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**CITY OF HOLLY SPRINGS, MISSISSIPPI**

**Audited Financial Statements and  
Special Reports**

**September 30, 2018**

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## CITY OF HOLLY SPRINGS, MISSISSIPPI

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



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**INDEPENDENT AUDITORS' REPORT**

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

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Holly Springs, Mississippi, as of and for the year ended September 30, 2018, and the related notes to financial statements, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements as listed in the contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Holly Springs, Mississippi, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

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

#### *Other Information*

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

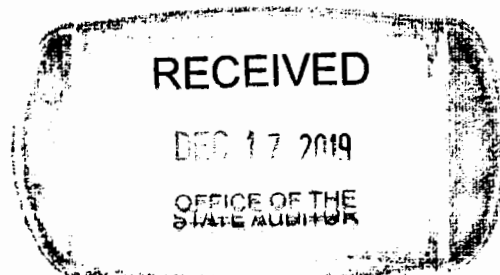
The schedule of expenditures of federal awards and the schedule of surety bonds for municipal officials are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2019, on our consideration of the City of Holly Springs, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Holly Springs, Mississippi's internal control over financial reporting and compliance.

West Point, Mississippi  
November 20, 2019

*Watkins Ward and Stafford, P.C.*





BASIC FINANCIAL STATEMENTS

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Net Position**  
**September 30, 2018**

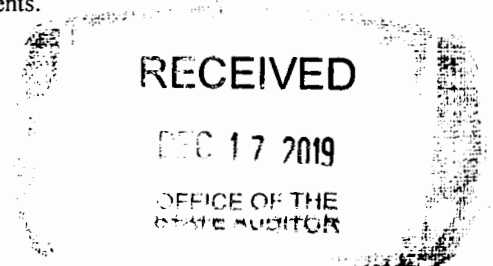
|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>      |
|---|------------------------------------|-------------------------------------|-------------------|
| <b><u>Assets:</u></b>                                 |                                    |                                     |                   |
| Cash and cash equivalents                             | \$ 1,106,514                       | 1,968,801                           | 3,075,315         |
| Investments   | 1,105,381                          | 6,289,397                           | 7,394,778         |
| Receivables (Net):                                    |                                    |                                     |                   |
| Accounts  |                                    | 2,960,193                           | 2,960,193         |
| Property taxes  | 35,851                             |                                     | 35,851            |
| Lease   | 294,532                            |                                     | 294,532           |
| Other   | 515,344                            | 658,611                             | 1,173,955         |
| Notes receivable (Net)                                | 15,000                             |                                     | 15,000            |
| Due from other entities                               |                                    | 1,295,476                           | 1,295,476         |
| Inventories   |                                    | 572,734                             | 572,734           |
| Prepaid items   |                                    | 183,525                             | 183,525           |
| Restricted assets:                                    |                                    |                                     |                   |
| Investments   |                                    | 635,341                             | 635,341           |
| Capital assets, net of accumulated depreciation       | 14,353,340                         | 40,237,033                          | 54,590,373        |
| Total Assets  | <u>\$ 17,425,962</u>               | <u>54,801,111</u>                   | <u>72,227,073</u> |
| <b><u>Deferred Outflow of Resources:</u></b>          |                                    |                                     |                   |
| Deferred outflows related to pensions                 | 131,151                            | 748,465                             | 879,616           |
| Deferred outflows related to conservation receivables |                                    | 26,858                              | 26,858            |
| Deferred outflows related to long-term debt           |                                    | 60,670                              | 60,670            |
| Total outflows of resources                           | <u>131,151</u>                     | <u>835,993</u>                      | <u>967,144</u>    |
| <b><u>Liabilities:</u></b>                            |                                    |                                     |                   |
| Accounts payable                                      | \$ 116,403                         | 4,591,723                           | 4,708,126         |
| Accrued interest payable                              | 17,270                             | 202,151                             | 219,421           |
| Due to other entities                                 | 262,327                            |                                     | 262,327           |
| Other liabilities                                     |                                    | 273,152                             | 273,152           |
| Payable from restricted assets:                       |                                    |                                     |                   |
| Deposits  |                                    | 1,458,124                           | 1,458,124         |
| Noncurrent liabilities:                               |                                    |                                     |                   |
| Due within one year                                   | 675,726                            | 1,989,083                           | 2,664,809         |
| Due in more than one year                             | 6,345,243                          | 12,066,088                          | 18,411,331        |
| Net pension liability                                 | 6,527,776                          | 6,769,900                           | 13,297,676        |
| Total Liabilities                                     | <u>13,944,745</u>                  | <u>27,350,221</u>                   | <u>41,294,966</u> |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Net Position**  
**September 30, 2018**

|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>      |
|---|------------------------------------|-------------------------------------|-------------------|
| <b><u>Deferred Inflows of Resources:</u></b>    |                                    |                                     |                   |
| Deferred inflows related to pensions            | 315,354                            | 605,911                             | 921,265           |
| Deferred inflows related to unearned income     |                                    | 19,059                              | 19,059            |
| Total deferred inflows of resources             | <u>315,354</u>                     | <u>624,970</u>                      | <u>940,324</u>    |
| <b><u>Net Position:</u></b>                     |                                    |                                     |                   |
| Invested in capital assets, net of related debt |                                    | 26,181,862                          | 26,181,862        |
| Restricted for:                                 |                                    |                                     |                   |
| Expendable:                                     |                                    |                                     |                   |
| Debt Services                                   |                                    | 604,846                             | 604,846           |
| Unrestricted                                    | 3,297,014                          | 875,205                             | 4,172,219         |
| Total Net Position                              | <u>\$ 3,297,014</u>                | <u>27,661,913</u>                   | <u>30,958,927</u> |

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



CITY OF HOLLY SPRINGS, MISSISSIPPI  
Statement of Activities  
For the Year Ended September 30, 2018

| Program Activities                   | Expenses      | Program Revenues     |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                          |             |
|--------------------------------------|---------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-------------|
|                                      |               | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Business-type Activities | Total       |
| Governmental Activities:             |               |                      |                                    |                                  |   |                          |             |
| General government                   | \$ 3,116,119  | 33,110               |                                    |                                  | (3,083,009)                                       |                          | (3,083,009) |
| Public safety                        | 2,254,398     | 143,674              | 8,543                              |                                  | (2,102,181)                                       |                          | (2,102,181) |
| Public works                         | 1,215,911     | 541,940              | 42,491                             | 497,273                          | (134,207)   |                          | (134,207)   |
| Cemetery                             | 422,262       | 27,812               |                                    |                                  | (394,450)   |                          | (394,450)   |
| Health and welfare                   | 3,959         |                      |                                    |                                  | (3,959)   |                          | (3,959)     |
| Culture and recreation               | 321,109       | 50,835               |                                    |                                  | (270,274)   |                          | (270,274)   |
| Community development                | 373,291       |                      | 61,000                             |                                  | (312,291)   |                          | (312,291)   |
| Intergovernmental                    | 235,326       |                      |                                    |                                  | (235,326)   |                          | (235,326)   |
| Interest on long-term debt           | 127,981       |                      |                                    |                                  | (127,981)   |                          | (127,981)   |
| Total Governmental Activities        | 8,070,356     | 797,371              | 112,034                            | 497,273                          | (6,663,678)                                       | -                        | (6,663,678) |
| Business-type Activities:            |               |                      |                                    |                                  |   |                          |             |
| Electric                             | 26,825,674    | 27,159,216           |                                    |                                  |   | 333,542                  | 333,542     |
| Water                                | 2,319,301     | 1,702,936            |                                    |                                  |   | (616,365)                | (616,365)   |
| Sewer                                | 949,016       | 1,040,526            |                                    |                                  |   | 91,510                   | 91,510      |
| Gas                                  | 2,953,821     | 3,637,277            |                                    |                                  |   | 683,456                  | 683,456     |
| Total Business-type Activities       | 33,047,812    | 33,539,955           | -                                  | -                                | -   | 492,143                  | 492,143     |
| Total Government                     | \$ 41,118,168 | 34,337,326           | 112,034                            | 497,273                          | (6,663,678)                                       | 492,143                  | (6,171,535) |
| General revenues:                    |               |                      |                                    |                                  |   |                          |             |
| Taxes:                               |               |                      |                                    |                                  |   |                          |             |
| Current year                         |               |                      |                                    |                                  | \$ 1,502,004                                      |                          | 1,502,004   |
| Prior year, penalties and interest   |               |                      |                                    |                                  | 29,319  |                          | 29,319      |
| Intergovernmental:                   |               |                      |                                    |                                  |   |                          |             |
| Local                                |               |                      |                                    |                                  | 3,047,153   |                          | 3,047,153   |
| State                                |               |                      |                                    |                                  | 1,811,290   |                          | 1,811,290   |
| Federal                              |               |                      |                                    |                                  |   | 1,155,873                | 1,155,873   |
| Interest                             |               |                      |                                    |                                  | 7,927   | 63,325                   | 71,252      |
| Miscellaneous                        |               |                      |                                    |                                  | 383,839   |                          | 383,839     |
| Transfers                            |               |                      |                                    |                                  | 306,640   | (306,640)                |             |
| Total General Revenues and Transfers |               |                      |                                    |                                  | 7,088,172   | 912,558                  | 8,000,730   |
| Change in net position               |               |                      |                                    |                                  | 424,494   | 1,404,701                | 1,829,195   |
| Net assets at beginning of year      |               |                      |                                    |                                  | 2,872,520   | 25,963,528               | 28,836,048  |
| Prior period adjustment              |               |                      |                                    |                                  | -   | 293,684                  | 293,684     |
| Net assets at beginning, as restated |               |                      |                                    |                                  | 2,872,520   | 26,257,212               | 29,129,732  |
| Net assets at end of year            |               |                      |                                    |                                  | 3,297,014   | 27,661,913               | 30,958,927  |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**

**Balance Sheet  
Governmental Funds  
September 30, 2018**

|   | <u>General</u>      | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|---------------------|---|---|
| <b><u>Assets:</u></b>                             |                     |   |   |
| Cash and cash equivalents                         | \$ 579,870          | 526,644                                 | 1,106,514                               |
| Investments                                       | 1,105,381           |   | 1,105,381                               |
| Receivables (Net):                                |                     |   |   |
| Property taxes                                    | 9,103               | 26,748                                  | 35,851                                  |
| Lease receivable                                  | 294,532             |   | 294,532                                 |
| Other   | 515,344             |   | 515,344                                 |
| Notes receivable (Net)                            | 15,000              |   | 15,000                                  |
| Due from other funds                              | 11,734              | 520,477                                 | 532,211                                 |
| Total Assets                                      | \$ <u>2,530,964</u> | <u>1,073,869</u>                        | <u>3,604,833</u>                        |
| <b><u>Liabilities:</u></b>                        |                     |   |   |
| Accounts payable                                  | \$ 114,947          | 55                                      | 115,002                                 |
| Due to other funds                                | 769,779             | 11,385                                  | 781,164                                 |
| Other liabilities                                 | 1,402               |   | 1,402                                   |
| Due to other entities                             |                     | 13,374                                  | 13,374                                  |
| Total Liabilities                                 | <u>886,128</u>      | <u>24,814</u>                           | <u>910,942</u>                          |
| <b><u>Fund Balances:</u></b>                      |                     |   |   |
| Reserved for:                                     |                     |   |   |
| Police  |                     |   |   |
| Fire protection                                   |                     | 93,321                                  | 93,321                                  |
| Unemployment benefits                             |                     | 20,815                                  | 20,815                                  |
| Home grants                                       |                     | 14                                      | 14                                      |
| Cemetery  |                     | 203,714                                 | 203,714                                 |
| Community development                             |                     | 106,112                                 | 106,112                                 |
| Debt service                                      |                     | 625,079                                 | 625,079                                 |
| Unreserved  | 1,644,836           |   | 1,644,836                               |
| Total Fund Balances                               | <u>1,644,836</u>    | <u>1,049,055</u>                        | <u>2,693,891</u>                        |
| <b><u>Total Liabilities and Fund Balances</u></b> | \$ <u>2,530,964</u> | <u>1,073,869</u>                        | <u>3,604,833</u>                        |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Reconciliation of the Governmental Funds**  
**Balance Sheet to Statement of Net Position**  
**September 30, 2018**

|   |    |           |
|---|----|-----------|
| Total fund balance - total governmental funds | \$ | 2,693,891 |
|---|----|-----------|

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

|  |  |            |
|--|--|------------|
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. |  | 14,353,340 |
|--|--|------------|

|   |  |          |
|---|--|----------|
| Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds balance sheet. |  | (17,270) |
|---|--|----------|

Long-term liabilities are not due and payable in the current period and, therefore not reported in the governmental funds balance sheet:

|   |    |           |              |
|---|----|-----------|--------------|
| Due within one year   | \$ | 675,726   |              |
| Due in more than one year                                   |    | 6,345,243 |              |
| Pension liability and related deferred outflows and inflows |    | 6,711,978 | (13,732,947) |

|   |    |           |
|---|----|-----------|
| Net Position of Governmental Activities | \$ | 3,297,014 |
|---|----|-----------|

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2018**

|  | <u>General</u>      | <u>Non-Major<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|---|---|
| <b><u>Revenues:</u></b>  |                     |   |   |
| Taxes:   |                     |   |   |
| Current year   | \$ 1,502,004        |   | 1,502,004                               |
| Prior year, penalties and interest                             | 29,319              |   | 29,319                                  |
| Licenses and permits   | 33,110              |   | 33,110                                  |
| Intergovernmental:   |                     |   |   |
| Federal revenue  | 497,273             |   | 497,273                                 |
| State shared:  |                     |   |   |
| Sales tax  | 1,364,298           | 326,062                                     | 1,690,360                               |
| State grants   | 109,594             |   | 109,594                                 |
| Liquor privilege tax   | 4,725               |   | 4,725                                   |
| TVA in-lieu  | 11,075              |   | 11,075                                  |
| General municipal aid  | 11,486              |   | 11,486                                  |
| Homestead reimbursement  | 96,084              |   | 96,084                                  |
| Local revenue  | 3,047,145           |   | 3,047,145                               |
| Charges for services   | 592,775             |   | 592,775                                 |
| Fines and forfeits   | 143,674             |   | 143,674                                 |
| Miscellaneous revenues   | 227,574             | 192,004                                     | 419,578                                 |
| Total Revenues   | <u>7,670,136</u>    | <u>518,066</u>                              | <u>8,188,202</u>                        |
| <b><u>Expenditures:</u></b>                                    |                     |   |   |
| General government   | 3,051,131           |   | 3,051,131                               |
| Public Safety:   |                     |   |   |
| Police   | 1,307,019           |   | 1,307,019                               |
| Fire   | 834,355             |   | 834,355                                 |
| Public Works:  |                     |   |   |
| Highways and streets   | 603,088             |   | 603,088                                 |
| Sanitation   | 284,583             |   | 284,583                                 |
| Cemetery   | 396,435             |   | 396,435                                 |
| Health and welfare   | 3,959               |   | 3,959                                   |
| Culture and recreation   | 318,421             |   | 318,421                                 |
| Community development  |                     | 373,291                                     | 373,291                                 |
| Debt service:  |                     |   |   |
| Principal  | 549,060             |   | 549,060                                 |
| Interest and fiscal charges                                    | 127,981             |   | 127,981                                 |
| Intergovernmental  | 235,326             |   | 235,326                                 |
| Total Expenditures   | <u>7,711,358</u>    | <u>373,291</u>                              | <u>8,084,649</u>                        |
| Excess of Revenues Over (Under) Expenditures                   | <u>(41,222)</u>     | <u>144,775</u>                              | <u>103,553</u>                          |
| <b><u>Other Financing Sources (Uses):</u></b>                  |                     |   |   |
| Operating transfers in   | 306,640             |   | 306,640                                 |
| Total Other Financing Sources (Uses)                           | <u>306,640</u>      | <u>-</u>                                    | <u>306,640</u>                          |
| Excess of Revenues Over (Under) Expenditures<br>and Other Uses | 265,418             | 144,775                                     | 410,193                                 |
| <b><u>Fund Balances:</u></b>                                   |                     |   |   |
| October 1, 2017  | 1,379,418           | 904,280                                     | 2,283,698                               |
| September 30, 2018   | <u>\$ 1,644,836</u> | <u>1,049,055</u>                            | <u>2,693,891</u>                        |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2018**

|  |    |         |
|--|----|---------|
| Net change in fund balances - total governmental funds | \$ | 410,193 |
|--|----|---------|

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

|  |  |        |
|--|--|--------|
| Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current year. |  | 90,410 |
|--|--|--------|

|  |  |           |
|--|--|-----------|
| Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but the do not require the use of current financial resources. Therefore, depreciation expense is not recorded as an expenditure in governmental funds. |  | (628,107) |
|--|--|-----------|

|   |  |         |
|---|--|---------|
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governments funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items. |  | 678,802 |
|---|--|---------|

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



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2018**

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

\$ 5,516

Change in long-term compensated absences

(64,871)

Change in unfunded pension liability

(67,449)

Change in Net Position of Governmental Activities

\$ 424,494

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**

**Statement of Fund Net Assets**

**Proprietary Funds**

**September 30, 2018**

|   | Business-type Activities<br>Enterprise Funds |                     |                     |                   |                               |
|---|--|---------------------|---------------------|-------------------|-------------------------------|
|   | June 30, 2018                                | September 30, 2018  |                     |                   |                               |
|   | Electric<br>Department                       | Water<br>Department | Sewer<br>Department | Gas<br>Department | Total<br>Proprietary<br>Funds |
| <b><u>Assets:</u></b>                                     |  |                     |                     |                   |                               |
| Current Assets:   |  |                     |                     |                   |                               |
| Cash and cash equivalents                                 | \$ 1,139,244                                 | 217,837             | 372,785             | 238,935           | 1,968,801                     |
| Investments   | 3,941,972                                    | 731,254             | 315,743             | 1,300,428         | 6,289,397                     |
| Receivables (Net):  |  |                     |                     |                   |                               |
| Accounts  | 2,960,193                                    |                     |                     |                   | 2,960,193                     |
| Other   | 648,083                                      |                     |                     |                   | 648,083                       |
| Due from other departments                                | 1,966,754                                    | 69,330              |                     |                   | 2,036,084                     |
| Due from city   | -  | 25,000              | 225,000             |                   | 250,000                       |
| Inventories   | 415,732                                      | 82,164              | 12,124              | 62,714            | 572,734                       |
| Prepaid items   | 52,239                                       | 92,627              | 12,986              | 25,673            | 183,525                       |
| Other current assets                                      | -  | 2,951               | 1,313               | 6,264             | 10,528                        |
| Total Current Assets                                      | <u>11,124,217</u>                            | <u>1,221,163</u>    | <u>939,951</u>      | <u>1,634,014</u>  | <u>14,919,345</u>             |
| Restricted Assets:  |  |                     |                     |                   |                               |
| Bond sinking funds  | 88,637                                       | 162,960             | 40,016              | 313,233           | 604,846                       |
| Investments   | 30,495                                       |                     |                     |                   | 30,495                        |
| Total Restricted Assets                                   | <u>119,132</u>                               | <u>162,960</u>      | <u>40,016</u>       | <u>313,233</u>    | <u>635,341</u>                |
| Non-current Assets:                                       |  |                     |                     |                   |                               |
| Capital assets:   |  |                     |                     |                   |                               |
| Land  | 157,020                                      | 62,092              |                     | 1,118             | 220,230                       |
| Construction in progress                                  | 3,329,979                                    | 569,108             | 894,874             | 1,691,127         | 6,485,088                     |
| Other capital assets, net of<br>accumulated depreciation  | <u>15,724,351</u>                            | <u>7,550,378</u>    | <u>4,816,569</u>    | <u>5,440,417</u>  | <u>33,531,715</u>             |
| Total Non-current Assets                                  | <u>19,211,350</u>                            | <u>8,181,578</u>    | <u>5,711,443</u>    | <u>7,132,662</u>  | <u>40,237,033</u>             |
| Total Assets  | <u>30,454,699</u>                            | <u>9,565,701</u>    | <u>6,691,410</u>    | <u>9,079,909</u>  | <u>55,791,719</u>             |
| <b><u>Deferred Outflows of Resources</u></b>              |  |                     |                     |                   |                               |
| Deferred outflows related to the<br>net pension liability | 424,873                                      | 197,935             | 43,963              | 81,694            | 748,465                       |
| Deferred outflows related to<br>conservation receivable   | 26,858                                       |                     |                     |                   | 26,858                        |
| Deferred outflows related to<br>long-term debt            |  | 47,022              | 10,079              | 3,569             | 60,670                        |
| Total Deferred Outflows<br>of Resources                   | <u>451,731</u>                               | <u>244,957</u>      | <u>54,042</u>       | <u>85,263</u>     | <u>835,993</u>                |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Fund Net Position**  
**Proprietary Funds**  
**September 30, 2018**

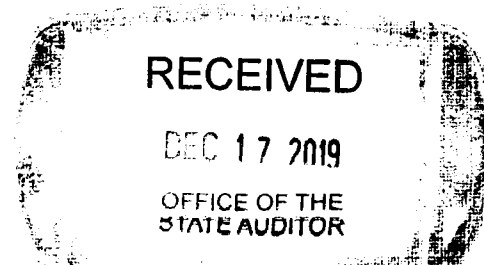
|   | Business-type Activities<br>Enterprise Funds |                     |                     |                   |                               |
|---|--|---------------------|---------------------|-------------------|-------------------------------|
|   | June 30, 2018                                | September 30, 2018  |                     |                   |                               |
|   | Electric<br>Department                       | Water<br>Department | Sewer<br>Department | Gas<br>Department | Total<br>Proprietary<br>Funds |
| <b><u>Liabilities</u></b>                             |  |                     |                     |                   |                               |
| Current liabilities:                                  |  |                     |                     |                   |                               |
| Accounts payable                                      | \$ 4,591,723                                 |                     |                     |                   | 4,591,723                     |
| Customer deposits                                     | 1,220,102                                    | 66,803              |                     | 171,219           | 1,458,124                     |
| Due to other departments                              | 66,373                                       | 450,662             | 258,673             | 214,900           | 990,608                       |
| Current portion of long-term debt                     | 234,442                                      | 149,313             | 131,346             | 291,685           | 806,786                       |
| Notes payable   | 1,182,297                                    | -                   | -                   | -                 | 1,182,297                     |
| Accrued interest payable                              | 21,511                                       | 49,475              | 19,824              | 111,341           | 202,151                       |
| Other current liabilities                             | 164,324                                      | 32,630              | 12,622              | 63,576            | 273,152                       |
| Total Current Liabilities                             | 7,480,772                                    | 748,883             | 422,465             | 852,721           | 9,504,841                     |
| Non-current liabilities:                              |  |                     |                     |                   |                               |
| Net pension liability                                 | 3,842,331                                    | 1,301,197           | 511,131             | 1,115,241         | 6,769,900                     |
| Long-term debt  | 1,932,328                                    | 3,657,877           | 1,111,075           | 5,364,808         | 12,066,088                    |
| Total Non-current Liabilities                         | 5,774,659                                    | 4,959,074           | 1,622,206           | 6,480,049         | 18,835,988                    |
| Total Liabilities                                     | 13,255,431                                   | 5,707,957           | 2,044,671           | 7,332,770         | 28,340,829                    |
| <b><u>Deferred Inflows of Resources</u></b>           |  |                     |                     |                   |                               |
| Deferred inflows related to the net pension liability | 533,756                                      | 32,070              | 12,598              | 27,487            | 605,911                       |
| Deferred inflows related to the unearned income       | 19,059                                       |                     |                     |                   | 19,059                        |
| Total Deferred Inflows of Resources                   | 552,815                                      | 32,070              | 12,598              | 27,487            | 624,970                       |
| <b><u>Net Positions</u></b>                           |  |                     |                     |                   |                               |
| Invested in capital assets, net of related debt       | 15,862,283                                   | 4,374,388           | 4,469,022           | 1,476,169         | 26,181,862                    |
| Restricted:   |  |                     |                     |                   |                               |
| Debt service  | 88,637                                       | 162,960             | 40,016              | 313,233           | 604,846                       |
| Unrestricted (deficit)                                | 1,147,264                                    | (466,717)           | 179,145             | 15,513            | 875,205                       |
| Total Net Assets                                      | \$ 17,098,184                                | 4,070,631           | 4,688,183           | 1,804,915         | 27,661,913                    |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

|   | Business - type Activities<br>Enterprise Funds |                     |                     |                   | Total<br>Proprietary<br>Funds |
|---|--|---------------------|---------------------|-------------------|-------------------------------|
|   | June 30, 2018                                  | September 30, 2018  |                     |                   |                               |
|   | Electric<br>Department                         | Water<br>Department | Sewer<br>Department | Gas<br>Department |                               |
| <b>Operating Revenues:</b>                          |  |                     |                     |                   |                               |
| Charges for services                                | \$ 27,159,216                                  | 1,702,936           | 1,040,526           | 3,637,277         | 33,539,955                    |
| <b>Operating Expenses:</b>                          |  |                     |                     |                   |                               |
| Power purchased                                     | 19,632,476                                     |                     |                     |                   | 19,632,476                    |
| Gas purchased                                       |  |                     |                     | 1,465,899         | 1,465,899                     |
| Operation and maintenance                           | 4,189,085                                      | 1,232,243           | 537,826             | 752,805           | 6,711,959                     |
| Depreciation  | 1,028,654                                      | 667,696             | 269,615             | 236,341           | 2,202,306                     |
| Taxes   | 1,894,496                                      | 270,993             | 85,837              | 350,745           | 2,602,071                     |
| Total Operating Expenses                            | 26,744,711                                     | 2,170,932           | 893,278             | 2,805,790         | 32,614,711                    |
| Operating Income (Loss)                             | 414,505  | (467,996)           | 147,248             | 831,487           | 925,244                       |
| <b>Nonoperating Revenues:</b>                       |  |                     |                     |                   |                               |
| Federal grant awarded                               | 126,205  | 395,523             | 531,285             | 81,796            | 1,134,809                     |
| State grant awarded                                 | 21,064   |                     |                     |                   | 21,064                        |
| Interest income                                     | 38,284   | 8,985               | 3,839               | 12,217            | 63,325                        |
| Total Nonoperating Revenues                         | 185,553  | 404,508             | 535,124             | 94,013            | 1,219,198                     |
| <b>Nonoperating Expenses:</b>                       |  |                     |                     |                   |                               |
| Interest expense                                    | 77,483   | 136,334             | 55,005              | 147,894           | 416,716                       |
| Amortization  | -  | 3,267               | 733                 | 137               | 4,137                         |
| Miscellaneous                                       | 3,480  | 8,768               |                     |                   | 12,248                        |
| Total Nonoperating Expenses                         | 80,963   | 148,369             | 55,738              | 148,031           | 433,101                       |
| Net Income (Loss) before Transfers                  | 519,095  | (211,857)           | 626,634             | 777,469           | 1,711,341                     |
| <b>Other</b>  |  |                     |                     |                   |                               |
| Transfers   |  |                     |                     | (306,640)         | (306,640)                     |
| Total Other   | -  | -                   | -                   | (306,640)         | (306,640)                     |
| Change in Net Position                              | 519,095  | (211,857)           | 626,634             | 470,829           | 1,404,701                     |
| <b>Net Position at Beginning of Year</b>            |  |                     |                     |                   |                               |
| As previously reported                              | 16,579,089                                     | 4,282,488           | 4,061,549           | 1,040,402         | 25,963,528                    |
| Prior period adjustment -<br>federal grants awarded |  |                     |                     | 293,684           | 293,684                       |
| As restated   | 16,579,089                                     | 4,282,488           | 4,061,549           | 1,334,086         | 26,257,212                    |
| <b>Net Position at End of Year</b>                  | \$ 17,098,184                                  | 4,070,631           | 4,688,183           | 1,804,915         | 27,661,913                    |

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



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

|   | Business-type Activities<br>Enterprise Funds |                     |                     |                   |                      |
|---|--|---------------------|---------------------|-------------------|----------------------|
|   | June 30, 2018                                | September 30, 2018  |                     |                   | Total                |
|   | Electric<br>Department                       | Water<br>Department | Sewer<br>Department | Gas<br>Department | Proprietary<br>Funds |
| <b>Cash Flows from Operating Activities:</b>                    |  |                     |                     |                   |                      |
| Cash received from customers                                    | \$ 25,190,092                                | 2,059,879           | 1,467,233           | 3,884,390         | 32,601,594           |
| Other operating cash receipts                                   | 388,332                                      | 21,148              | 15,686              | 49,601            | 474,767              |
| Cash payments to suppliers for goods and services               | (19,274,833)                                 |                     |                     | (1,465,899)       | (20,740,732)         |
| Operating expenses  | (4,230,760)                                  | (1,232,243)         | (537,826)           | (2,218,704)       | (8,219,533)          |
| Taxes   | (1,894,496)                                  | (270,993)           | (85,837)            | (44,105)          | (2,295,431)          |
| Net Cash Provided by (Used in) Operating Activities             | 178,335                                      | 577,791             | 859,256             | 205,283           | 1,820,665            |
| <b>Cash Flows from Noncapital Financing Activities:</b>         |  |                     |                     |                   |                      |
| Contributions paid to City                                      |  |                     |                     | (306,640)         | (306,640)            |
| Net Cash Used in Noncapital Financing Activities                | -  | -                   | -                   | (306,640)         | (306,640)            |
| <b>Cash Flows from Capital and Related Financing Activities</b> |  |                     |                     |                   |                      |
| Acquisition of capital assets (net of removal and salvage)      | (1,693,154)                                  | (436,710)           | (897,324)           | (602,230)         | (3,629,418)          |
| Retirement of capital assets                                    | (98,571)                                     |                     |                     |                   | (98,571)             |
| Receipt of federal grants awarded                               |  | 395,523             | 531,285             | 81,796            | 1,008,604            |
| Proceeds from borrowing   |  |                     |                     | 1,618,996         | 1,618,996            |
| Principal payment on long-term debt                             | (512,309)                                    | (174,126)           | (144,745)           | (75,949)          | (907,129)            |
| Change in sinking funds   | 480,667                                      | 259,667             | 5,046               | 727,340           | 1,472,720            |
| Interest paid   | (67,417)                                     | (151,621)           | (55,611)            | (153,800)         | (428,449)            |
| Net Cash Used in from Noncapital Financing Activities           | (1,890,784)                                  | (107,267)           | (561,349)           | 1,596,153         | (963,247)            |
| <b>Cash Flows from Investing Activities:</b>                    |  |                     |                     |                   |                      |
| Change in investments   | 1,655,097                                    | (253,540)           | 66,436              | (1,288,211)       | 179,782              |
| TVA advances  | (4,816)                                      |                     |                     |                   | (4,816)              |
| Net Cash Provided by (Used in) from Investing Activities        | 1,650,281                                    | (253,540)           | 66,436              | (1,288,211)       | 174,966              |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>     | (62,168)                                     | 216,984             | 364,343             | 206,585           | 725,744              |
| <b>Cash and Cash Equivalents at Beginning of Year</b>           | 1,201,412                                    | 853                 | 8,442               | 32,350            | 1,243,057            |
| <b>Cash and Cash Equivalents at End of Year</b>                 | \$ 1,139,244                                 | 217,837             | 372,785             | 238,935           | 1,968,801            |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

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|  | Business-type Activities<br>Enterprise Funds |                     |                     |                   |                      |
|--|--|---------------------|---------------------|-------------------|----------------------|
|  | June 30, 2018                                | September 30, 2018  |                     |                   | Total                |
|  | Electric<br>Department                       | Water<br>Department | Sewer<br>Department | Gas<br>Department | Proprietary<br>Funds |
| Reconciliation of income from operations to<br>net cash provided by (Used in) from Operating Activities: |  |                     |                     |                   |                      |
| Income (loss) from operations  | \$ 414,505                                   | (467,996)           | 147,248             | 831,487           | 925,244              |
| Adjustments to reconcile income from operations<br>to net cash provided by operating activities:         |  |                     |                     |                   |                      |
| Depreciation   | 1,140,666                                    | 667,696             | 269,615             | 236,341           | 2,314,318            |
| Federal grants awarded in prior year   |  |                     |                     | 293,684           | 293,684              |
| Other adjustments  | (3,480)                                      | (8,768)             |                     |                   | (12,248)             |
| (Increase) Decrease in current assets:   |  |                     |                     |                   |                      |
| Receivables  | (143,647)                                    |                     |                     |                   | (143,647)            |
| Due from other departments   | (1,220,290)                                  | 7,561               | 203,177             |                   | (1,009,552)          |
| Inventories  | (46,032)                                     | (22,022)            | 317                 | (6,631)           | (74,368)             |
| Prepaid expenses   | (709)  | (16,726)            | (7,110)             | (16,606)          | (41,151)             |
| Other current assets   | -  | (1,707)             | (583)               | (5,074)           | (7,364)              |
| Deferred outflows of resources   | 382,891                                      | (136,548)           | (18,467)            | (8,232)           | 219,644              |
| Increase (Decrease) in current liabilities:  |  |                     |                     |                   |                      |
| Accounts payable   | 85,525                                       |                     |                     |                   | 85,525               |
| Due to other departments   | 66,373                                       | 336,918             | 235,534             | (1,192,237)       | (553,412)            |
| Customer deposits  | 38,756                                       | (242)               |                     | 2,260             | 40,774               |
| Other liabilities  | (94,335)                                     | (2,945)             | (6,741)             | 170               | (103,851)            |
| Net pension liability  | (928,256)                                    | 288,334             | 72,273              | 136,123           | (431,526)            |
| Deferred inflows of resources  | 486,368                                      | (65,764)            | (36,007)            | (66,002)          | 318,595              |
| Net Cash Provided by (Used in) Operating Activities  | \$ 178,335                                   | 577,791             | 859,256             | 205,283           | 1,820,665            |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Fund Net Position - Fiduciary Funds**  
**September 30, 2018**

|                             | <u>Agency<br/>Funds</u> |
|-----------------------------|-------------------------|
| <b><u>Assets:</u></b>       |                         |
| Receivables (net):          |                         |
| Property taxes              | \$ <u>12,242</u>        |
| Total Assets                | <u>12,242</u>           |
| <b><u>Liabilities:</u></b>  |                         |
| Other liabilities           | <u>12,242</u>           |
| Total Liabilities           | <u>12,242</u>           |
| <b><u>Net Position:</u></b> |                         |
| Held in Trust for Others    | \$ <u><u>-</u></u>      |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Fiduciary Funds**  
**September 30, 2018**

|                                  | <u>Agency<br/>Funds</u> |
|----------------------------------|-------------------------|
| <b><u>Additions:</u></b>         |                         |
| Property taxes                   | \$ 4,615,417            |
| Total Additions                  | <u>4,615,417</u>        |
| <b><u>Deductions:</u></b>        |                         |
| Payments to school district      | <u>4,615,417</u>        |
| Total Deductions                 | <u>4,615,417</u>        |
| Change in Net Position           | <u>-</u>                |
| Net Position - Beginning of Year | <u>-</u>                |
| Net Position - End of Year       | <u>\$ -</u>             |

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

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**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a. Financial Reporting Entity**

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

Included within the reporting entity:

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

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

Excluded from the reporting entity:

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

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

**b. Government-wide and Fund Financial Statements**

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

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

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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

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

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

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

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

**Governmental Funds**

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

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

**Proprietary Funds**

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Proprietary Funds (Continued)**

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

**Fiduciary Funds**

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

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

**d. Major Funds**

For 2018, the City reports the following major Governmental Funds:

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

The City reports the following major Enterprise Funds:

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

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

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

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

**e. Cash and Cash Equivalents**

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f. Investments**

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

**g. Inventories**

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

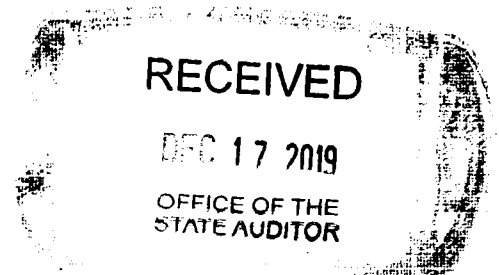
**h. Restricted Assets**

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

**i. Capital Assets**

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

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



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i. Capital Assets (Continued)**

The following schedule details the capitalization thresholds.

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

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

**j. Deferred Outflows/Inflows of Resources**

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

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

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

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

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**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**l. Compensated Employee Absences**

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

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

**m. Risk Management**

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

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

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

**o. Economic Dependency**

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



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**p. Fund Balances**

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

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

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

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

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

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

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

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**q. Use of Estimates**

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

**NOTE 2: PROPERTY TAX**

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

The tax rates applicable to 2017 are as follows:

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

All real and personal property taxes are collected by Marshall County and remitted to the City the month following collection. Collected but unremitted taxes as of September 30, 2018, have been properly accrued in the financial statements.

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 2: PROPERTY TAX (Continued)**

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

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

**NOTE 3: BUDGET POLICY**

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

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

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 3: BUDGET POLICY (Continued)**

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

**NOTE 4: CASH AND INVESTMENTS**

**Deposits**

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

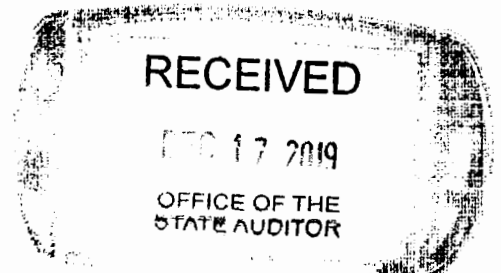
All of the City's funds eligible to be included in the state's collateral pool program were properly included and fully collateralized as of September 30, 2018.

**Investments**

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

**NOTE 5: CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION**

|  | <u>9/30/2016</u>             |                  |                        |                          |                           |
|--|------------------------------|------------------|------------------------|--------------------------|---------------------------|
|  | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>De-<br/>creases</u> | <u>Adjust-<br/>ments</u> | <u>Ending<br/>Balance</u> |
| <b><u>Governmental Activities:</u></b> |                              |                  |                        |                          |                           |
| Land                                   | \$ 1,020,054                 |                  |                        |                          | 1,020,054                 |
| Buildings and equipment                | 11,072,127                   | 90,410           |                        |                          | 11,162,537                |
| Streets                                | 10,086,303                   |                  |                        |                          | 10,086,303                |
| Less accumulated depreciation          | ( 7,287,447)                 | ( 628,107)       |                        |                          | ( 7,915,554)              |
| Governmental Activities                |                              |                  |                        |                          |                           |
| Capital Assets, Net                    | \$ 14,891,037                | ( 537,697)       | -                      | -                        | 14,353,340                |



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

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

**Business-type Activities:**

|                                |                     |
|--------------------------------|---------------------|
| Electric                       | \$ 1,028,654        |
| Water                          | 667,696             |
| Sewer                          | 269,615             |
| Gas                            | <u>236,341</u>      |
| Total Business-type Activities |                     |
| Depreciation Expense           | <u>\$ 2,202,306</u> |

In addition to the above amounts charged to depreciation expense in the Electric Department, utility accounting requires certain depreciation to be charged to building and transportation expenses. The net amount in 2018 is \$130,127.

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 3: BUDGET POLICY (Continued)**

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

**NOTE 4: CASH AND INVESTMENTS**

**Deposits**

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

All of the City's funds eligible to be included in the state's collateral pool program were properly included and fully collateralized as of September 30, 2018.

**Investments**

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

**NOTE 5: CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION**

|  | 9/30/2016                    |                  |                        |                          |                           |
|--|------------------------------|------------------|------------------------|--------------------------|---------------------------|
|  | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>De-<br/>creases</u> | <u>Adjust-<br/>ments</u> | <u>Ending<br/>Balance</u> |
| <b><u>Governmental Activities:</u></b> |                              |                  |                        |                          |                           |
| Land                                   | \$ 1,020,054                 |                  |                        |                          | 1,020,054                 |
| Buildings and equipment                | 11,072,127                   | 90,410           |                        |                          | 11,162,537                |
| Streets                                | 10,086,303                   |                  |                        |                          | 10,086,303                |
| Less accumulated depreciation          | ( 7,287,447)                 | ( 628,107)       |                        |                          | ( 7,915,554)              |
| Governmental Activities                |                              |                  |                        |                          |                           |
| Capital Assets, Net                    | \$ 14,891,037                | ( 537,697)       | -                      | -                        | 14,353,340                |



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

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

**Business-type Activities:**

|                                |                     |
|--------------------------------|---------------------|
| Electric                       | \$ 1,028,654        |
| Water                          | 667,696             |
| Sewer                          | 269,615             |
| Gas                            | <u>236,341</u>      |
| Total Business-type Activities |                     |
| Depreciation Expense           | <u>\$ 2,202,306</u> |

In addition to the above amounts charged to depreciation expense in the Electric Department, utility accounting requires certain depreciation to be charged to building and transportation expenses. The net amount in 2018 is \$130,127.

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 6: LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities reported in the government-wide financials for the year ended September 30, 2018:

|                               | <u>Beginning<br/>Balance</u> | <u>Additions/<br/>Proceeds</u> | <u>Reductions/<br/>Payments</u> | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|-------------------------------|------------------------------|--------------------------------|---------------------------------|---------------------------|--------------------------------|
| Government Activities:        |                              |                                |                                 |                           |                                |
| Bonds payable:                |                              |                                |                                 |                           |                                |
| General Obligation            |                              |                                |                                 |                           |                                |
| Bonds - Street                | \$ 1,290,000                 |                                | (110,000)                       | 1,180,000                 | 115,000                        |
| General Obligation            |                              |                                |                                 |                           |                                |
| Bonds - Police Station        | 2,200,000                    |                                | (10,000)                        | 2,190,000                 | 195,000                        |
| Total                         | <u>3,490,000</u>             | <u>-</u>                       | <u>(120,000)</u>                | <u>3,370,000</u>          | <u>310,000</u>                 |
| Notes Payable:                |                              |                                |                                 |                           |                                |
| Wenco                         | 318,981                      |                                | (25,590)                        | 293,391                   | 26,824                         |
| TIF (Kenlan)                  | 54,000                       |                                | (26,000)                        | 28,000                    | 28,000                         |
| State aid                     | 260,528                      |                                | (94,212)                        | 166,316                   | 95,411                         |
| MDA                           | 2,775,000                    |                                | (150,000)                       | 2,625,000                 | 150,000                        |
| Total                         | <u>3,408,509</u>             | <u>-</u>                       | <u>(295,802)</u>                | <u>3,112,707</u>          | <u>300,235</u>                 |
| Capital Lease Obligations:    |                              |                                |                                 |                           |                                |
| Fire truck                    | 42,820                       |                                | (42,820)                        | -                         | -                              |
| Ariel Fire truck              | 83,584                       |                                | (14,192)                        | 69,392                    | 14,823                         |
| Pierce Fire Truck             | 368,879                      |                                | (27,551)                        | 341,328                   | 28,615                         |
| Storm Warning System          | 43,238                       |                                | (21,185)                        | 22,053                    | 22,053                         |
| Police Autos                  | 27,510                       |                                | (27,510)                        | -                         | -                              |
| Total                         | <u>566,031</u>               | <u>-</u>                       | <u>(133,258)</u>                | <u>432,773</u>            | <u>65,491</u>                  |
| Compensated absences          | <u>170,360</u>               |                                | <u>(64,871)</u>                 | <u>105,489</u>            | <u>-</u>                       |
| Total Governmental Activities | <u>7,634,900</u>             | <u>-</u>                       | <u>(613,931)</u>                | <u>7,020,969</u>          | <u>675,726</u>                 |
| Business-type Activities:     |                              |                                |                                 |                           |                                |
| Bonds payable:                |                              |                                |                                 |                           |                                |
| Electric department           | 2,446,000                    |                                | (471,000)                       | 1,975,000                 | 195,000                        |
| Water department              | 3,893,033                    |                                | (146,245)                       | 3,746,788                 | 119,913                        |
| Gas department                | 848,200                      |                                | (34,500)                        | 813,700                   | 27,973                         |
| Sewer department              | 4,113,446                    |                                | (75,949)                        | 4,037,497                 | 80,662                         |
| Total Bonds Payable           | <u>11,300,679</u>            | <u>-</u>                       | <u>(727,694)</u>                | <u>10,572,985</u>         | <u>423,548</u>                 |



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 6: LONG-TERM LIABILITIES (Continued)**

|                             | <u>Beginning<br/>Balance</u> | <u>Additions/<br/>Proceeds</u> | <u>Reductions/<br/>Payments</u> | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|-----------------------------|------------------------------|--------------------------------|---------------------------------|---------------------------|--------------------------------|
| Notes Payable:              |                              |                                |                                 |                           |                                |
| Electric department         | 1,182,297                    |                                |                                 | 1,182,297                 | 1,182,297                      |
| Gas department              | -                            | 1,618,996                      |                                 | 1,618,996                 | 211,023                        |
| Total Notes Payable         | <u>1,182,297</u>             | <u>1,618,996</u>               | <u>-</u>                        | <u>2,801,293</u>          | <u>1,393,320</u>               |
| Capital Lease Obligations:  |                              |                                |                                 |                           |                                |
| Electric Department         | 233,079                      |                                | (41,309)                        | 191,770                   | 39,442                         |
| Water Department            | 88,283                       |                                | (27,881)                        | 60,402                    | 29,400                         |
| Sewer Department            | 538,966                      |                                | (110,245)                       | 428,721                   | 103,373                        |
| Total Bonds Payable         | <u>860,328</u>               | <u>-</u>                       | <u>(179,435)</u>                | <u>680,893</u>            | <u>172,215</u>                 |
| Total Long-term Liabilities | <u>\$ 13,343,304</u>         | <u>1,618,996</u>               | <u>(907,129)</u>                | <u>14,055,171</u>         | <u>1,989,083</u>               |

**CITY OF HOLLY SPRINGS, MISSISSIPPI**

**Notes to Financial Statements**

**NOTE 6: LONG-TERM LIABILITIES (CONTINUED)**

Detail of bonds, notes and capital leases:

|                                      | <b>Date<br/>Issued</b> | <b>Final<br/>Maturity</b> | <b>Range<br/>Interest Rates<br/>at Issue Date</b> | <b>Original<br/>Amount</b> | <b>Balance at 9/30/2018</b>        |                                |
|--------------------------------------|------------------------|---------------------------|---|----------------------------|------------------------------------|--------------------------------|
|                                      |                        |                           |   |                            | <b>Governmental<br/>Activities</b> | <b>Business<br/>Activities</b> |
| General Obligations Bonds:           |                        |                           |   |                            |                                    |                                |
| Police bonds                         | 3/1/2008               | 3/1/2028                  | 4.000%  | 3,500,000                  | 2,190,000                          |                                |
| Water and sewer                      | 7/2/2012               | 4/1/2032                  | various   | 2,125,000                  |                                    | 1,455,000                      |
| Streets                              | 8/1/2015               | 8/1/2027                  | various   | 1,500,000                  | 1,180,000                          |                                |
| Notes Payable:                       |                        |                           |   |                            |                                    |                                |
| C.I.T. Equipment                     | 9/30/2008              | 12/1/2027                 | 3.000%  | 522,174                    | 293,391                            |                                |
| TIF (Kenlan)                         | 12/1/2008              | 12/1/2018                 | 5.000%  | 225,000                    | 28,000                             |                                |
| State aid                            | 7/1/2010               | 7/1/2020                  | 3.000%  | 873,000                    | 166,316                            |                                |
| Mississippi Development<br>Authority | 3/1/2015               | 3/1/2025                  | 0.000%  | 3,000,000                  | 2,625,000                          |                                |
| Line of Credit - Electric            | 2/17/2016              | N/A                       | 1.150%  | 2,000,000                  |                                    | 1,182,297                      |
| Due to Electric                      | 9/1/2018               | 9/1/2025                  | 3.000%  | 1,618,996                  |                                    | 1,618,996                      |
| Capital Lease Obligations:           |                        |                           |   |                            |                                    |                                |
| Fire truck                           | 8/5/2012               | 8/8/2022                  | 4.392%  | 140,000                    | 69,392                             |                                |
| Pierce Arrow Fire Truck              | 4/5/2013               | 4/5/2028                  | 3.860%  | 469,216                    | 341,328                            |                                |
| Street Compactor                     | 3/26/2013              | 2/26/2017                 | 3.225%  | 60,000                     | 22,053                             |                                |
| Storm Warning System                 | 4/10/2014              | 4/10/2019                 | 4.100%  | 124,875                    |                                    |                                |
| Brush Cutter - Electric              | 12/15/2016             | 12/15/2022                | 3.255   | 245,500                    |                                    | 191,770                        |
| Two (2) Ford F-150's - Water         | 4/28/2017              | 4/28/2020                 | 5.45%   | 120,975                    |                                    | 60,402                         |
| Vacuum Truck - Sewer                 | 12/22/2016             | 12/22/2021                | 2.39%   | 409,075                    |                                    | 325,243                        |
| Truck Camera System - Sewer          | 1/24/2017              | 1/24/2022                 | 2.39%   | 129,891                    |                                    | 103,478                        |
| Revenue Bonds:                       |                        |                           |   |                            |                                    |                                |
| Electric                             | 11/3/2015              | 5/1/2027                  | Various   | 2,195,000                  |                                    | 1,975,000                      |
| Rural development - Water            | 5/27/2008              | 5/27/2043                 | 4.500%  | 571,900                    |                                    | 496,732                        |
| Rural Development - Water            | 2/25/2015              | 2/25/2050                 | 3.000%  | 2,181,450                  |                                    | 2,086,056                      |
| Rural development - Sewer            | 6/25/2009              | 6/25/2044                 | 4.500%  | 594,830                    |                                    | 522,700                        |
| Rural Development - Gas              | 10/6/2010              | 10/6/2045                 | 3.750%  | 2,850,000                  |                                    | 2,526,475                      |
| Rural Development - Gas              | 5/19/2015              | 5/19/2050                 | 3.500%  | 1,565,000                  |                                    | 1,511,022                      |
|                                      |                        |                           |   |                            | <u>\$ 6,915,480</u>                | <u>14,055,171</u>              |

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 6: LONG-TERM LIABILITIES (CONTINUED)**

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

Governmental Activities:

| <b>Fiscal Year</b>              |                 |        | <b>Fiscal Year</b>              |                 |        | <b>Fiscal Year</b>    |                 |        |
|---------------------------------|-----------------|--------|---------------------------------|-----------------|--------|-----------------------|-----------------|--------|
| <b>Ending 9/30</b>              |                 |        | <b>Ending 9/30</b>              |                 |        | <b>Ending</b>         |                 |        |
| <b>General Obligation Bonds</b> |                 |        | <b>General Obligation Bonds</b> |                 |        | <b>Capital Leases</b> |                 |        |
| <b>Principal</b>                | <b>Interest</b> |        | <b>Principal</b>                | <b>Interest</b> |        | <b>Principal</b>      | <b>Interest</b> |        |
| 2019                            | 195,000         | 44,647 | 2019                            | 115,000         | 33,188 | 2019                  | 65,491          | 16,705 |
| 2020                            | 195,000         | 41,575 | 2020                            | 120,000         | 29,738 | 2020                  | 45,201          | 14,037 |
| 2021                            | 205,000         | 37,575 | 2021                            | 120,000         | 26,138 | 2021                  | 47,037          | 12,203 |
| 2022                            | 210,000         | 33,425 | 2022                            | 125,000         | 22,538 | 2022                  | 48,948          | 10,291 |
| 2023                            | 215,000         | 29,175 | 2023                            | 130,000         | 18,788 | 2023                  | 39,321          | 8,495  |
| 2024-2028                       | 1,170,000       | 72,762 | 2024-2027                       | 570,000         | 40,687 | 2024-2028             | 186,775         | 22,174 |
| <b>\$ 2,190,000</b>             | <b>259,159</b>  |        | <b>\$ 1,180,000</b>             | <b>171,077</b>  |        | <b>\$ 432,773</b>     | <b>83,905</b>   |        |

| <b>Fiscal Year</b>   |                 |        | <b>Fiscal Year</b>        |                 |     | <b>Fiscal Year</b>   |                 |       |
|----------------------|-----------------|--------|---------------------------|-----------------|-----|----------------------|-----------------|-------|
| <b>Ending 9/30</b>   |                 |        | <b>Ending 9/30</b>        |                 |     | <b>Ending 9/30</b>   |                 |       |
| <b>Notes Payable</b> |                 |        | <b>Notes Payable</b>      |                 |     | <b>Notes Payable</b> |                 |       |
| <b>CIT Equipment</b> |                 |        | <b>TIF (Kenlan) Bonds</b> |                 |     | <b>State Aid</b>     |                 |       |
| <b>Principal</b>     | <b>Interest</b> |        | <b>Principal</b>          | <b>Interest</b> |     | <b>Principal</b>     | <b>Interest</b> |       |
| 2019                 | 26,824          | 8,115  | 2019                      | 28,000          | 648 | 2019                 | 95,411          | 3,021 |
| 2020                 | 27,410          | 7,979  |                           |                 |     | 2020                 | 70,905          | 2,000 |
| 2021                 | 28,117          | 8,329  |                           |                 |     |                      |                 |       |
| 2022                 | 28,849          | 6,092  |                           |                 |     |                      |                 |       |
| 2023                 | 29,726          | 5,213  |                           |                 |     |                      |                 |       |
| 2024-2028            | 152,465         | 14,010 |                           |                 |     |                      |                 |       |
| <b>\$ 293,391</b>    | <b>49,738</b>   |        | <b>\$ 28,000</b>          | <b>648</b>      |     | <b>\$ 166,316</b>    | <b>5,021</b>    |       |

| <b>Fiscal Year</b>                   |                 |  |
|--------------------------------------|-----------------|--|
| <b>Ending 9/30</b>                   |                 |  |
| <b>Notes Payable</b>                 |                 |  |
| <b>Mississippi Development</b>       |                 |  |
| <b>Authority: Principal Interest</b> |                 |  |
| <b>\$ Principal</b>                  | <b>Interest</b> |  |
| 2019                                 | 150,000         |  |
| 2020                                 | 150,000         |  |
| 2021                                 | 150,000         |  |
| 2022                                 | 150,000         |  |
| 2023                                 | 150,000         |  |
| 2024-2025                            | 1,875,000       |  |
| <b>\$ 2,625,000</b>                  | <b>-</b>        |  |

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 6: LONG-TERM LIABILITIES (CONTINUED)**

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

Business Type Activities;

| <b>Electric Revenue Bonds</b>      |                     |                 | <b>Water Revenue Bonds</b>         |                     |                  | <b>Gas Revenue Bonds</b>      |                     |                  |
|------------------------------------|---------------------|-----------------|------------------------------------|---------------------|------------------|-------------------------------|---------------------|------------------|
| <b>Fiscal Year<br/>Ending 6/30</b> | <b>Principal</b>    | <b>Interest</b> | <b>Fiscal Year<br/>Ending 9/30</b> | <b>Principal</b>    | <b>Interest</b>  | <b>Fiscal Year<br/>Ending</b> | <b>Principal</b>    | <b>Interest</b>  |
| 2019                               | 195,000             | 50,750          | 2019                               | 51,913              | 84,935           | 2019                          | 80,662              | 147,634          |
| 2020                               | 195,000             | 46,850          | 2020                               | 53,639              | 83,209           | 2020                          | 83,617              | 144,679          |
| 2021                               | 205,000             | 42,950          | 2021                               | 55,425              | 81,423           | 2021                          | 86,681              | 141,615          |
| 2022                               | 210,000             | 37,825          | 2022                               | 57,272              | 79,576           | 2022                          | 89,857              | 138,439          |
| 2023                               | 215,000             | 32,575          | 2023                               | 59,182              | 77,666           | 2023                          | 93,150              | 135,146          |
| 2024-2027                          | 955,000             | 70,563          | 2024-2027                          | 2,305,357           | 1,100,806        | 2024-2050                     | 3,603,530           | 2,395,080        |
|                                    | <u>\$ 1,975,000</u> | <u>281,513</u>  |                                    | <u>\$ 2,582,788</u> | <u>1,507,615</u> |                               | <u>\$ 4,037,497</u> | <u>3,102,593</u> |

| <b>Sewer Revenue Bonds</b>         |                   |                 | <b>General Obligation Bonds</b>    |                     |                 | <b>Capital Leases</b>              |                   |                 |
|------------------------------------|-------------------|-----------------|------------------------------------|---------------------|-----------------|------------------------------------|-------------------|-----------------|
| <b>Fiscal Year<br/>Ending 9/30</b> | <b>Principal</b>  | <b>Interest</b> | <b>Fiscal Year<br/>Ending 9/30</b> | <b>Principal</b>    | <b>Interest</b> | <b>Fiscal Year<br/>Ending 9/30</b> | <b>Principal</b>  | <b>Interest</b> |
| 2019                               | 10,973            | 23,521          | 2019                               | 85,000              | 45,020          | 2019                               | 172,215           | 19,406          |
| 2020                               | 11,467            | 23,028          | 2020                               | 90,000              | 43,001          | 2020                               | 177,505           | 14,009          |
| 2021                               | 11,982            | 22,512          | 2021                               | 90,000              | 40,864          | 2021                               | 150,403           | 8,420           |
| 2022                               | 12,522            | 21,973          | 2022                               | 95,000              | 38,501          | 2022                               | 154,407           | 4,416           |
| 2023                               | 13,085            | 21,409          | 2023                               | 100,000             | 36,008          | 2023                               | 26,363            | 363             |
| 2024-2050                          | 462,671           | 261,707         | 2024-2032                          | 995,000             | 176,444         |                                    | <u>\$ 680,893</u> | <u>46,614</u>   |
|                                    | <u>\$ 522,700</u> | <u>374,150</u>  |                                    | <u>\$ 1,455,000</u> | <u>379,838</u>  |                                    |                   |                 |

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 7: TRANSFERS IN/OUT**

The following schedule reconciles transfers made among the Municipal Funds for the fiscal year ended September 30, 2018:

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

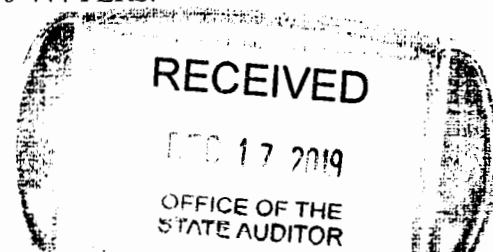
**NOTE 8: INTERFUND RECEIVABLES AND PAYABLES**

|                              | <u>Due From</u>   | <u>Due To</u>  |
|------------------------------|-------------------|----------------|
| Governmental Activities:     |                   |                |
| General fund                 | \$ 11,734         | 769,779        |
| Non-major governmental funds | <u>520,477</u>    | <u>11,385</u>  |
|                              | <u>532,211</u>    | <u>781,164</u> |
| Business-type Activities:    |                   |                |
| Water Department             | 25,000            |                |
| Sewer Department             | <u>225,000</u>    |                |
|                              | <u>250,000</u>    | _____          |
| Due Other Entities:          | _____             | 1,047          |
|                              | <u>\$ 782,211</u> | <u>782,211</u> |

**NOTE 9: DEFINED BENEFIT PENSION PLAN**

**General Information about the Pension Plan**

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



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

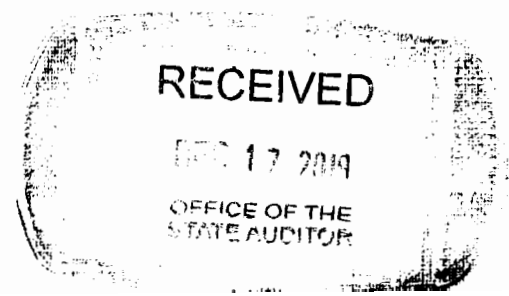
**NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)**

**General Information about the Pension Plan (Continued)**

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

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

*Contributions.* PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2016 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2018, 2017 and 2016 were \$860,703, \$820,180, and \$871,981, respectively, which equaled the required contributions for each year.



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions for the Year Ended September 30, 2018**

**General Information about the Pension Plan**

At September 30, 2018, the City reported a liability of \$13,297,676 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018 net pension liability was 0.0079961 percent.

For the year ended September 30, 2018, the City recognized pension expense of \$1,194,991. At September 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ 96,653                                 | 67,895                                   |
| Net difference between projected and actual earnings on pension plan investments                    |   | 237,292                                  |
| Changes in assumptions  | 90,980                                    | 11,771                                   |
| Change in proportion and differences between contributions and proportionate share of contributions | 263,611                                   | 604,309                                  |
| City contributions subsequent to the measurement date   | 428,372                                   |  |
|   | <u>\$ 879,616</u>                         | <u>921,267</u>                           |

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)**

\$428,372 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended September 30, |             |
|--------------------------|-------------|
| 2019                     | \$ (58,817) |
| 2020                     | (115,354)   |
| 2021                     | (179,109)   |
| 2022                     | (116,743)   |
| 2023                     | -           |
| Thereafter               | -           |

*Actuarial assumptions.* The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |  |
|---------------------------|--|
| Inflation                 | 3.00%  |
| Salary increases          | 3.25 – 18.50%, average, including inflation                        |
| Investment rate of return | 7.75%, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, with males rates set forward one year for males with adjustments.

The actuarial assumptions used in the June 30, 2018 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 HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 9: 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 are summarized in the following table:

| <u>Asset Class</u>      | <u>Target<br/>Allocation</u> |   | <u>Long-Term Expected<br/>Real Rate of Return</u> |   |
|-------------------------|------------------------------|---|---|---|
| U.S. Broad              | 27.00                        | % | 4.60  | % |
| International Equity    | 18.00                        |   | 4.50  |   |
| Emerging Markets Equity | 4.00                         |   | 4.75  |   |
| Global                  | 12.00                        |   | 4.75  |   |
| Fixed Income            | 18.00                        |   | .75   |   |
| Real Assets             | 10.00                        |   | 3.50  |   |
| Private Equity          | 8.00                         |   | 5.10  |   |
| Emerging Debt           | 2.00                         |   | 2.25  |   |
| Cash                    | 1.00                         |   | 0.00  |   |
| Total                   | <u>100.00</u>                | % |   |   |

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

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 9: DEFINED BENEFIT PENSION PLAN (Continued)**

|   | Current<br>Discount Rate<br>(6.75%) | Current<br>Discount Rate<br>(7.75%) | Current<br>Discount Rate<br>(8.75%) |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| City's proportionate share of the net pension liability | \$ 17,489,450                       | \$ 13,297,676                       | \$ 9,814,854                        |

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

**NOTE 10: PRIOR PERIOD ADJUSTMENT**

*Statement of Revenues, Expenses and Changes in Net Position*

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

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

**NOTE 11: NO COMMITMENT DEBT**

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

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

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Financial Statements**

**NOTE 12: SUBSEQUENT EVENTS**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Subsequent events have been evaluated through November 20, 2019, which is the date the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund**  
**Budget and Actual**  
**For the Year Ended September 30, 2018**

|  | <b>Budgeted Amounts</b> |                  | <b>Actual</b>    | <b>Variance with</b> |
|--|-------------------------|------------------|------------------|----------------------|
|  | <b>Original</b>         | <b>Final</b>     | <b>GAAP</b>      | <b>Final Budget</b>  |
|  |                         |                  | <b>Basis</b>     | <b>Positive</b>      |
|  |                         |                  |                  | <b>(Negative)</b>    |
| <b>Revenues:</b>                         |                         |                  |                  |                      |
| Taxes:                                   |                         |                  |                  |                      |
| Current year                             | \$ 1,455,000            | 1,455,000        | 1,502,004        | 47,004               |
| Prior year, penalties and interest       | 40,000                  | 40,000           | 29,319           | (10,681)             |
| Licenses and permits                     | 33,000                  | 33,000           | 33,110           | 110                  |
| Intergovernmental:                       |                         |                  |                  |                      |
| Local revenue                            | 2,954,028               | 2,954,028        | 3,047,145        | 93,117               |
| State revenue                            | 1,634,000               | 1,634,000        | 1,923,324        | 289,324              |
| Federal revenue                          | 508,630                 | 508,630          | 497,273          | (11,357)             |
| Charges for services                     | 590,000                 | 590,000          | 592,775          | 2,775                |
| Fines and forfeits                       | 80,000                  | 80,000           | 143,674          | 63,674               |
| Miscellaneous revenues                   | 91,937                  | 91,937           | 419,578          | 327,641              |
| Total Revenues                           | <u>7,386,595</u>        | <u>7,386,595</u> | <u>8,188,202</u> | <u>801,607</u>       |
| <b>Expenditures:</b>                     |                         |                  |                  |                      |
| General government                       | 3,643,945               | 3,643,945        | 3,051,131        | 592,814              |
| Public Safety:                           |                         |                  |                  |                      |
| Police                                   | 1,243,025               | 1,243,025        | 1,307,019        | (63,994)             |
| Fire                                     | 1,070,826               | 1,070,826        | 834,355          | 236,471              |
| Public Works:                            |                         |                  |                  |                      |
| Highways and streets                     | 520,000                 | 520,000          | 603,088          | (83,088)             |
| Sanitation                               | 305,050                 | 305,050          | 284,583          | 20,467               |
| Cemetery                                 | 382,100                 | 382,100          | 396,435          | (14,335)             |
| Health and welfare                       | 9,475                   | 9,175            | 3,959            | 5,516                |
| Culture and recreation                   | 282,000                 | 282,000          | 318,421          | (36,421)             |
| Community development                    |                         |                  | 373,291          | (373,291)            |
| Debt Service:                            |                         |                  |                  |                      |
| Principal                                |                         |                  | 549,060          | (549,060)            |
| Interest and fiscal charges              |                         |                  | 127,981          | (127,981)            |
| Intergovernmental                        | 236,814                 | 236,814          | 235,326          | 1,488                |
| Total Expenditures                       | <u>7,693,235</u>        | <u>7,692,935</u> | <u>8,084,649</u> | <u>(391,714)</u>     |
| Excess of Revenues Over                  |                         |                  |                  |                      |
| (Under) Expenditures                     | <u>(306,640)</u>        | <u>(306,640)</u> | <u>103,553</u>   | <u>410,193</u>       |
| <b>Other Financing Sources (Uses):</b>   |                         |                  |                  |                      |
| Operating transfers in                   | 306,640                 | 306,640          | 306,640          | -                    |
| Total Other Financing Sources (Uses)     | <u>306,640</u>          | <u>306,640</u>   | <u>306,640</u>   | <u>-</u>             |
| Excess of Revenues and Other Sources     |                         |                  |                  |                      |
| Over (Under) Expenditures and Other Uses |                         |                  | 410,193          | 410,193              |
| <b>Fund Balances:</b>                    |                         |                  |                  |                      |
| October 1, 2017                          | 2,283,698               | 2,283,698        | 2,283,698        | -                    |
| September 30, 2018                       | <u>\$ 2,283,698</u>     | <u>2,283,698</u> | <u>2,693,891</u> | <u>410,193</u>       |

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

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

|  | 2018          | 2017       | 2016       | 2015       | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|---------------|------------|------------|------------|------|------|------|------|------|------|
| City's proportion of the net pension liability   | 0.079961%     | 0.080904%  | 0.085961%  | 0.089731%  |      |      |      |      |      |      |
| City's proportionate share of the net pension liability  | \$ 13,297,676 | 13,779,968 | 14,672,084 | 12,672,143 |      |      |      |      |      |      |
| City's covered-employee payroll  | \$ 5,235,893  | 5,405,287  | 5,827,010  | 5,569,041  |      |      |      |      |      |      |
| City's proportionate share of the net pension liability<br>as a percentage of its covered-employee payroll | 254%          | 255%       | 252%       | 228%       |      |      |      |      |      |      |
| Plan fiduciary net position as a percentage of the total pension liability                                 | 63%           | 61%        | 57%        | 62%        |      |      |      |      |      |      |

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

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



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

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

|   | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution                                     | \$ 860,703  | 820,180     | 871,981     | 865,581     |             |             |             |             |             |             |
| Contributions in relation to the<br>contractually required contribution | 860,703     | 820,180     | 871,981     | 865,581     |             |             |             |             |             |             |
| Contributions deficiency (excess)                                       | \$ <u>-</u> | <u>-</u>    | <u>-</u>    | <u>-</u>    |             |             |             |             |             |             |
| City's covered-employee payroll   | 5,464,781   | 5,207,492   | 5,536,385   | 5,495,752   |             |             |             |             |             |             |
| Contributions as a percentage of<br>covered-employee payroll            | 15.75%      | 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 accompanying notes to Required Supplementary Information are an integral part of this schedule.

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Required Supplementary Information**

**Budgetary Comparison Schedule**

**NOTE 1 - BASIS OF PRESENTATION**

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

**NOTE 2 - BUDGET AMENDMENTS AND REVISIONS**

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

**Pension Schedules**

**NOTE 1 - CHANGES OF ASSUMPTIONS**

- 2017
  - The expectations of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.
  - The wage inflation assumption was reduced from 3.75% to 3.25%.
  - Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
  - The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.
- 2016
  - Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

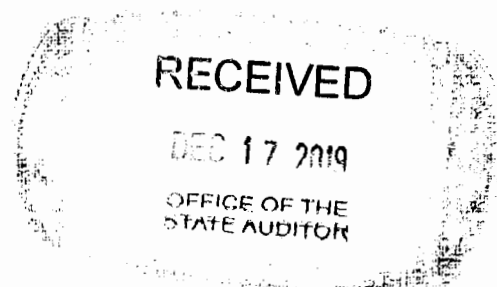


**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Required Supplementary Information**

**NOTE 2 - METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF  
ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2016 valuation for the June 30, 2018 fiscal year end). 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 | 36.6 years  |
| Asset valuation method        | 5-year smoothed market  |
| Price inflation               | 3.00%   |
| Salary increase               | 3.75% to 19.00%, including inflation                                  |
| Investment rate of return     | 7.75%, net of pension plan investment<br>expense, including inflation |



**OTHER INFORMATION**

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2018**

| <u>Federal Grantor/Program or Cluster Title</u>  | <u>Federal CFDA<br/>Number</u> | <u>Pass-through<br/>Grantor and Number</u> | <u>Name of<br/>Grant -<br/>Grant ID No.</u> | <u>Total<br/>Federal<br/>Expenditures</u> |
|--|--------------------------------|--|---|---|
| <b><u>U.S. Department of Transportation</u></b>  |                                |  |   |   |
| Passed through Mississippi Department of Transportation:   |                                |  |   |   |
| Highway Planning and Construction  | 20.205                         | MS Dept. of Transportation                 | \$ -  | \$ 464,580                                |
| Total U.S. Department of Transportation  |                                |  | -   | 464,580                                   |
| <b><u>Department of Housing and Urban Development</u></b>  |                                |  |   |   |
| Passed through Mississippi Development Authority   |                                |  |   |   |
| Community Development Block Grants/State's Program   |                                | MS Development Authority                   |   |   |
| Non-Entitlement Grants in Hawaii   | 14.228                         | 1133-16-213-PF-01                          | -   | 499,800                                   |
| Total Community Development Block Grants/State's Program<br>and Non-Entitlement Grants in Hawaii |                                |  |   | 499,800                                   |
| Total Department of Housing and Urban Development  |                                |  |   | 499,800                                   |
| Total Expenditures of Federal Awards   |                                |  |   | \$ 964,380                                |

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Notes to Other Information**

**NOTE 1: BASIS OF PRESENTATION**

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

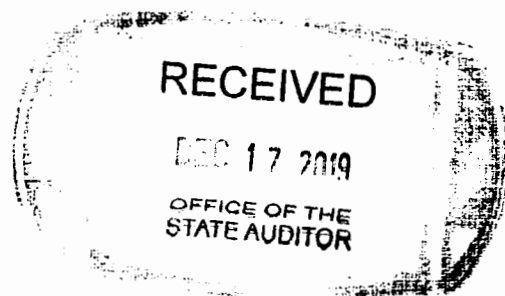
**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Schedule of Surety Bonds for Municipal Officials**  
**September 30, 2018**

| <u>Name</u>              | <u>Position</u>           | <u>Company</u>                           | <u>Bond</u> |
|--------------------------|---------------------------|--|-------------|
| Kelvin O. Buck           | Mayor                     | Travelers Casualty and<br>Surety Company | \$ 75,000   |
| Bernita J. Fountain-Lowe | Alderman                  | Travelers Casualty and<br>Surety Company | \$ 75,000   |
| Lennell Lucas            | Alderman                  | Travelers Casualty and<br>Surety Company | \$ 75,000   |
| Mark Miller              | Alderman                  | Travelers Casualty and<br>Surety Company | \$ 75,000   |
| Christy Owens            | Alderman                  | Travelers Casualty and<br>Surety Company | \$ 75,000   |
| Tim Liddy                | Alderman                  | Travelers Casualty and<br>Surety Company | \$ 75,000   |
| Belinda Hollowell        | City Clerk                | Travelers Casualty and<br>Surety Company | \$100,000   |
| Brooke Mullenix          | Payroll Clerk             | Western Surety                           | \$ 50,000   |
| Mattie Richmond          | Accounts Payable<br>Clerk | Travelers Casualty and<br>Surety Company | \$ 50,000   |
| Dwight Harris            | Police Chief              | Travelers Casualty and<br>Surety Company | \$ 50,000   |

**COMPLIANCE SECTION**



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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Springs, Mississippi as of and for the year ended September 30, 2018, and the related notes to financial statements, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements, and have issued our report thereon dated November 20, 2019.

**Internal Control Over Financial Reporting**

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

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

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

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certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. **Findings 2018-02 through 2018-04.**

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Holly Springs, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items. **Finding 2018-01.**

#### **City of Holly Springs, Mississippi's Response to Findings**

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

#### **Purpose of this Report**

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

West Point, Mississippi  
November 20, 2019

*Watkins Ward and Stafford, P.C.*

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



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

|                             |                            |
|-----------------------------|----------------------------|
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| Susan M. Lummus, CPA        |                            |

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Holly Springs, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Holly Springs, Mississippi's major federal program for the year ended September 30, 2018. The City of Holly Springs, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

## Opinion on Each Major Federal Program

In our opinion, the City of Holly Springs, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

## Reports on Internal Control over Compliance

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

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

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

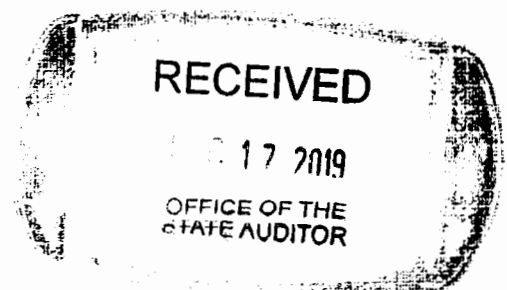
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

West Point, Mississippi

Watkins Ward and Stafford, P.C.

November 20, 2019

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





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

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

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Springs, Mississippi, as of and for the year ended September 30, 2018, which collectively comprise the City of Holly Springs, Mississippi's basic financial statements and have issued our report thereon dated November 20, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

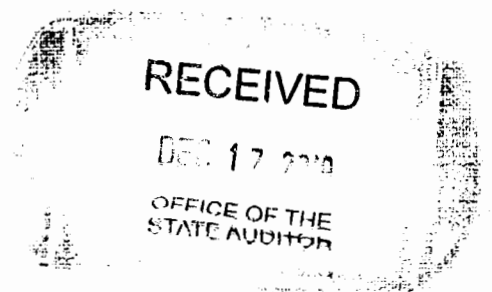
The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

West Point, Mississippi  
November 20, 2019

*Watkins Ward and Stafford, P.C.*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2018**

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

Financial Statements:

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

Federal Awards:

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



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2018**

**Section II: Financial Statement Findings**

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

**City of Holly Springs Findings**

**Borrowing from Restricted fund (Repeat Finding)**

**2018-01 Statement of Condition**

Funds were borrowed by the general fund from funds that are restricted to be used for other purposes. The amount of this loan was \$345,294.

**Criteria**

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

**Effect**

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

**Cause**

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

**Recommendation**

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

**Response**

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

**WATER, GAS, SEWER DEPARTMENTS**

**2018-02 Audit Adjustments (REPEAT FINDING)**

**Statement of Condition**

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



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

**Section II: Financial Statement Findings (Continued)**

**Criteria**

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

**Effect**

The Utility Department's net income increased by \$1,202,349 as a result of these audit entries.

**Cause**

- Prior year auditors' adjustments were booked.
- Accrued tax equivalent was decreased.
- Capital lease obligations and related accrued interest was adjusted to actual.
- Bonds payable was increased.
- Proportionate share of the net pension liability was increased.
- Federal grants awarded were recorded.
- Cash was increased.
- Sinking funds were adjusted to actual.
- Debt expense amortizations were recorded.
- Gas purchased was decreased.
- Amounts due from City were increased.

**Recommendation**

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

**Response**

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

**ALL FOUR DEPARTMENTS**

**2018-03: Perpetual Inventory System Not Maintained (REPEAT FINDING)**

**Statement of Condition**

The Utility Department does not maintain an accurate perpetual inventory system. (Repeat finding).

**Criteria**

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2018**

**Section II: Financial Statement Findings (Continued)**

**Effect**

The Utility Department's inventory per the general ledger was overstated by \$37,485 (6.5% of total inventory) prior to inventory test counts being performed.

**Cause**

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

**Recommendation**

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

**Response**

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

**ELECTRIC ONLY**

**2018-04: Revenue Bond Ordinance Requirements Not Followed (REPEAT FINDING)**

**Statement of Condition**

The Electric Department failed to adequately fund the accounts as required by the bond resolutions of its Series 2015 Revenue Bond Issue.

**Criteria**

The bond resolutions of its Series 2015 Revenue Bond Issue require the Electric department to segregate and fund monthly accounts as prescribed by the bond resolution.

**Effect**

The Electric Department has violated the provisions of the Series 2015 Revenue Bond Issue's bond ordinances.

**Cause**

Adequate deposits as required by the Series 2015 Revenue Bond Issue bond ordinances were unintentionally overlooked.

**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2018**

**2018-04: Revenue Bond Ordinance Requirements Not Followed (REPEAT FINDING)**  
**(Continued)**

**Recommendation**

All required bond-related accounts should be adequately funded.

**Response**

We will fund all accounts relating to the Series 2015 Revenue Bond Issue as prescribed by the bond ordinances.

**Section III: Federal Award Findings and Questioned Costs**

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

**CITY OF HOLLY SPRINGS, MISSISSIPPI  
Summary Schedule of Prior Audit Findings  
For the Year Ended September 30, 2018**

**City of Holly Springs Findings**

**2017-01    Borrowing from Restricted fund**

**Statement of Condition**

Funds were borrowed by the general fund from funds that are restricted to be used for other purposes. The amount of this loan was \$316,410.

**Recommendation**

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

**Status**

The City was unaware a loan could not be made from the restricted fund. This is still a finding in the current year report. See Finding 2018-01.

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

**2017-02:    Audit Adjustments**

**Statement of Condition**

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

**Recommendation**

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

**Status**

Audit adjusting entries were made for the year ending September 30, 2018. This is still a finding in the current report. See Finding 2018-02.

**2017-03:    Perpetual Inventory System Not Maintained**

**Statement of Condition**

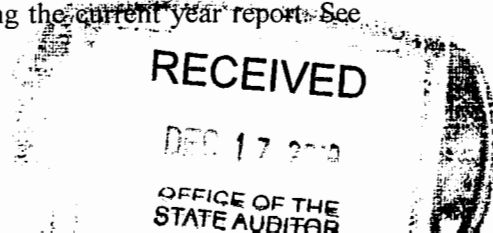
The four Utility Departments do not maintain an accurate perpetual inventory system. .

**Recommendation**

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

**Status**

The four Utility Departments still fail to maintain accurate records of all material that are added and taken from the warehouse. This is still a finding in the current year report. See Finding 2018-03.



**CITY OF HOLLY SPRINGS, MISSISSIPPI**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended September 30, 2018**

**2017-04: Financial Statements Not Provided in a Timely Manner**

**Statement of Condition**

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

**Status**

This finding was corrected in 2018.

**2017-05: Bank Reconciliations**

**Statement of Condition**

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

**Status**

This finding was corrected in 2018.

**2017-06: Revenue Bond Ordinance Requirements**

**Statement of Condition**

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

**Recommendation**

All required bond related accounts should be adequately funded.

**Status**

The Electric Department still fails to follow revenue bond ordinance requirements. This is still a finding the current year report. See Finding 2018-04.

**2017-07: Interdepartmental Activity not Properly Recorded**

**Statement of Condition**

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

**Status**

This finding was corrected in 2018.