



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

City of Water Valley, Mississippi
Financial Statements
For the Year Ended September 30, 2018

Financial Section	Pages
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 11
 Financial Statements	
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Position	18
Statement of Revenues, Expenses and Changes in Fund Net Position	19
Statement of Cash Flows	20
Fiduciary Funds:	
Statement of Fiduciary Net Position	21
Notes to Financial Statements	22 - 48
 Required Supplementary Information	
Budget and Actual (with Variances) - General Fund	49
Note A to Budgetary Comparison Schedule - General Fund	50
Budget and Actual (with Variances) - Industrial Fund and Note A to Budgetary Schedule	51
Schedule of Proportionate Share of the Net Pension Liability (PERS)	52
Schedule of Contributions (PERS)	53
Notes to the Schedules of Required Supplementary Information	54
 Supplemental Information	
Schedule of Surety Bonds for Municipal Officials	55
 State Legal Compliance	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56-57
Independent Auditor's Report on Compliance with State Laws and Regulations	58
Schedule of Findings and Questioned Costs	59-60

FINANCIAL SECTION

Robert K. VanDevender, CPA
Lance Mohamed, CPA
Stribling W. Hargett, CPA

W. Lee Mattox, CPA
William A. Adams, CPA
Gay G. Moss, CPA



Fred T. Neely, CPA
(1897-1967)
Billy Joe Killebrew, CPA
(1942-2010)
Ralph F. Neely, CPA
(1927 -)

INDEPENDENT AUDITOR'S REPORT

To the Board of Aldermen
City of Water Valley, Mississippi

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's 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. 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 auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unqualified
Business-type Activities	Qualified

<u>Opinion Unit</u>	<u>Type of Opinion</u>
General Fund	Unqualified
Industrial Fund	Unqualified
Water and Sewer Fund	Unqualified
Solid Waste Fund	Unqualified
Airport	Unqualified
Electric Department	Adverse
Aggregate Remaining Fund Information	Unqualified

Basis for Adverse Opinion on the Electric Department Enterprise Fund and Qualified Opinion on Business-type Activities

Management has not included the Electric Department Enterprise Fund in the City's financial statements. Accounting principles generally accepted in the United States of America require the Electric Department to be presented as a major enterprise fund and financial information about the Electric Department to be part of the business-type activities, thus increasing the activity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses and changing its net position. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the business-type activities and the omitted major fund has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Electric Department Enterprise Fund and Qualified Opinion on Business-Type Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the Electric Department of the City of Water Valley, Mississippi, as of September 30, 2018, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the matter discussed in the "Basis for Adverse Opinion on the Electric Department Enterprise Fund and Qualified Opinion on Business-Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Water Valley, Mississippi, as of September 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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 General Fund, Industrial Fund, Water and Sewer Fund, Solid Waste Fund, Airport, and the aggregate remaining fund information of the City of Water Valley, 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, and pension schedules on pages 4-11, pages 49-51 and pages 52-54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental information contained herein is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, on our consideration of the City'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 solely 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 the effectiveness of the City's 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 the City's internal control over financial reporting and compliance.

Fred T. Neely & Company, PLLC

Greenwood, Mississippi
September 27, 2019

City of Water Valley, Mississippi

Management's Discussion and Analysis

The discussion and analysis of The City of Water Valley's (the City's) financial performance provides an overall review of the City's financial activities for the year ended September 30, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information which includes all of the City's assets, deferred outflows and liabilities plus deferred inflows, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public works, culture and recreation, economic development, and interest on long-term debt. Business-type activities include Water and Sewer, solid waste and airport funds. Fiduciary funds of which the City only has agency funds are reported in the fiduciary fund financial statement, but are excluded from government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements are reported in a manner similar to proprietary funds.

City of Water Valley, Mississippi

Management's Discussion and Analysis

The government-wide financial statements do not include the City of Water Valley Electric Department's financial information. The most recent audited financial statements for this fund are for the fiscal year ending June 30, 2018 and can be found at the following address:

- City of Water Valley Electric Department, 101 Blackmur Dr, Water Valley, MS 38965

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

Fund financial statements provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Water Valley, the City's major governmental funds are the General Fund and the Industrial Fund. The major proprietary funds of the City are the Water and Sewer Fund, the Solid Waste Fund, and the Airport Fund.

Governmental Funds

All of the City's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. The governmental financial funds statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental funds information may be useful in evaluating the City's short-term obligations. The relationship between governmental activities and governmental funds is reconciled in the financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City adopts an annual budget for all of its funds. Budgetary comparison statements have been provided for the General Fund and the Industrial Fund to demonstrate compliance with their budgets.

City of Water Valley, Mississippi

Management's Discussion and Analysis

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the Water and Sewer Fund, the Solid Waste Fund, and the Airport Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, the Solid Waste Fund, and the Airport Fund, which are considered to be major funds of the City of Water Valley.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Highlights:

Key financial highlights for 2018 were as follows:

- The total assets and deferred outflows of the City of Water Valley exceeded its liabilities and deferred inflows at the close of the 2018 fiscal year by \$3,474,913.
- The government's total net position for the year ending September 30, 2018 decreased by \$49,110.
- The City's governmental funds reported total ending fund balance of \$381,665 this year. This compares to the prior year ending fund balance of \$557,409 showing a decrease of \$175,744. Approximately 81% of this total, \$310,776 is available for spending at the government's discretion.

Financial Analysis of the City as a Whole

The reader will note that the statement of net position looks at the City as a whole. Table 1 on the following page provides a summary of the City's net position for 2018 compared to 2017.

City of Water Valley, Mississippi

Management's Discussion and Analysis

Table 1
Statement of Net Position (Summary)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current & other assets	\$ 1,249,282	\$ 1,355,767	\$ 1,125,008	\$ 941,610	\$ 2,374,290	\$ 2,297,377
Capital assets, net	1,629,062	1,905,231	3,642,215	3,293,508	5,271,277	5,198,739
Total assets	2,878,344	3,260,998	4,767,223	4,235,118	7,645,567	7,496,116
Deferred Outflows	191,641	139,060	43,182	31,334	234,823	170,394
Liabilities						
Current & other	75,482	59,218	57,696	74,752	133,178	133,970
Due within one year	68,129	75,003	15,988	9,768	84,117	84,771
Due in more than one year	2,710,588	2,544,828	629,636	572,879	3,340,224	3,117,707
Total liabilities	2,854,199	2,679,049	703,320	657,399	3,557,519	3,336,448
Deferred Inflows	830,312	786,357	17,646	19,682	847,958	806,039
Net position						
Net investment in capital assets	1,536,640	1,786,384	3,601,932	3,273,371	5,138,572	5,059,755
Restricted for:						
Debt service	6,807	6,807	-	-	6,807	6,807
Other Purposes	44,394	44,394	-	-	44,394	44,394
Unrestricted	(2,202,367)	(1,902,933)	487,507	316,000	(1,714,860)	(1,586,933)
Total net position	\$ (614,526)	\$ (65,348)	\$ 4,089,439	\$ 3,589,371	\$ 3,474,913	\$ 3,524,023

The largest portion of the City's net position reflects its investment in capital assets (e.g. infrastructure, buildings, machinery and equipment and mobile equipment) less any related debt used to acquire those assets that is still outstanding. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the outstanding debt balances are secured by these capital assets.

City of Water Valley, Mississippi

Management's Discussion and Analysis

Table 2 provides a summary of the Changes in Net Position government-wide for the year ended September 30, 2018, compared to the year ended September 30, 2017.

Table 2

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
<u>Program revenues</u>						
Charges for services	\$ 173,206	\$ 186,537	\$ 1,332,676	\$ 1,254,608	\$ 1,505,882	\$ 1,441,145
Operating grants & contributions	28,255	25,614	-	-	28,255	25,614
Capital grants & contributions	-	33,300	654,220	242,246	654,220	275,546
<u>General revenues</u>						
Property taxes	641,583	625,104	-	-	641,583	625,104
Homestead exemption reimbursement	67,592	64,162	-	-	67,592	64,162
Franchise taxes & licenses	71,459	76,047	-	-	71,459	76,047
Sales & miscellaneous taxes	524,017	522,581	-	-	524,017	522,581
Payments in lieu of taxes	478,349	485,751	-	-	478,349	485,751
Investment earnings	8,410	5,855	4,618	2,857	13,028	8,710
Gain (loss) on disposal of assets	4,578	-	-	-	4,578	-
Miscellaneous	14,359	12,950	7,655	3,231	22,014	16,181
Total revenues	2,011,808	2,037,899	1,999,169	1,502,942	4,010,977	3,540,841
Expenses						
General government	419,542	404,145	-	-	419,542	404,145
Public safety	1,183,416	1,149,047	-	-	1,183,416	1,149,047
Public works	804,963	684,483	-	-	804,963	684,483
Culture & recreation	244,073	293,010	-	-	244,073	293,010
Economic development	7,925	7,924	-	-	7,925	7,924
Miscellaneous	-	-	-	-	-	-
Water and sewer	-	-	1,042,209	1,163,233	1,042,209	1,163,233
Sanitation	-	-	289,812	304,575	289,812	304,575
Airport	-	-	65,298	60,646	65,298	60,646
Interest on debt	2,346	3,513	503	116	2,849	3,629
Total expenses	2,662,265	2,542,122	1,397,822	1,528,570	4,060,087	4,070,692
Increase (Decrease) in net position before transfers	(650,457)	(504,223)	601,347	(25,628)	(49,110)	(529,851)
Transfers	101,279	64,876	(101,279)	(64,876)	-	-
Change in net position	(549,178)	(439,347)	500,068	(90,504)	(49,110)	(529,851)
Net position - beginning	(65,348)	373,999	3,589,371	3,679,875	3,524,023	4,053,874
Net position - end	\$ (614,526)	\$ (65,348)	\$ 4,089,439	\$ 3,589,371	\$ 3,474,913	\$ 3,524,023

City of Water Valley, Mississippi

Management's Discussion and Analysis

The increase in net position before transfers for 2018 as compared to 2017 is primarily due to the City receiving more grant funds in the current year than in the prior year. The City received funds from the Federal Aviation Administration, with a match from Mississippi Department of Transportation, for the construction of the Airport apron expansion, a capital project. The City also received money through a Community Development Block Grant for a sewer rehab related project (Water and Sewer Fund). Grant funding was also received from the Appalachian Regional Commission to rehab the Mott's elevated water tank (Water and Sewer Fund). The City also saw a decrease in expenses related to pension expense.

Governmental Activities

Several revenue sources fund our Governmental Activities. Under the accrual basis of accounting, sales and miscellaneous taxes accounted for \$524,017 or 29% of general revenues less transfers, and property taxes and payments received in lieu of taxes accounted for \$1,119,932 or 62% of general revenues less transfers.

Major expense activities, under the accrual basis of accounting, include public safety which accounted for 44% of total governmental activities expenses, public works accounted for 30%, general government accounted for 16% and culture and recreation accounted for 10%. The City of Water Valley is committed to providing the best services possible for its citizens.

Business-type Activities

User fees fund our business-type activities. User fees accounted for \$1,332,676 or 67% of gross revenues with investment earnings, miscellaneous revenues, and grants and contributions accounting for the remaining 33% of gross revenues.

Major expense activities include water and sewer accounting for 75% of total expenses and solid waste and the airport accounting for 21% and 5%, respectively.

The City's Funds

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

The City's governmental funds reported total ending fund balance of \$381,665 this year. This compares to the prior year ending fund balance of \$557,407 showing a decrease of \$175,742. Approximately 81% of this total, \$310,776 is available for spending at the government's discretion. This includes assigned fund balances in the industrial fund and other governmental funds that are not restricted or committed. Assigned fund balances are: \$7,148 for public safety \$43,503 for culture and recreation, and \$326,823 for economic development and assistance. Of the remaining fund balance, \$58,424 is restricted for public safety and \$12,465 is restricted for debt service.

Information about the City's major governmental funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. Total governmental revenues were \$2,007,232 and total governmental expenditures were \$2,309,161. Total other financing sources (uses) for governmental funds were \$126,185.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was negative \$66,698 compared to \$37,162 in 2017. The General Fund's unassigned fund balance decreased by \$103,860.

City of Water Valley, Mississippi

Management's Discussion and Analysis

General Fund Budgeting Highlights

The City's budgets are prepared according to Mississippi law and are based on accounting for transactions on a modified cash basis. The most significant budgeted fund is the General Fund. The City had no budget amendments during the fiscal year ending September 30, 2018.

Capital Assets and General Long-Term Obligations

Capital Assets

Capital assets purchased or acquired are carried at historical cost. Contributed assets are recorded at fair market value at the date received. The cost of normal maintenance and repairs that does not add to the value of capital assets or materially extend their respective lives are not capitalized. Interest expenditures during the construction period are capitalized on capital assets.

The City's classes of capital assets and their capitalization levels are: land – cost or fair market value; buildings and building improvements - \$50,000; improvements other than buildings - \$25,000; machinery and equipment - \$5,000; mobile equipment - \$10,000; and infrastructure – cost or fair market value.

Table 3 compares the capital assets (net of depreciation) of the City at September 30, 2018 to 2017 amounts as follows:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Infrastructure	\$ 800,032	\$ 1,050,693	\$ 2,654,100	\$ 2,965,914	\$ 3,454,132	\$ 4,016,607
Building & improvements	529,776	548,626	-	-	\$ 529,776	\$ 548,626
Equipment & furniture	250,307	259,671	287,527	295,477	\$ 537,834	\$ 555,148
Mobile equipment	48,946	46,239	12,084	32,116	\$ 61,030	\$ 78,355
Total	\$ 1,629,061	\$ 1,905,229	\$ 2,953,711	\$ 3,293,507	\$ 4,582,772	\$ 5,198,736

The decrease in capital assets during the year is due to \$706,039 of depreciation expense during the year, offset by capital asset additions of \$90,074 for the year ending September 30, 2018.

General Long-Term Obligations

The City has one outstanding note balance as of September 30, 2018. This note is secured by a backhoe used by the public works department. The public works note will be paid off by fiscal year ending September 30, 2019, respectively. Four capital leases for a street sweeper for public works, a police car for public safety, a truck and an aeration system to be used by the sanitation department are also outstanding as of September 30, 2018. Additional information on the City of Water Valley's long-term debt can be found in Note 3 of this report.

City of Water Valley, Mississippi **Management's Discussion and Analysis**

Long-Term Obligations

Table 4 compares the total outstanding long-term obligations of the City at September 30, 2018 to 2017 amounts as follows:

Table 4

Outstanding Notes and Long-term Obligations at Year End

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Notes Payable	\$ 11,862	\$ 32,326	\$ -	\$ -	\$ 11,862	\$ 32,32
Capital leases	80,560	88,008	40,283	20,137	\$ 120,843	\$ 108,14
Compensated absences	22,103	24,864	5,033	4,914	\$ 27,136	\$ 29,77
Total	\$ 114,525	\$ 145,198	\$ 45,316	\$ 25,051	\$ 159,841	\$ 170,24

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the funds it receives. Questions about this report or requests for additional information should be made to the City Clerk, Vivian Snider at (662)473-2431 at P.O. Box 888, Water Valley, Mississippi 38965.

FINANCIAL STATEMENTS

City of Water Valley, Mississippi
Statement of Net Position
September 30, 2018

	Primary Government		
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 831,675	\$ 472,163	\$ 1,303,838
Accounts receivable, net	27,053	139,931	166,984
Property tax receivables	767,215	-	767,215
Internal balances	(478,815)	478,815	-
Due from other governmental agencies	89,067	-	89,067
Prepays	13,087	6,084	19,171
Restricted assets			
Customer deposits	-	28,015	28,015
Capital assets, net of depreciation	1,629,062	3,642,215	5,271,277
Total assets	<u>2,878,344</u>	<u>4,767,223</u>	<u>7,645,567</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	191,641	43,182	234,823
Total deferred outflows of resources	<u>191,641</u>	<u>43,182</u>	<u>234,823</u>
LIABILITIES			
Accounts payable and accrued expenses	75,482	35,896	111,378
Other payables	-	-	-
Payable from restricted assets			
Customer deposits	-	21,800	21,800
Long-term liabilities - due within one year			
Capital leases and notes payable	46,026	10,955	56,981
Accrued compensated absences	22,103	5,033	27,136
Long-term liabilities - due in more than one year			
Capital leases and notes payable	46,396	29,328	75,724
Net pension liability	2,664,192	600,308	3,264,500
Total liabilities	<u>2,854,199</u>	<u>703,320</u>	<u>3,557,519</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	751,995	-	751,995
Pension	78,317	17,646	95,963
Total deferred inflows of resources	<u>830,312</u>	<u>17,646</u>	<u>847,958</u>
NET POSITION			
Net investment in capital assets	1,536,640	3,601,932	5,138,572
Restricted for:			
Debt service	6,807	-	6,807
Other purposes	44,394	-	44,394
Unrestricted	(2,202,367)	487,507	(1,714,860)
Total net position	<u>\$ (614,526)</u>	<u>\$ 4,089,439</u>	<u>\$ 3,474,913</u>

City of Water Valley, Mississippi
Statement of Activities
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for	Operating	Capital Grants	Governmental	Business-type	Total
		Services	Grants and	and	Activities	Activities	
			Contributions	Contributions			
Primary government							
Governmental activities							
General government	\$ 419,542	\$ 65,475	\$ -	\$ -	\$ (354,067)		\$ (354,067)
Public safety	1,183,416	44,134	28,255	-	(1,111,027)		(1,111,027)
Public works	804,963	13,797	-	-	(791,166)		(791,166)
Culture and recreation	244,073	-	-	-	(244,073)		(244,073)
Economic development	7,925	49,800	-	-	41,875		41,875
Interest on long-term debt	2,346	-	-	-	(2,346)		(2,346)
Total governmental activities	2,662,265	173,206	28,255	-	(2,460,804)		(2,460,804)
Business-type activities							
Water and sewer	1,042,209	932,336	-	488,513		\$ 378,640	378,640
Solid waste	289,812	371,514	-	-		81,702	81,702
Airport	65,298	28,826	-	165,707		129,235	129,235
Interest on long-term debt	503	-	-	-		(503)	(503)
Total business-type activities	1,397,822	1,332,676	-	654,220		589,074	589,074
Total primary government	\$ 4,060,087	\$ 1,505,882	\$ 28,255	\$ 654,220	(2,460,804)	589,074	(1,871,730)
General revenues							
Taxes:							
Property taxes, levied for general purposes					641,583	-	641,583
Homestead exemption reimbursement					67,592	-	67,592
Franchise taxes and licenses					71,459	-	71,459
Sales and miscellaneous taxes					524,017	-	524,017
Payments received in lieu of taxes					478,349	-	478,349
Unrestricted investment earnings					8,410	4,618	13,028
Gain (loss) on disposal of assets					4,578	-	4,578
Miscellaneous					14,359	7,655	22,014
Transfers					101,279	(101,279)	-
Total general revenues and transfers					1,911,626	(89,006)	1,822,620
Change in net position					(549,178)	500,068	(49,110)
Net position - beginning					(65,348)	3,589,371	3,524,023
Net position - ending					\$ (614,526)	\$ 4,089,439	\$ 3,474,913

City of Water Valley, Mississippi

Balance Sheet
Governmental Funds
September 30, 2018

	<u>General Fund</u>	<u>Industrial Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 381,692	\$ 326,823	\$ 123,160	\$ 831,675
Property taxes receivable, net	767,215	-	-	767,215
Intergovernmental receivables	89,067	-	-	89,067
Due from other funds	-	-	-	-
Other receivables	-	-	-	-
Total assets	<u>\$ 1,237,974</u>	<u>\$ 326,823</u>	<u>\$ 123,160</u>	<u>\$ 1,687,957</u>
Liabilities				
Accounts payable	\$ 54,493	\$ -	\$ 964	\$ 55,457
Due to other funds	478,815	-	-	478,815
Other accrued expenses	19,369	-	656	20,025
Other payables	-	-	-	-
Total liabilities	<u>552,677</u>	<u>-</u>	<u>1,620</u>	<u>554,297</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	<u>751,995</u>	<u>-</u>	<u>-</u>	<u>751,995</u>
Fund Balances				
Restricted	-	-	70,889	70,889
Assigned	-	326,823	50,651	377,474
Unassigned	(66,698)	-	-	(66,698)
Total fund balances	<u>(66,698)</u>	<u>326,823</u>	<u>121,540</u>	<u>381,665</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,237,974</u>	<u>\$ 326,823</u>	<u>\$ 123,160</u>	<u>\$ 1,687,957</u>

City of Water Valley, Mississippi
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2018

Total fund balance, governmental funds	\$ 381,665
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 this fund financial statement but are reported in the governmental activities of the Statement of Net Position	1,629,062
Prepaid expenses used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement but are reported in the governmental activities of the Statement of Net Position	13,087
An amount due to the City for an overpayment of insurance premiums in the current and prior years are not current resources, and therefore, are not reported in this fund financial statement but are included in the governmental activities of the Statement of net position	27,053
Some liabilities, (such as deferred revenues, notes payable, capital leases and accrued compensated Absences), are not due and payable in the current period and are not included in the fund financial statement but are included in the governmental activities of the Statement of Net Position	(114,525)
Net pension obligations recorded in governmental activities are not a financial resource and therefore are not reported in the governmental funds	
Net pension liability	(2,664,192)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in this fund financial statement	
Deferred outflows of resources related to pensions	191,641
Deferred inflows of resources related to pensions	(78,317)
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ (614,526)</u>

City of Water Valley, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2018

	<u>General Fund</u>	<u>Industrial Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 600,923	\$ -	\$ 40,660	\$ 641,583
Sales and miscellaneous taxes	524,017	-	-	524,017
Homestead exemption reimbursement	63,030	-	4,562	67,592
Franchise taxes, licenses and permits	71,459	-	-	71,459
Payments received in lieu of taxes	474,723	-	3,626	478,349
Intergovernmental	8,892	-	19,363	28,255
Charges for services	80,110	49,800	4	129,914
Fines and forfeitures	43,294	-	-	43,294
Investment earnings	2,989	4,275	1,146	8,410
Miscellaneous	14,358	-	1	14,359
Total revenues	<u>1,883,795</u>	<u>54,075</u>	<u>69,362</u>	<u>2,007,232</u>
Expenditures				
Current:				
General government	378,679	-	-	378,679
Public safety	1,080,421	-	5,767	1,086,188
Public works	509,757	-	-	509,757
Culture and recreation	150,395	-	6,264	156,659
Intergovernmental	-	-	66,582	66,582
Debt Service:				
Principal	19,977	-	28,189	48,166
Interest and other charges	403	-	1,943	2,346
Capital Outlay	60,784	-	-	60,784
Total Expenditures	<u>2,200,416</u>	<u>-</u>	<u>108,745</u>	<u>2,309,161</u>
Excess (deficiency) of revenues over expenditures	<u>(316,621)</u>	<u>54,075</u>	<u>(39,383)</u>	<u>(301,929)</u>
Other Financing Sources (Uses)				
Transfers in	250,000	-	63,424	313,424
Transfers out	(62,145)	(150,000)	-	(212,145)
Proceeds from loan	22,279	-	-	22,279
Proceeds from sale of equipment	2,627	-	-	2,627
Total other financing sources and uses	<u>212,761</u>	<u>(150,000)</u>	<u>63,424</u>	<u>126,185</u>
Net change in fund balances	(103,860)	(95,925)	24,041	(175,744)
Fund balances - beginning	37,162	422,748	97,499	557,409
Fund balances - ending	<u>\$ (66,698)</u>	<u>\$ 326,823</u>	<u>\$ 121,540</u>	<u>\$ 453,549</u>

City of Water Valley, 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:	\$ (175,744)
---	--------------

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation expense in the current period.	(275,447)
---	-----------

Governmental funds report notes payable and capital lease proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of notes payable and capital lease principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.	25,887
---	--------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: Accrued compensated absences not reflected in the Governmental funds	2,761
---	-------

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain (loss) on the sale or disposal of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold or disposed.	1,174
--	-------

The Statement of Activities reports pension expenditures and other activity related to the net pension liability	<u>(127,809)</u>
--	------------------

Change in net position of governmental activities	<u>\$ (549,178)</u>
---	---------------------

City of Water Valley, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2018

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Airport</u>	<u>Total</u>
Assets	Fund	Fund		
Current assets				
Cash and cash equivalents	\$ 456,290	\$ 5,336	\$ 10,537	\$ 472,163
Accounts receivable, net	105,156	34,775	-	139,931
Due from other funds	-	478,815	-	478,815
Prepaid expenses	6,084	-	-	6,084
Total current assets	<u>567,530</u>	<u>518,926</u>	<u>10,537</u>	<u>1,096,993</u>
Non-current assets				
Restricted assets				
Customer deposits	28,015	-	-	28,015
Capital assets				
Construction in progress	514,073	-	174,427	688,500
Infrastructure	9,991,126	-	1,266,162	11,257,288
Mobile equipment	124,826	372,922	-	497,748
Other equipment and furniture	1,158,120	-	-	1,158,120
Less: Accumulated depreciation	<u>(8,929,766)</u>	<u>(372,922)</u>	<u>(656,753)</u>	<u>(9,959,441)</u>
Total non-current assets	<u>2,886,394</u>	<u>-</u>	<u>783,836</u>	<u>3,670,230</u>
Total assets	<u>3,453,924</u>	<u>518,926</u>	<u>794,373</u>	<u>4,767,223</u>
Deferred Outflows of Resources				
Pension	29,715	13,467	-	43,182
Total deferred outflows of resources	<u>29,715</u>	<u>13,467</u>	<u>-</u>	<u>43,182</u>
Liabilities				
Current liabilities				
Accounts payable	32,774	-	-	32,774
Other payables	2,116	1,006	-	3,122
Accrued compensated absences	4,327	706	-	5,033
Capital lease payable	10,955	-	-	10,955
Total current liabilities	<u>50,172</u>	<u>1,712</u>	<u>-</u>	<u>51,884</u>
Current liabilities payable from restricted assets				
Customer deposits	21,800	-	-	21,800
Total current liabilities payable from restricted assets	<u>21,800</u>	<u>-</u>	<u>-</u>	<u>21,800</u>
Non-current liabilities				
Capital lease payable	29,328	-	-	29,328
Net pension liability	413,099	187,209	-	600,308
Total non-current liabilities	<u>442,427</u>	<u>187,209</u>	<u>-</u>	<u>629,636</u>
Total liabilities	<u>514,399</u>	<u>188,921</u>	<u>-</u>	<u>703,320</u>
Deferred Inflows of Resources				
Pension	12,143	5,503	-	17,646
Total deferred inflows of resources	<u>12,143</u>	<u>5,503</u>	<u>-</u>	<u>17,646</u>
Net Position				
Net investment in capital assets	2,818,096	-	783,836	3,601,932
Unrestricted	139,001	337,969	10,537	487,507
Total net position	<u>\$ 2,957,097</u>	<u>\$ 337,969</u>	<u>\$ 794,373</u>	<u>\$ 4,089,439</u>

City of Water Valley, Mississippi
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended September 30, 2018

	<u>Water and Sewer</u> <u>Fund</u>	<u>Solid Waste</u> <u>Fund</u>	<u>Airport</u>	<u>Total</u>
Operating Revenues				
Revenues	\$ 932,336	\$ 371,509	\$ 28,826	\$ 1,332,671
Other operating revenues	7,655	5	-	7,660
Total operating revenues	<u>939,991</u>	<u>371,514</u>	<u>28,826</u>	<u>1,340,331</u>
Operating Expenses				
Personal services	233,823	107,223	-	341,046
Contractual services	1,126	-	-	1,126
Other supplies and expenses	493,047	168,197	-	661,244
Fuel purchases	-	-	24,093	24,093
Depreciation	314,213	14,392	41,205	369,810
Total operating expenses	<u>1,042,209</u>	<u>289,812</u>	<u>65,298</u>	<u>1,397,319</u>
Operating income (loss)	<u>(102,218)</u>	<u>81,702</u>	<u>(36,472)</u>	<u>(56,988)</u>
Non-operating Revenues (Expenses)				
Interest and investment revenue	4,383	50	185	4,618
Interest expense	(503)	-	-	(503)
Total non-operating revenue (expenses)	<u>3,880</u>	<u>50</u>	<u>185</u>	<u>4,115</u>
Income (loss) before contributions and transfers	(98,338)	81,752	(36,287)	(52,873)
Capital & operating grants and contributions	488,513	-	165,707	654,220
Transfers in	-	-	8,721	8,721
Transfers out	(110,000)	-	-	(110,000)
Change in net position	<u>280,175</u>	<u>81,752</u>	<u>138,141</u>	<u>500,068</u>
Total net position - beginning	<u>2,676,922</u>	<u>256,217</u>	<u>656,232</u>	<u>3,589,371</u>
Total net position - ending	<u>\$ 2,957,097</u>	<u>\$ 337,969</u>	<u>\$ 794,373</u>	<u>\$ 4,089,439</u>

See accompanying notes to the financial statements.

City of Water Valley, Mississippi
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2018

	<u>Water and Sewer</u> <u>Fund</u>	<u>Solid Waste</u> <u>Fund</u>	<u>Airport</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers and users	\$ 926,459	\$ 367,044	\$ 28,826	\$1,322,329
Payments for interfund services provided	-	(100,699)	-	(100,699)
Receipts from other revenue	7,655	5	-	7,660
Payments to suppliers for goods and services	(510,282)	(168,193)	(24,093)	(702,568)
Payments to employees	(215,076)	(98,149)	-	(313,225)
Net cash provided by (used for) operating activities	<u>208,756</u>	<u>8</u>	<u>4,733</u>	<u>213,497</u>
Cash flows from noncapital financing activities				
Transfers from governmental funds	-	-	8,721	8,721
Transfers to governmental funds	(110,000)	-	-	(110,000)
Net cash provided by (used for) noncapital financing activities	<u>(110,000)</u>	<u>-</u>	<u>8,721</u>	<u>(101,279)</u>
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(541,576)	-	(174,427)	(716,003)
Capital & operating grants & contributions received	488,513	-	165,707	654,220
Proceeds from loan	25,000	-	-	25,000
Principal paid on capital debt	(4,854)	-	-	(4,854)
Interest paid on capital debt	(503)	-	-	(503)
Net cash provided (used) for capital and related financing activities	<u>(33,420)</u>	<u>-</u>	<u>(8,720)</u>	<u>(42,140)</u>
Cash flows provided by (used for) investing activities				
Interest on investments	4,383	50	185	4,618
Net cash provided by (used for) investing activities	<u>4,383</u>	<u>50</u>	<u>185</u>	<u>4,618</u>
Net increase (decrease) in cash and cash equivalents	<u>69,719</u>	<u>58</u>	<u>4,919</u>	<u>74,696</u>
Cash and cash equivalents at beginning of year	<u>417,100</u>	<u>5,278</u>	<u>5,618</u>	<u>427,996</u>
Cash and cash equivalents at end of year	<u>\$ 486,819</u>	<u>\$ 5,336</u>	<u>\$ 10,537</u>	<u>\$ 502,692</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (102,218)	\$ 81,702	\$(36,472)	\$ (56,988)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:				
Depreciation expense	314,213	14,392	41,205	369,810
(Increase) decrease in accounts receivables, net	(6,052)	(4,465)	-	(10,517)
(Increase) decrease in due from other funds	-	(100,699)	-	(100,699)
(Increase) decrease in prepaid expenses	-	-	-	-
Increase (decrease) in accounts payable	(17,235)	-	-	(17,235)
Increase (decrease) in customer deposits	175	-	-	175
Increase (decrease) in accrued compensated absences	35	84	-	119
Increase (decrease) in due to other funds	-	-	-	-
Increase (decrease) in other payables	-	4	-	4
(Increase) decrease in deferred outflows of resources - pension	(8,153)	(3,695)	-	(11,848)
Increase (decrease) in deferred inflows of resources - pension	(1,401)	(635)	-	(2,036)
Increase (decrease) in net pension liability	29,392	13,320	-	42,712
Total adjustments	<u>310,974</u>	<u>(81,694)</u>	<u>41,205</u>	<u>270,485</u>
Net cash provided by (used for) operating activities	<u>\$ 208,756</u>	<u>\$ 8</u>	<u>\$ 4,733</u>	<u>\$ 213,497</u>
Noncash investing, capital and financing activities:				
During the year, the Water and Sewer Fund did not receive any noncash capital contributions from developers consisting sewer distribution infrastructure.				
Reconciliation of total cash and cash investments:				
Current assets - cash and cash investments	\$ 456,290	\$ 5,336	\$ 10,537	\$ 472,163
Restricted assets - customer deposits	28,015	-	-	28,015
Total cash and cash investments	<u>\$ 484,305</u>	<u>\$ 5,336</u>	<u>\$ 10,537</u>	<u>\$ 500,178</u>

City of Water Valley, Mississippi
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2018

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 49,445
Total assets	<u>\$ 49,445</u>
Liabilities	
Due to other governments	\$ 49,445
Total liabilities	<u>\$ 49,445</u>

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

Note 1 – Summary of Significant Accounting Policies

A. General Statement

The City of Water Valley, Mississippi (the City) is incorporated under the laws of the State of Mississippi. The City operates under a Mayor and Board of Aldermen form of government, with a full-time Mayor elected from the City at large and five part-time Aldermen. The City's major operations include police and fire protection, public works, water and sewer, solid waste, parks and recreation and general administrative services.

The City of Water Valley Electric Department (the Electric Department), an enterprise fund of the City, has a fiscal year ending on June 30th of each year, as required by regulatory bodies. The financial statements are not prepared in conformity with accounting principles general accepted in the United States of America (GAAP) and are separately audited by other auditors. According to the Electric Department's Independent Auditor's Report for the fiscal year ending June 30, 2018, the financial statements are prepared in accordance with the financial reporting practices prescribed or permitted by the Tennessee Valley Authority. All financial and other information pertaining to the Electric Department have been excluded from the information included herein.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

The City's basic financial statements include the accounts of all City operations with the exception of the Electric Department as previously discussed. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- ouThere is fiscal dependency by the organization on the City

Based on the aforementioned criteria, there are no component units required by GAAP to be reported as part of the reporting entity to the City.

B. Basic Financial Statements – Government-wide and Fund Level Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks and recreation, public works, and general administrative services are classified as governmental activities. The City's water and sewer, solid waste and airport are classified as business-type activities.

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

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

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on the consolidated basis by column, (b) and are reported on the full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: net investment in capital assets, restricted net position and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (police, fire, public works, etc.) and business-type activities. The Statement of Activities demonstrates the degree to which the direct expenses for 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 applicants who 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. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, fire, public works, etc.) or a business-type activity. Taxes and other items not properly included among program revenues are reported instead as general revenues. The net costs (by function or business-type activities) are normally covered by general revenue (property, sales or franchise tax, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

The government-wide focus is more on the sustainability of the City as an entity and the changes in the City's net position resulting from the current year's activities. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary agency funds, even though the latter are excluded from the government-wide financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. Major individual governmental funds and major individual enterprise funds are reported as separate columns in their fund financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, direct administrative services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expense.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

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

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds are used to report resources in a purely custodial capacity (assets equal liabilities). Therefore, these cannot be said to have a measurement focus; however, they do use the accrual basis of accounting to recognize receivables and payables. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

General Fund – The General Fund is the City's primary operating fund. It accounts for all financial transactions of the City, except those required or elected to be accounted for in another fund.

Industrial Fund – This fund accounts for the funds spent on the special projects for the City and to incentivize industry in Water Valley.

The City reports the following major proprietary funds:

Water and Sewer Fund – This enterprise fund accounts for activities associated with the provision of water and sewer services to individuals, organizations and other governmental units within and around the City.

Solid Waste Fund – This enterprise fund accounts for activities associated with the provision of sanitation services to individuals, organizations and other governmental units within and around the City.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

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

Airport – This enterprise fund accounts for activities associated with the provision of flight services, hanger rentals and fuel services to individuals, organizations and other governmental units within and around the City.

Fiduciary funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds. The purpose of the City's agency funds is to collect and remit to the related organizations various revenues.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth the minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a separate column in the fund financial statements.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

1. Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts, petty cash, and, if applicable, certificates of deposit with a maturity date generally within 90 days of the date acquired by the City. Collateral, as further discussed in Note 3, is pledged by the one financial institution to secure City funds.

2. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

3. Restricted Assets

Customer deposits in the City's Water and Sewer Fund are classified as restricted assets on the Statement of Net Position. These funds are considered cash and cash equivalents as they are maintained in a separate bank account by the City.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

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

4. Capital Assets

Capital assets purchased or acquired are carried at historical cost. Contributed assets are recorded at fair market value at the date received. The cost of normal maintenance and repairs that does not add to the value of capital assets or materially extend their respective lives are not capitalized. Interest expenditures during the construction period are capitalized on capital assets.

The City updated its capitalization criteria for the year ending September 30, 2018 as follows:

The classes of capital assets and their capitalization levels are: land – cost or fair market value; buildings and building improvements - \$50,000; improvements other than buildings - \$25,000; machinery and equipment - \$5,000; mobile equipment - \$10,000; and infrastructure – cost or fair market value.

Capital assets, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	33.3-40 years
Improvements other than buildings	20 years
Electric, water and sewer system	20-50 years
Infrastructure	20-50 years
Heavy machinery and equipment	5-25 years
Other furniture and equipment	7 years
Vehicles	5 years
Computer equipment and peripherals	3-5 years

Infrastructure assets include roads, bridges, underground pipe, sidewalks, runways, etc.

5. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

6. Compensated Absences

The City accrues accumulated unpaid leave and associated employee-related costs when earned (or estimated to be earned) by employees. A maximum of 30 days sick leave (240 Hours) can be carried forward from year to year. No one exceeded this as of September 30, 2018. As for vacation, after one year of service an employee accrues 40 hours, after two years of service 80 hours, and after eleven years 120 hours. A complete year is considered to be from the date of hire to the anniversary date. None of the employees are over the 120 hour max as of September 30, 2018. For the proprietary funds and the government-wide statements, the current portion is the amount estimated for use in the following year. In accordance with GAAP, for the governmental

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

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

funds, in the funds financial statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentation. The compensated absences liability is liquidated by the following funds: general fund, water and sewer fund, and solid waste fund.

7. Deferred Outflows and Inflows of Resources

The balance sheet and statements of net position will sometimes report a separate section for deferred outflows and inflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The City has two items that qualify for reporting in the deferred inflow category. The unavailable revenue – property taxes and pension related balances in the balance sheet and statements of net position, which arise under a modified accrual basis of accounting, represent amounts that are deferred and recognized as an inflow of resources in the periods that the amounts become available. The unavailable revenues – property taxes that are reported in the statement of net position and balance sheet, arise from imposed nonexchange revenues (property taxes) which are assessed prior to the end of the fiscal year but levied in the subsequent year. The City has one item that qualifies for reporting in the deferred outflow category. The pension related balances reported in the balance sheet and statements of net position, which arise under a modified accrual basis of accounting, represent amounts that are deferred and recognized as an outflow of resources in the periods that the amounts become available. The City reports both deferred inflows and outflows as a result of the implementation of GASB 68 and 71. The components of these balances are further explained in Note 4.

8. Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near fair market rates are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

9. Revenues

Substantially all governmental fund revenues are accrued. Property taxes are recognized at the levy date. All property taxes are billed, collected and recognized as revenue within the same period for which they are levied. Grants to proprietary funds, which finance either capital or current operations are reported as non-operating revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

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

operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before meeting the eligibility requirements are reported as advances by the provider and unearned revenue by the recipient.

10. Expenditures

Expenditures are recognized when the related fund liability is incurred.

11. Fund Equity

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – This component includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This component consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed – This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority which includes the city charter, ordinances or resolutions. Those committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (city charter, ordinance or resolution) it employed previously to commit those amounts.

Assigned – This component consists of amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City has not adopted a fund balance policy as of September 30, 2018.

Unassigned – This classification represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the City's policy to use committed resources first, then assigned, and then unassigned as they are needed.

12. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MS PERS Plan and additions to/deductions from the Mississippi Public Employee Retirement Plan have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. This plan, funded from both City and employee contributions, is further described in Note 4.

13. Post-Employment Health Care and Life Insurance Benefits

The City does not incur costs associated with post-employment benefits for retired employees.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosures. Actual results could differ from those estimates.

15. Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications have no effect on the change in net position.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 2 – Stewardship, Compliance and Accountability

A. Budgetary Information

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

1. The City Clerk prepares estimates of available revenue.
2. Department directors submit proposed expenditure budgets to the City Clerk by August of each year.
3. The City Clerk reviews expenditure budgets, and necessary revisions are communicated to department directors.
4. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the Mayor.
5. The Mayor submits the proposed budget to the Board of Aldermen. The final budget is approved by September 15 and must be published in a local newspaper on or before September 30.
6. The budget is formally amended in September each year or any time that budget revisions through funds reallocation are necessary or a budget deficit is indicated.
7. The City prepares annual budgets for the General Fund, Special Revenue Funds, and Enterprise Funds. Budgets for these funds are prepared in accordance with state law. State law requires that the City's budget be prepared on a modified-cash basis of accounting. All revenue is accounted for under the cash basis. Claims that have been incurred prior to the end of the year and are paid before October 31 are charged against the current year's budget. If the claim is incurred prior to the end of the year but paid after October 30, it is charged against the budget for the subsequent year. This required budgetary basis is not considered to be a generally accepted accounting principle in the United States of America. Budget and actual comparisons are presented in the accompanying financial statements for all governmental activities that are considered to be major funds under GASB 34 guidelines.

If during the year adjustments are required to the adopted budget, the following protocol is followed to amend:

- Revenues are reviewed and projections are adjusted if warranted. These adjustments to expected revenues, if material, can precipitate adjustments to the expenditure budget.
- Adjustments to transfer approved expenditure budgets from one department to another or to transfer from one category to another within a department must be approved by the Aldermen.

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

Note 2 – Stewardship, Compliance and Accountability (Continued):

The legal level of control for all budgets adopted is at the category level by fund with the exception of the General Fund, which is appropriated at the category level by department. Administrative control for all budgets is maintained through the establishment of more detailed line-item budgets.

The City Clerk exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without the Board's approval. The City Clerk advises the Mayor whenever a requested expenditure will exceed budgeted amounts. The Board may approve expenditures in excess of budgeted amounts in various funds or departments as appropriate, as long as total annual expenditures do not exceed available resources. Adjustments in expenditure rates, if necessary, are implemented by the Board as required, so that the total expenditures and resources will remain in balance throughout the year.

8. Budgeted expenditure or expense amounts (including transfers out) as originally adopted were not amended by the Board of Aldermen.
9. Unexpended appropriations lapse at year-end in all funds.
10. Expenditures over appropriations at the legal level of budgetary control are as follows:

	Budget	Actual	Overage
General Fund			
<i>Service and charges</i>	\$ 161,300	\$ 163,341	\$ (2,041)
Water and Sewer Enterprise Fund			
<i>Service and charges</i>	\$ 300,000	\$ 303,493	\$ (3,493)

Note 3 – Detailed Notes on All Funds

A. Deposits and Investments

1. Policies and Practices

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Mississippi 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 (FDIC).

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

2. Deposits

At year-end, the carrying amount of the City's deposits was \$1,379,270 and the bank balances totaled \$1,464,562. The City has several bank accounts at the same bank, including those for the Electric Department. Total bank balances, including the Electric Department, were \$3,114,443. Of the bank balances, \$250,000 was insured by federal deposit insurance and \$1,214,562 was collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

3. Investments

The City has no investments for the current fiscal year but is eligible to invest as described below.

Following is a list of the City's eligible investments, which in accordance with state statute are limited to the investment of funds in excess of sums required for immediate expenditure or current obligations:

- Certificates of deposit with municipal depositories approved annually by the State Treasurer
- Bonds or direct obligations of the:
 - United States of America
 - State of Mississippi
 - County or Municipality of Mississippi
 - School Districts

State statute allows the investment of funds received from the sale of bonds, notes, or certificates of indebtedness which are not immediately required for disbursement for the purpose issued, in direct obligations issued by or guaranteed in full by the United States of America, or in certificates of deposit with approved municipal depositories.

B. Receivables

Receivables at September 30, 2018, for the primary government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Funds	General Fund
Intergovernmental	\$ 89,067
Property taxes receivable	787,869
Other	-
Gross receivables	876,936
Less: allowance for doubtful accounts	20,654
Total governmental funds	<u>\$ 856,282</u>

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

1. Property taxes

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on October 1st and are due and payable at that time. All unpaid taxes levied October 1st become delinquent February 1st of the following year. The millage rate for the City for the 2017 tax roll was 37 mills. The City bills and collects the real, personal, and public utilities. Yalobusha County bills and collects the auto ad valorem taxes for the City.

Property taxes receivable	\$ 787,869
Less: Allowance for doubtful accounts	<u>20,654</u>
Total property taxes receivable, net	<u><u>\$ 767,215</u></u>

Governmental funds reported *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the governmental funds were as follows:

Current year tax assessments - governmental funds (exclusive of agency funds)	<u>Unearned</u> <u>\$ 751,995</u>
--	--------------------------------------

2. Sales Taxes

The State levies a 7% sales tax on retail sales and remits these collections to the City monthly. Intergovernmental revenue of the General Fund includes \$498,934 of sales tax revenue.

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

C. Changes in Capital Assets

1. Primary government capital asset activity for the year ended September 30, 2018, was as follows

<u>Governmental activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	\$ 6,826,682	\$ -	\$ -	\$ 6,826,682
Buildings & improvements	1,026,907	-	-	1,026,907
Equipment & furniture	1,097,501	37,783	(1,441)	1,133,843
Mobile equipment	291,895	22,279	-	314,174
Total capital assets being depreciated	9,242,985	60,062	(1,441)	9,301,606
<i>Less accumulated depreciation for:</i>				
Infrastructure	5,775,988	250,661	-	6,026,649
Buildings & improvements	478,281	18,850	-	497,131
Equipment & furniture	837,830	47,147	(1,441)	883,536
Mobile equipment	245,656	19,572	-	265,228
Total accumulated depreciation	7,337,755	336,230	(1,441)	7,672,544
Total capital assets being depreciated, net	1,905,230	(276,168)	-	1,629,062
Total governmental activities capital assets, net	\$ 1,905,230	\$ (276,168)	\$ -	\$ 1,629,062

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

<u>Business-type activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated:</i>				
Construction-in-progress	\$ -	\$ 688,502	\$ -	\$ 688,502
Total capital assets not being depreciated	-	688,502	-	688,502
<i>Capital assets being depreciated:</i>				
Infrastructure	11,257,288	-	-	11,257,288
Equipment & furniture	1,128,107	30,014	-	1,158,121
Mobile equipment	497,748	-	-	497,748
Total capital assets being depreciated	12,883,143	30,014	-	12,913,157
<i>Less accumulated depreciation for:</i>				
Infrastructure	8,291,374	311,814	-	8,603,188
Equipment & furniture	832,630	37,962	-	870,592
Mobile equipment	465,631	20,033	-	485,664
Total accumulated depreciation	9,589,635	369,809	-	9,959,444
Total capital assets being depreciated, net	3,293,508	(339,795)	-	2,953,713
Total business-type activities capital assets, net	\$ 3,293,508	\$ 348,707	\$ -	\$ 3,642,215

2. Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:

General government	\$ 23,729
Public safety	23,832
Public works	265,562
Culture and recreation	15,182
Economic development and assistance	7,925
Total depreciation expense - governmental activities	<u>\$ 336,230</u>

Business-type activities:

Water and sewer	\$ 314,213
Sanition	14,391
Airport	41,205
Total depreciation expense - business-type activities	<u>\$ 369,809</u>

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

Construction work-in-progress is composed of the following:

	<u>Spent-to-date</u>
<u>Business-type activities:</u>	
Water and sewer - various open work orders	\$ 514,073
Airport - various open work orders	174,429
Total construction in progress - business-type activities	<u>\$ 688,502</u>

D. Interfund Receivables, Payables, and Transfers

Individual fund interfund receivable and payable balances as of September 30, 2018, follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 478,815
Total Governmental Funds	<u>-</u>	<u>478,815</u>
 Solid Waste Fund	 478,815	 -
Total Proprietary Funds	<u>478,815</u>	<u>-</u>
 Total Governmental and Proprietary Funds	 <u>\$ 478,815</u>	 <u>\$ 478,815</u>

The sanitation department cash inflows and outflows are reported in the general fund for budgetary purposes and reclassified to the Solid Waste Fund, an enterprise fund, for financial statement reporting purposes.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

Transfers in/transfers out for the primary government follows:

	Transfers In	Transfers Out
General Fund	\$ 250,000	\$ 111,490
Industrial Fund	-	150,000
Nonmajor governmental funds	-	-
Library Fund	66,672	-
Sports Fund	10,000	-
Street Equipment Fund	30,132	-
Police Equipment Fund	5,965	-
Total Governmental Funds	<u>362,769</u>	<u>261,490</u>
Water and Sewer Fund		110,000
Solid Waste Fund	-	-
Airport Fund	8,721	-
Total Enterprise Funds	<u>8,721</u>	<u>110,000</u>
	<u>\$ 371,490</u>	<u>\$ 371,490</u>

Interfund transfers at September 30, 2018 consisted of the following:

\$ 26,025	From General Fund to Solid Waste Fund for payments on capital leases.
11,126	From General Fund to Rural Development Grant Fund for match funds.
10,024	From General Fund to Airport Fund for match funds.
65,820	From General Fund to Library Fund to subsidize operations.
30,132	From General Fund to Street Equipment Fund for payments on capital leases.
11,793	From Industrial Fund to Library Fund for repairs.
19,075	From Industrial Fund to Airport for fuel purchases.
100,000	From Water and Sewer Fund to General Fund to subsidize operations.
20,000	From Water and Sewer Fund to Sports Fund to subsidize operations.
<u>\$ 293,995</u>	

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

E. Capital Leases

The City leases property with varying terms and options. Most leases contain a clause that states the lease shall terminate in the event no funds or insufficient funds are appropriated. However, if renewal is reasonably assured, leases are considered noncancelable leases for financial reporting purposes.

The City has financed a street sweeper, a 2017 Ford Interceptor, a 2017 Chevrolet truck and two new 16' Gen-Aer Diffused Aeration Systems by means of capital leases. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

Street Sweeper (Street Department)	<u>\$ 58,281</u>
---	-------------------------

The following is a schedule by years of future minimum lease payments payable under this capital lease together with the present value of the net minimum lease payments as of September 30, 2018:

Year ending September 30:	
2019	\$ 30,132
2020	<u>30,132</u>
Total minimum payments	60,264
Less: Amount representing interest	<u>1,983</u>
Present value of net minimum lease payments	<u>\$ 58,281</u>

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

2017 Ford Interceptor (Police Department) \$ 22,279

The following is a schedule by years of future minimum lease payments payable under this capital lease together with the present value of the net minimum lease payments as of September 30, 2018:

Year ending September 30:	
2019	\$ 5,965
2020	5,965
2021	5,965
2022	<u>5,965</u>
Total minimum payments	23,860
Less: Amount representing interest	<u>1,581</u>
Present value of net minimum lease payments	<u><u>\$ 22,279</u></u>

2017 Chevrolet Silverado (Water and Sewer) \$ 15,283

The following is a schedule by years of future minimum lease payments payable under this capital lease together with the present value of the net minimum lease payments as of September 30, 2018:

Year ending September 30:	
2019	\$ 5,357
2020	5,357
2021	<u>5,359</u>
Total minimum payments	16,073
Less: Amount representing interest	<u>790</u>
Present value of net minimum lease payments	<u><u>\$ 15,283</u></u>

Two 16' Gen-Aer Diffused Aeration Systems (Water and Sewer) \$ 25,000

The following is a schedule by years of future minimum lease payments payable under this capital lease together with the present value of the net minimum lease payments as of September 30, 2018:

Year ending September 30:	
2019	\$ 6,718
2020	6,718
2021	6,718
2022	<u>6,718</u>
Total minimum payments	26,872
Less: Amount representing interest	<u>1,872</u>
Present value of net minimum lease payments	<u><u>\$ 25,000</u></u>

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

F. Long-term debt

The City has an outstanding note payable balance. Loan proceeds were used to purchase a Mahindra backhoe for the street division on June 2, 2014. This note will mature in the next fiscal year. The note payable balance at September 30, 2018 is as follows:

Governmental activities:

\$76,168 Renasant Bank Note dated June 2, 2014 for the purchase of a Mahindra backhoe for the street department due in monthly installments of \$1,335.96 for 60 months at 1.98% monthly interest beginning July 10, 2014; Secured by backhoe and payable out of the Street Equipment Fund

\$ 11,862

A summary of long-term debt transactions for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities:</u>					
Notes payable	\$ 32,236	\$ -	\$ 20,374	\$ 11,862	\$ 11,862
Capital leases	88,008	22,279	29,727	80,560	34,164
Compensated absences	24,864	22,103	24,864	22,103	22,103
Total	<u>\$ 145,108</u>	<u>\$ 44,382</u>	<u>\$ 74,965</u>	<u>\$ 114,525</u>	<u>\$ 68,129</u>
<u>Business-type activities:</u>					
Capital leases	\$ 20,137	\$ 25,000	\$ 4,854	\$ 40,283	\$ 10,955
Compensated absences	4,005	5,033	4,005	5,033	5,033
Total	<u>\$ 24,142</u>	<u>\$ 30,033</u>	<u>\$ 8,859</u>	<u>\$ 45,316</u>	<u>\$ 15,988</u>

There are a number of requirements contained in the various debt obligations. The City is in compliance with all significant requirements.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 3 – Detailed Notes on All Funds (Continued):

G. Annual Maturities Requirements

The annual requirements to amortize all long-term debt outstanding as of September 30, 2018, including interest, by source of retirement are as follows:

Street Department Backhoe

Fiscal Year	Note Payable		(Memorandum Only)
	Principal	Interest	Total
2019	\$ 11,862	\$ 99	\$ 11,961

H. Net Position/Fund Balance:

The City adopted GASB Statement 54 during the year ended September 30, 2011. As such, fund balance of the governmental funds is classified by specific purpose as follows:

	Nonmajor Governmental Funds
<u>Restricted for:</u>	
Public safety	\$ 58,524
Debt service	12,465
Total restricted fund balance	<u>70,989</u>
<u>Assigned to:</u>	
Public safety	7,148
Culture & recreation	43,503
Economic development & assistance	326,823
Total assigned fund balance	<u>377,474</u>
Total fund balances	<u>\$ 448,463</u>

Note 4 – Pension Plans

The City of Water Valley participates in the Public Employees' Retirement System of Mississippi (PERS), a defined benefit plans and includes a multi-employer, cost-sharing pension plan and an agent multiple-employer pension plan.

A. Public Employees' Retirement System

1. General Information about the Pension Plan

Plan Description and Provisions. Substantially all the City's employees participate in PERS, a multi-employer, cost-sharing defined benefit public employee pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 4 – Pension Plans (Continued)

obtained by writing to the Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS, 39201-1005 or by calling (601)359-3589 or 1-800-444-PERS or online at <http://www.pers.ms.gov>.

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. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. 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. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

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.

Contributions. Plan provisions and the PERS Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. §25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. Policies for PERS provide for employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Contribution rates for PERS are established in accordance with actuarial contribution requirements determined through the most recent June 30 annual valuation and adopted by the PERS Board of Trustees. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plan based on a five-year smoothed expected return, with 20% of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 4 – Pension Plans (Continued)

are determined using the entry age actuarial cost method and include provisions for an annual 3.00% cost-of-living increase calculated according to the terms of the respective plan.

PERS members are required to contribute 9% of their annual salary. The employer's contractually required contribution rate for the year ended September 30, 2018, was 15.75% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For 2018, the City's contributions to the pension plan were \$189,359.

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

At September 30, 2018, the City reported a liability of \$3,264,500, 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 employer contributions to PERS for the plan's fiscal year ended June 30, 2018, relative to the total employer contributions of participating employers to PERS. At June 30, 2018, the City's proportion was 0.0245745%, which was an increase of 0.001818% from its proportion of 0.023927%, as of June 30, 2017. The proportionate share of the pension related balances excludes the pro-rata portion pertaining to the Electric Department.

For the year ended September 30, 2018, the City recognized pension expense of \$156,768, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,311	\$ 13,762
Changes of assumptions or other inputs	1,926	1,803
Net difference between projected and actual earnings on pension plan investments	-	64,894
Changes in proportion	166,986	15,504
Employer contributions subsequent to the measurement date	51,600	-
	<u>\$ 234,823</u>	<u>\$ 95,963</u>

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

Note 4 – Pension Plans (Continued)

At September 30, 2018, the City reported \$51,600 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability during its 2019 fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2018, related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>		
2019	\$	81,233
2020		45,620
2021		(24,912)
2022		(14,681)
	\$	<u>87,260</u>

3. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3%
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 male rates set forward one year.

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 through June 30, 2016. The experience report is dated April 18, 2017.

For the year ended June 30, 2018, 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 4 – Pension Plans (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018, are summarized in the following table:

Asset Class	Target Allocation Percentage	Expected Real Rate of Return
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%	0.75%
Real assets	10.00%	3.50%
Private equity	8.00%	5.10%
Emerging debt	2.00%	2.25%
Cash	1.00%	0.00%
	100.00%	

4. Discount Rate

The discount rate used to measure the total pension liability was 7.75% at June 30, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate (9.00%), and that participating employer contributions will be made at the current employer contribution rate of 15.75% through June 30, 2019, and at the new contribution rate of 17.40% thereafter. 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.

5. Sensitivity of Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The City's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the City's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	\$ 4,298,409	3,264,500	\$ 2,405,184

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 4 – Pension Plans (Continued)

6. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report which can be obtained at <http://www.pers.ms.gov>.

7. Payable to the Pension Plan

At September 30, 2018, the City has no amounts payable for outstanding contributions to the pension plan required for the year ended June 30, 2018.

Note 5 – Other Information

A. Risk Management

1. Unemployment Benefits

In accordance with Mississippi Code 71-5-359, Section 9, The City elects to make contributions to the State Unemployment Compensation Fund at a rate of 1% of taxable wages paid during each calendar quarter. As of September 30, 2018, the required amounts were remitted to the fund State Unemployment Compensation Fund.

2. Workers' Compensation Benefits

Risk of loss related to workers' compensation for injuries to City employees is covered through the Mississippi Municipal Workers' Compensation Group, a public entity risk pool. The pool was formed on March 28, 1989, by the Mississippi Nonprofit Corporation Act, pursuant to Section 71-3-75, Mississippi Code Annotated (1972), to provide public entities within the State of Mississippi workers' compensation and employers' liability coverage. The City pays premiums to the pool for its workers' compensation insurance coverage based on total payroll. The participation agreement provides that the pool will be self-sustaining through member premiums. The risk of loss is remote for claims exceeding the pool's retention liability. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

3. Tort Liability

In compliance with the Tort Claims Act, Chapter 46 of Title 11 and as amended by the 1993 Legislature, Section 11-46-17(3) requires all municipalities from and after October 1, 1993, to obtain such policies of insurance, establish self-insurance reserves, or provide a combination of insurance and reserves necessary to cover all risks of claims and suits for which the City of Water Valley may be liable under the Tort Claims Act.

City of Water Valley, Mississippi

Notes to Financial Statements

September 30, 2018

Note 5 – Other Information (Continued)

In order to assure compliance with the Tort Claims Act, the Mississippi Tort Claims Board was established by House Bill 417. Municipalities are required to submit plans of insurance, self-insurance and/or reserves to the Tort Claims Board for approval.

Municipalities may comply with the requirements of the Tort Claims Act by one of the following methods: (1) Purchase of liability insurance, (2) Pooling of two or more municipalities or other political subdivisions to purchase liability insurance or to self-insure, (3) Self-insure with the establishment of a self-insurance reserve fund.

The City of Water Valley is in compliance by purchasing liability insurance through the Mississippi Municipal Liability Plan (MMLP), a public entity risk pool. The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMLP covers risks of loss against members in the group arising from claims related to torts and other liability claims. The Mississippi Municipal Liability Plan requires that an indemnity agreement be executed by each member in the pool for the purpose of jointly and severally binding the pool and each of the members comprising the group to meet the liability obligations of each member. The general policy limit is \$500,000 per occurrence, but the policy also tracks the Mississippi tort claims law for municipalities that limits the City's liability to \$500,000 per occurrence. The policy also covers up to \$1,000,000 in federal claims. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. Settled claims resulting from these insured risks have not exceeded the City's insurance coverage since it joined the pool, and the members have not had an additional assessment for excess losses incurred by the pool.

4. Real and Personal Property Insurance

The City purchases commercial policies to insure its real and personal property.

B. Contingent Liabilities

1. Grants

The City participates in state and federally funded grant programs. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of September 30, 2018, the City believes that disallowed expenditures, if any, discovered in subsequent audits will not have a material effect on any of the individual funds or the overall financial position of the City.

2. Litigation

In the normal course of business, the City is, from time to time, subject to allegations that may or do result in litigation. The City evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term. No estimate for loss is recorded at September 30, 2018.

City of Water Valley, Mississippi
Notes to Financial Statements
September 30, 2018

Note 5 – Other Information (Continued)

C. Comprehensive Income

Net comprehensive income is equal to net income.

Note 6 – Subsequent Events

Management has evaluated subsequent events through September 27, 2019, the date on which the financial statements were available to be issued. In July 2018, the Board of Trustees of PERS voted to increase the employer contribution rate from 15.75% to 17.40%. This increase will be effective July 1, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

City of Water Valley, Mississippi
Budget and Actual (with Variances)
General Fund
For the year ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis (See Note A)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 618,584	\$ 618,584	\$ 629,282	\$ 10,698
Fees and fines	85,000	85,000	43,294	(41,706)
Franchise taxes	79,000	79,000	59,220	(19,780)
Licenses and permits	13,000	13,000	12,238	(762)
Intergovernmental	577,000	577,000	574,915	(2,085)
Payments received in lieu of taxes	490,578	490,578	464,723	(25,855)
Charges for services	384,600	384,600	391,325	6,725
Investment earnings	4,000	4,000	2,989	(1,011)
Miscellaneous	148,000	148,000	(2,362)	(150,362)
Total revenues	<u>2,399,762</u>	<u>2,399,762</u>	<u>2,175,624</u>	<u>(224,138)</u>
EXPENDITURES				
General government				
Administrative expenditures				
Personal services	215,000	215,000	203,591	11,409
Service and charges	161,300	161,300	163,341	(2,041)
Supplies	16,100	16,100	13,458	2,642
Capital outlay	6,300	6,300	-	6,300
Public safety				
Police department				
Personal services	556,900	556,900	543,303	13,597
Service and charges	186,300	186,300	179,572	6,728
Supplies	43,800	43,800	35,250	8,550
Capital outlay	28,000	28,000	15,717	12,283
Fire department				
Personal services	336,500	336,500	272,942	63,558
Service and charges	37,800	37,800	33,360	4,440
Supplies	3,500	3,500	1,671	1,829
Capital outlay	20,000	20,000	-	20,000
Municipal fire protection				
Supplies	2,400	2,400	710	1,690
Public works				
Street department				
Personal services	302,000	302,000	265,124	36,876
Service and charges	279,500	279,500	197,062	82,438
Supplies	73,100	73,100	59,644	13,456
Capital outlay	62,900	62,900	46,164	16,736
Parks and recreation				
Personal services	200,000	200,000	87,216	112,784
Service and charges	53,900	53,900	53,494	406
Supplies	12,700	12,700	9,383	3,317
Capital outlay	26,000	26,000	334	25,666
Sanitation				
Sanitation department				
Personal services	104,000	104,000	98,147	5,853
Service and charges	142,200	142,200	139,987	2,213
Supplies	30,300	30,300	28,210	2,090
Capital outlay	32,000	32,000	-	32,000
Total expenditures	<u>2,932,500</u>	<u>2,932,500</u>	<u>2,447,680</u>	<u>484,820</u>
Excess (deficiency) of revenues over expenditures	<u>(532,738)</u>	<u>(532,738)</u>	<u>(272,056)</u>	<u>260,682</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	250,000	250,000	250,000	-
Transfers out	(25,000)	(25,000)	(28,122)	(3,122)
Total other financing sources (uses)	<u>225,000</u>	<u>225,000</u>	<u>221,878</u>	<u>(3,122)</u>
Net change in fund balances	(307,738)	(307,738)	(50,178)	257,560
Budgetary fund balance - beginning	534,161	534,161	363,586	(170,575)
Budgetary fund balance - ending	<u>\$ 226,423</u>	<u>\$ 226,423</u>	<u>\$ 313,408</u>	<u>\$ 86,985</u>

City of Water Valley, Mississippi
Note A to Budgetary Comparison Schedule
General Fund
For the year ended September 30, 2018

Note A to Budgetary Comparison Schedule:

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,175,624
Differences - budget to GAAP:	
Amounts due from the taxpayers for real, auto and mobile home ad valorem at year end are revenues for financial reporting purposes	(3,588)
Amount due from the state for sales and gas tax at year end is revenue for financial reporting purposes	(948)
Amount due from insurance company for a claim filed on a damaged police vehicle	
Revenue and expenses recorded in the general fund for the sanitation department are reclassified to an enterprise fund for reporting purposes; sanitation department revenue and expenses are recorded in the general fund for budgeting purposes	(367,044)
The City recorded various expenditures to miscellaneous revenues; this balance was a reclass to correct account for modified accrual basis	72,551
The City recorded funds received from the state as an expense on the budgetary basis; this balance was a reclass to a revenue account for the modified accrual basis	7,200
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 1,883,795

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,447,680
Differences - budget to GAAP:	
The City reversed a prior year payable on the modified accrual basis but not for the budgetary basis	(4,429)
Revenue and expenses recorded in the general fund for the sanitation department are reclassified to an enterprise fund for reporting purposes; sanitation department revenue and expenses are recorded in the general fund for budgeting purposes	(266,346)
The City recorded a current year payable on the modified accrual basis but not for the budgetary basis	2,558
The City recorded various expenditures to miscellaneous revenues; this balance was a reclass to correct account for modified accrual basis	38,459
The City recorded a check for street repairs to fund balance for budgetary reporting purposes, this balance was recorded to the corresponding expense accounts for the modified accrual basis	(9,000)
The City recorded funds received from the state as an expense on the budgetary basis; this balance was reclassified to a revenue account for the modified accrual basis	7,200
The City received loan proceeds in this amount that were used for the purchase of a vehicle	22,279
The City transferred money from the general fund to the police equipment fund for payments on capital leases.	(5,468)
The City transferred money from the general fund to the street equipment fund to service the debt associated with a street sweeper note on the modified accrual basis; this was recorded as an expense for the budgetary basis	(30,132)
The City transferred money from the general fund to the airport improvements fund for the match portion of the grant on the modified accrual basis; this was recorded as an expense for the budgetary basis	(2,385)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 2,200,416

City of Water Valley, Mississippi
Budget and Actual (with Variances)
Industrial Fund and Note A to Budgetary Schedule
For the year ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis (See Note A)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Rental receipts	\$ 28,200	\$ 28,200	\$ 49,800	\$ 21,600
Interest income	8,000	8,000	4,269	(3,731)
Total revenues	<u>36,200</u>	<u>36,200</u>	<u>54,069</u>	<u>17,869</u>
EXPENDITURES				
Industrial park and other expenditures	<u>120,000</u>	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Total expenditures	<u>120,000</u>	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Excess (deficiency) of revenues over expenditures	<u>(83,800)</u>	<u>(83,800)</u>	<u>54,069</u>	<u>137,869</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	-
Transfers out	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
Net change in fund balances	(233,800)	(233,800)	(95,931)	137,869
Budgetary fund balance - beginning	<u>440,000</u>	<u>440,000</u>	<u>422,739</u>	<u>(17,261)</u>
Budgetary fund balance - ending	<u>\$ 206,200</u>	<u>\$ 206,200</u>	<u>\$ 326,808</u>	<u>\$ 120,608</u>

Note A to Budgetary Comparison Schedule:

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule

\$ 54,069

Differences - budget to GAAP:

None

-

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds

\$ 54,069

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule

\$ -

Differences - budget to GAAP:

The City recorded fuel purchased for the airport fund as expense in the industrial fund for budgetary reporting purposes; these funds were reported as a transfer out for the modified accrual basis

(19,075)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds

\$ (19,075)

City of Water Valley, Mississippi
 Required Supplementary Information
 Schedule of Proportionate Share of the Net Pension Liability
 Mississippi Public Employees' Retirement System

Last 10 Fiscal Years

<u>CITY OF WATER VALLEY*</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportionate share of the net pension liability	\$ 3,264,500	\$ 3,032,229	\$ 3,271,187	\$ 3,655,465
Employer's proportion of the net pension liability	0.026%	0.024%	0.024%	0.025%
Employer's covered-employee payroll	1,268,690	\$ 1,101,346	\$ 1,102,844	\$ 1,111,449
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	257.31%	275.32%	296.61%	328.89%
Plan fiduciary net position as a percentage of the total pension liability	62.54%	57.47%	51.70%	61.70%

*The amounts presented for each fiscal year were determined as of the measurement date of June 30th of the year in which the fiscal year ends (i.e. June 30, 2018 measurement date used for September 30, 2018).

The average expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the beginning of the measurement period decreased from 3.72 years for the 2015 measurement period to 3.48 for the 2016 measurement period to 3.37 for the 2017 measurement period. It then increased to 3.90 years for the 2018 measurement period.

City of Water Valley, Mississippi
Required Supplementary Information
Schedule of Contributions
Mississippi Public Employees' Retirement System

Last 10 Fiscal Years**CITY OF WATER VALLEY***

	2018	2017	2016	2015
Statutorily required employer contribution	\$ 189,359	\$ 186,883	\$ 194,431	\$ 188,704
Contributions in relation to the statutorily required contribution	189,359	186,883	194,431	188,704
Annual contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Employer's covered-employee payroll	\$ 1,202,279	\$ 1,186,559	\$ 1,234,483	\$ 1,198,121
Actual contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%	15.75%

*These amounts presented were determined as of the fiscal year end date for the City of Water Valley.

This schedule is presented to illustrate the requirement to show information for 10 years. GASB 68 and 71 were implemented in the fiscal year ending September 30, 2015, and is retroactively applied to all years presented in this report. Until a full 10-year trend is compiled, the employer has only presented information for the years in which information is available.

City of Water Valley, Mississippi
Notes to the Schedules of Required Supplementary Information

Note 1 – Changes in Benefit Provisions (Mississippi Public Employees' Retirement System)

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

Note 2 – Changes of Assumptions (Mississippi Public Employees' Retirement System)

- **2015:** The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.
- **2016:** The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.
- **2017:** The expectation 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. In 2017, the wage inflation assumption was reduced from 3.75% to 3.25%. In 2017, withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. Finally, the percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

Note 3 – Method and Assumptions Used in Calculations of Actuarially Determined Contributions (Mississippi Public Employees' Retirement System)

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	33.9 years
Asset valuation method	Five year smoothed market
Price inflation	3.00%
Salary increase	3.75 - 19.00%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

SUPPLEMENTAL INFORMATION

City of Water Valley, Mississippi
Schedule of Surety Bonds for Municipal Officials
September 30, 2018

NAME	POSITION	COMPANY	BOND AMOUNT
Donald Gray	Mayor	Western Surety Company	\$ 50,000
Fred E. White	Alderman	Western Surety Company	\$ 50,000
Herbert Rogers	Alderman	Western Surety Company	\$ 50,000
Kagan Coughlin	Alderman	Western Surety Company	\$ 50,000
Cinnamon Foster	Alderman	Western Surety Company	\$ 50,000
Nicole Folson	Alderman	Western Surety Company	\$ 50,000
Vivian Snider	City Clerk	Western Surety Company	\$ 50,000
Vivian Snider	Court Clerk	Western Surety Company	\$ 50,000
Kristy Tatum	Deputy Clerk	Western Surety Company	\$ 50,000
Anthony Hernandez	Police Chief	Western Surety Company	\$ 50,000

STATE LEGAL COMPLIANCE

Robert K. VanDevender, CPA
Lance Mohamed, CPA
Stribling W. Hargett, CPA

W. Lee Mattox, CPA
William A. Adams, CPA
Gay G. Moss, CPA



Fred T. Neely, CPA
(1897-1967)
Billy Joe Killebrew, CPA
(1942-2010)
Ralph F. Neely, CPA
(1927 -)

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

To the Board of Aldermen
Water Valley, 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 (except as described below), and the aggregate remaining fund information of the City of Water Valley, (the City), as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 27, 2019.

We issued an adverse opinion on the Electric Department Enterprise Fund and a qualified opinion on the business-type activities in our report dated September 27, 2019. These opinions are the result of management not including the Electric Department Enterprise Fund in the City's financial statements. Accounting principles generally accepted in the United States of America require the Electric Department to be presented as a major enterprise fund and financial information about the Electric Department to be part of the business-type activities, thus increasing the activity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses and changing its net position. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the business-type activities and the omitted major fund has not been determined.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 first paragraph of this section 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 have not been identified. 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. 2018-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs.

City of Water Valley, Mississippi's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City'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.

Fred T. Neely & Company, PLLC

Greenwood, Mississippi
September 27, 2019

Robert K. VanDevender, CPA
Lance Mohamed, CPA
Stribling W. Hargett, CPA

W. Lee Mattox, CPA
William A. Adams, CPA
Gay G. Moss, CPA



Fred T. Neely, CPA
(1897-1967)
Billy Joe Killebrew, CPA
(1942-2010)
Ralph F. Neely, CPA
(1927 -)

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH STATE LAWS AND REGULATIONS**

To the Board of Aldermen
City of Water Valley, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Water Valley, Mississippi, as of and for the year ended September 30, 2018 and have issued our report thereon dated August 31, 2018. We have 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*. The financial statements of the Electric Department were not audited in accordance with *Government Auditing Standards*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. The results of those procedures and our audit of the basic financial statements disclosed one instance of noncompliance with state laws and regulations as disclosed in the Schedule of Findings and Responses.

This report is intended for the information of the City's management, the Board of Aldermen, and the Office of the State Auditor 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.

Fred T. Neely & Company, PLLC

Greenwood, Mississippi
September 27, 2019

CITY OF WATER VALLEY, MISSISSIPPI
Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION I: SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an adverse opinion on the Electric Department Enterprise Fund and a qualified opinion on the business-type activities for the City of Water Valley, Mississippi, as of September 30, 2018. All other opinions issued on the opinion units noted in the audit report were unqualified.
2. One deficiency disclosed during the audit of the financial statements is reported in this schedule. This deficiency is reported as a material weakness.
3. Two instances of noncompliance material to the financial statements of the City of Water Valley, Mississippi were disclosed during the audit.

SECTION II: FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2018-1: Financial Statements and Related Disclosures

Condition: Since the City's books are maintained in accordance with state budgetary law, management requested auditors to assist in converting the City's accounting records from the budgetary basis to the accrual basis so that the financial statements could be prepared in conformity with U.S. generally accepted accounting principles. Management also requested the auditors to prepare a draft of the City's financial statements, including the related notes to the financial statements. The outsourcing of this service is not unusual in Cities of your size and is a result of the City's cost benefit decision to use our accounting expertise rather than to incur internal resource costs.

Criteria: The City is responsible for establishing and maintaining effective internal controls over financial reporting. Under generally accepted auditing standards, outside auditors cannot be considered a part of the City's internal control structure, and the design of the City's internal control structure does not include procedures for its preparation of external financial statements in accordance with generally accepted accounting principles.

Cause: The City has opted not to incur the additional costs that it would take to train and keep personnel abreast of the requirements necessary to prepare the financial statements and the related footnote disclosures.

Effect: The preparation of its financial statements, related footnote disclosures and required supplemental information are outsourced. However, management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

The absence of this control procedure is considered a material weakness because there is more than a remote likelihood that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

CITY OF WATER VALLEY, MISSISSIPPI
Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Recommendation: Due to the cost of hiring and keeping personnel abreast of the requirements necessary to prepare the financial statements and the related footnote disclosures, no change is recommended.

Response: We agree with the finding. The City benefits the most by continuing to outsource the preparation of the financial statements and related note disclosures. Management understands and accepts the risk of permitting the auditors to prepare the financial statements and related note disclosures due to cost constraints.

IMMATERIAL COMPLIANCE

2018-2: State Legal Compliance

Amendments to the budget were not made as allowed by Mississippi Code Ann. (1972), Section 21-35-25, and, as a result, expenditures exceeded the budget in two functional categories

Recommendation: The City should amend its budget when a functional category is exceeded as allowed by Mississippi Code Ann. (1972), Section 21-35-25.

Response: Management will review the comparative budget reports as well as encumbrance reports at year-end and make the necessary budget adjustments to ensure compliance with state law.

Robert K. VanDevender, CPA
Lance Mohamed, CPA
Stribling W. Hargett, CPA

W. Lee Mattox, CPA
William A. Adams, CPA
Gay G. Moss, CPA



Fred T. Neely, CPA
(1897-1967)
Billy Joe Killebrew, CPA
(1942-2010)
Ralph F. Neely, CPA
(1927 -)

September 27, 2019

To the Board of Aldermen
City of Water Valley, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Water Valley, Mississippi (the City), for the year ended September 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 8, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2018. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Management's estimate of the Allowance for Doubtful Accounts is based on historical trends. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Allowance for Accumulated Depreciation is based on the estimated useful lives of depreciable equipment. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The attached journal entry listing included material misstatements detected as a result of audit procedures that were corrected by management as well as immaterial misstatements made at the request of the City.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 27, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, Budget and Actual (with Variances) - General Fund and the related note disclosure, Budget and Actual (with Variances) - Industrial Fund and the related note disclosure, and pension related schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Surety Bonds for Municipal Officials, which accompany the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Aldermen and the management of the City of Water Valley, Mississippi and is not intended to be, and should not be, used by anyone other than these specified parties.

Fred T. Neely & Company, PLLC

Greenwood, Mississippi
September 27, 2019