed official shall derive any pecuniary benefit, directly or indirectly, as a result of such elected or appointed official's duties. Several city officials and employees were found to have received improper preferential treatment in regards to not having late penalties or cutoffs imposed on water/sewer billings.

Recommendation

Late penalties should be assessed and/or cutoff procedures followed for each customer.

Response

In the future, the city will adhere to the policies and procedures adopted by the City Board in regards to the assessments of late penalties and cutoff procedures.

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 Okolona, 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 for the information and use of the Board of Aldermen, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Okolona, Mississippi
July 31, 2018

Watkins Ward and Stafford, PLLC

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SCHEDULE OF FINDINGS AND RESPONSES

CITY OF OKOLONA, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2017

Section I: Summary of Auditors' Results

Financial Statements:

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

CITY OF OKOLONA, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2017

Section II: Financial Statement Findings

Material Weakness

2017-001

Condition

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

Criteria

The financial statements are the responsibility of the City of Okolona; therefore, all adjustments should be completed before preparation of the financial statements.

Cause of Condition

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

Effect of Condition

The City of Okolona's net revenues over expenditures decreased by \$140,829 as a result of these audit entries.

Recommendation

We recommend that the City of Okolona implement policies and procedures to insure the correct account coding of all expenditures and journal entries. We also recommend that all receivables, payables and depreciation be recorded prior to the start of the audit.

Response

Management will review all journal entries and coding of expenditures as necessary to insure proper recording. Management will prepare a year-end closing checklist to determine all necessary adjustments are made prior to closing the books.

2017-002

Condition

The City is not preparing bank reconciliations correctly and in a timely manner.

Criteria

A properly designed internal control structure over cash will require bank balances to reconcile to the general ledger.

Cause of Condition

Internal control procedures are not being utilized that require the bank reconciliations to be prepared accurately and in a timely manner.

Effect of Condition

Due to internal control procedures not being followed, bank reconciliations are not being prepared correctly or in a timely manner.

Recommendation

We recommend that the City implement internal control procedures in order to establish an internal control system over cash that requires bank statements be reconciled to the general ledger without any unsolved discrepancies and in a timely manner.

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CITY OF OKOLONA, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2017

Response

Management will review current internal control procedures in order to determine what manner of internal controls over cash can be improved by the City.

2017-003

Condition

Cash collection, disbursement, recording, and reconciling functions in the Court Clerk's office are not properly segregated to ensure an adequate internal control structure.

Criteria

An effective system of internal control over collections in the Court Clerk's office should include an adequate segregation of duties over the cash collection, disbursement, recording, and reconciling functions.

Cause of Condition

One court clerk prepares court dockets, receipts fine collections, posts collections to fines receivable ledger, and prepares monthly settlement reports.

Effect of Condition

Due to a lack of segregation of duties, a loss of public funds could occur.

Recommendation

An effective system of internal controls should be implemented over fine collections to ensure a proper segregation of duties over the cash collection and reconciling functions.

Response

Due to limited personnel and financial resources, an adequate segregation of duties is not feasible in the Court Clerk's office.

2017-004

Condition

The internal controls surrounding the processing of payroll failed.

Criteria

An effective system of internal control over the payroll function should include an adequate segregation of duties over all the payroll duties.

Cause of Condition

One deputy clerk processes the payroll, records vacation hours earned and used, and, in the absence of the City Clerk, has access to the signature stamp.

Effect of Condition

Due to the failure of internal controls, one deputy clerk was paid excessive vacation benefits and also received advances on payroll checks.

Recommendation

After the deputy clerk processes the payroll, the two individuals responsible for signing the checks should review each check and the supporting payroll journals before signing the checks. When reconciling the payroll bank account, the City Clerk should review all checks for duplicate or additional payroll checks to the same individual.

Response

In the future, all individuals responsible for the processing of payroll will exercise due diligence over their assigned duties.