

FINANCIAL REPORT
CITY OF TUPELO, MISSISSIPPI -
ELECTRIC DEPARTMENT

June 30, 2014 and 2013

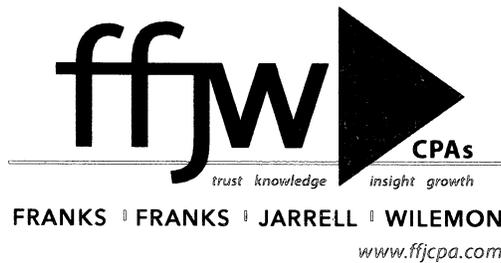
**CITY OF TUPELO, MISSISSIPPI -
ELECTRIC DEPARTMENT**

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Tupelo, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Tupelo-Electric Department as of and for the years ended June 30, 2014 and 2013, which collectively comprise the City of Tupelo – Electric Department'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 audit opinion.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Tupelo-Electric Department as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements of the City of Tupelo-Electric Department are intended to present the financial position and results of operations and the cash flows of the proprietary fund types of only that portion of the financial reporting entity of the City of Tupelo that is attributable to the transactions of the City of Tupelo-Electric Department. The financial statements are not intended to present fairly the financial position of the City of Tupelo and the results of operations and the cash flows of its proprietary fund types in conformity 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 on pages 3 through 6 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2014 on our consideration of the City of Tupelo-Electric Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Tupelo-Electric Department's internal control over financial reporting and compliance.

Franks, Franks, Jarrell & Wilemon, P.A.

FRANKS, FRANKS, JARRELL & WILEMON, P.A.
October 16, 2014

CITY OF TUPELO – ELECTRIC DEPARTMENT MANAGEMENT’S DISCUSSION AND ANALYSIS

Required Supplemental Information for the Year Ended June 30, 2014 and 2013

This section of the City of Tupelo - Electric Department's Financial Report presents our discussion and analysis of the City of Tupelo - Electric Department's financial performance during the fiscal years ending June 30, 2014 and 2013. Please read it in conjunction with the City of Tupelo - Electric Department's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Tupelo – Electric Department exceeded its liabilities at the close of the June 30, 2014 and 2013 fiscal years by \$38,021,234 and \$37,387,725, respectively. Of this amount, \$11,592,583 and \$12,420,894 may be used to meet the City of Tupelo – Electric Department's ongoing obligations to citizens and creditors.
- As of the close of the June 30, 2014 and 2013 fiscal years, the City of Tupelo – Electric Department reported net position balances of \$38,021,234 and \$37,387,725, an increase of \$633,509 and \$609,820 in comparison to the prior year.
- The City of Tupelo – Electric Department currently has no long-term debt outstanding.
- The City of Tupelo – Electric Department is a Proprietary fund of the City of Tupelo, Mississippi. The management's discussion and analysis and financial statements contained in this report present only the financial position and financial analysis of the Electric Department. It should not be used to evaluate the entire operation of the City of Tupelo or the total proprietary funds of the City of Tupelo. Proprietary funds are funds in which charges for services from customers in the form of a fee are reported. Proprietary funds provide both long and short-term financial information. The measurement focus of proprietary funds is upon determination of net income, financial position and change in financial position. These funds are maintained on the accrual basis of accounting. The Statement of Net Position, Statement of Revenues and Expenses, Statement of Changes in Net Position, and Statement of Cash Flows are all required statements.

CITY OF TUPELO – ELECTRIC DEPARTMENT MANAGEMENT’S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Table A-1 provides a summary of the City of Tupelo – Electric Department’s net position at June 30, 2014 and 2013.

A large portion, 69.5% and 66.8%, of the City of Tupelo – Electric Department’s net position reflects its investment in capital assets (such as land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding for the years ended June 30, 2014 and 2013, respectively. The City of Tupelo – Electric Department uses these capital assets to provide services to citizens; however, these assets are not available for future spending.

Table A-1

City of Tupelo – Electric Department’s Statements of Net Position

	<u>Total 6/30/14</u>	<u>Total 6/30/13</u>
Current and Other Assets	\$ 20,182,170	\$ 20,485,919
Capital Assets	<u>26,428,651</u>	<u>24,966,831</u>
Total Assets	<u><u>46,610,821</u></u>	<u><u>45,452,750</u></u>
Current and Other Liabilities	8,589,587	8,065,025
Long-Term Liabilities	<u>0</u>	<u>0</u>
Total Liabilities	<u><u>8,589,587</u></u>	<u><u>8,065,025</u></u>
Net Position		
Net Investment in Capital Assets	26,428,651	24,966,831
Unrestricted	<u>11,592,583</u>	<u>12,420,894</u>
Total Net Position	<u><u>\$ 38,021,234</u></u>	<u><u>\$ 37,387,725</u></u>

CITY OF TUPELO – ELECTRIC DEPARTMENT MANAGEMENT’S DISCUSSION AND ANALYSIS

Revenues and Expenses. Approximately 99% of the City of Tupelo – Electric Department’s revenue comes from fees charged for services. A negligible portion of revenues come from investment earnings.

Table A-2 and the narrative that follows consider the operations of City of Tupelo – Electric Department activities only for June 30, 2014 and 2013.

Table A-2

Revenues and Expenses of the City of Tupelo – Electric Department

	<u>Total 6/30/14</u>	<u>Total 6/30/13</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 57,482,640	\$ 56,743,939
Investment Income	<u>11,659</u>	<u>21,329</u>
Total Revenues	<u>57,494,299</u>	<u>56,765,268</u>
Expenses		
Power Cost	49,066,211	48,362,196
Distribution Expense – Operating	578,993	540,527
Maintenance – General Plant	1,525	1,586
Distribution Expense – Maintenance	746,589	771,751
Customer Accounting & Collection	592,432	781,987
Customer Service and Information	41,221	41,573
Sales Expense	39,451	38,675
Administrative and General	791,176	737,216
Depreciation Expense	1,710,405	1,682,742
Taxes and Equivalents	<u>3,292,787</u>	<u>3,197,195</u>
Total Expenses	<u>56,860,790</u>	<u>56,155,448</u>
Excess of Revenue Over Expenses	633,509	609,820
Transfers	<u>0</u>	<u>0</u>
Net Income	<u>633,509</u>	<u>609,820</u>
Net Position – Beginning	<u>37,387,725</u>	<u>36,777,905</u>
Net Position – Ending	<u>\$ 38,021,234</u>	<u>\$ 37,387,725</u>

Business-Type Activities

The City of Tupelo – Electric Department net position increased by \$633,509 and \$609,820, respectively, which was a 1.69% and 1.66% increase for the fiscal years ended June 30, 2014 and 2013.

CITY OF TUPELO – ELECTRIC DEPARTMENT MANAGEMENT’S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—In accordance with GASB 34, the City of Tupelo – Electric Department has recorded depreciation expense associated with all of its capital assets. The City’s Electric Department investment in capital assets as of June 30, 2014 and 2013, amounted to \$26,428,651 and \$24,966,831, respectively, net of accumulated depreciation of \$25,577,076 and \$24,988,779. This investment in capital assets includes land, buildings, improvements other than buildings, machinery & equipment, and construction in progress.

Table A-3

City of Tupelo – Electric Department Capital Assets

	<u>Total 6/30/14</u>	<u>Total 6/30/13</u>
Land	\$ 333,013	\$ 333,013
Distribution Equipment	44,396,338	42,857,938
General Plant	4,731,112	3,384,111
Transmission Equipment	1,630,839	1,630,839
Construction-In-Progress	914,425	1,749,709
Accumulated Depreciation	<u>(25,577,076)</u>	<u>(24,988,779)</u>
 Total	 <u>\$ 26,428,651</u>	 <u>\$ 24,966,831</u>

Long-term Debt—At year-end, the City of Tupelo – Electric Department had no bonds or notes outstanding.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City of Tupelo – Electric Department revenues are dependent upon the customer base in the City of Tupelo, Mississippi and certain surrounding areas. The local economy and weather conditions can have a significant effect on the financial performance of the City of Tupelo – Electric Department. The City of Tupelo – Electric Department has one major customer that accounts for approximately 13.8% of the total revenues of the Electric Department. Next year’s budget reflects a 4% increase in revenues due in part to a TVA rate increase. The budgeted expenditures increased 3% due to the projects required after the April 2014 tornado.

CONTACTING THE CITY OF TUPELO FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City of Tupelo – Electric Department finances and to demonstrate the City of Tupelo – Electric Department’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Tupelo – Electric Department, P.O. Box 1485 Tupelo, MS 38802-1485.

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
STATEMENTS OF NET POSITION

ASSETS	June 30,	
	2014	2013
ELECTRIC PLANT:		
In Service - at Cost	\$ 52,005,727	\$ 49,955,610
Less: Accumulated Provisions for Depreciation	25,577,076	24,988,779
Net Electric Plant	26,428,651	24,966,831
CURRENT ASSETS:		
Cash and Cash Equivalents	7,177,763	10,762,176
Accounts Receivable - (Net of Provision for Bad Debts of \$182,355 for 2014 and \$193,910 for 2013)	6,966,877	6,439,805
Unbilled Revenue	1,458,343	1,635,855
Other Accounts Receivable	269,531	257,263
Due from Municipality	34,246	51,317
Due from Other Governmental Units	2,453,591	0
Materials and Supplies	1,096,101	787,980
Prepaid Expenses	54,959	31,894
Other Current Assets	83,784	83,228
Total Current Assets	19,595,195	20,049,518
DEFERRED DEBITS AND OTHER ASSETS:		
Receivable from Customers for Energy Conservation Loans	544,492	396,568
Receivable from Central Service Association (CSA)	42,483	39,833
Total Deferred Debits and Other Assets	586,975	436,401
TOTAL ASSETS	\$ 46,610,821	\$ 45,452,750

See accompanying notes to the financial statements.

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
STATEMENTS OF NET POSITION

LIABILITIES AND NET POSITION

	June 30,	
	2014	2013
CURRENT LIABILITIES:		
Accounts Payable	\$ 5,401,517	\$ 5,181,948
Accrued Expenses	226,470	194,255
Due to Municipality	7,401	10,944
Customer Deposits	2,399,255	2,272,191
Total Current Liabilities	8,034,643	7,659,338
DEFERRED CREDITS:		
Advances from TVA - For Energy Conservation Loans	554,944	405,687
Total Deferred Credits	554,944	405,687
TOTAL LIABILITIES	8,589,587	8,065,025
NET POSITION:		
Net Investment in Capital Assets	26,428,651	24,966,831
Unrestricted	11,592,583	12,420,894
TOTAL NET POSITION	38,021,234	37,387,725
TOTAL LIABILITIES AND NET POSITION	\$ 46,610,821	\$ 45,452,750

See accompanying notes to the financial statements.

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
STATEMENTS OF REVENUES AND EXPENSES

	For the years ended June 30,	
	2014	2013
OPERATING REVENUES:		
Residential Sales	\$ 13,611,970	\$ 13,164,841
Commercial Sales	7,659,726	7,479,120
Industrial Sales	33,382,738	33,296,101
Street and Athletic Lighting	1,095,810	1,104,795
Outdoor Lighting	775,016	757,759
Total Electric Revenues	56,525,260	55,802,616
Revenue from Late Payments	163,734	164,035
Customer Service Charge	208,875	237,706
Rent from Electric Property	316,682	317,033
Miscellaneous Revenue	268,089	222,549
Total Operating Revenues	57,482,640	56,743,939
OPERATING EXPENSES:		
Power Purchased	49,066,211	48,362,196
Distribution Expense - Operating	578,993	540,527
Maintenance - General Plant	1,525	1,586
Distribution Expense - Maintenance	746,589	771,751
Customer Accounting and Collection	592,432	781,987
Customer Service and Information	41,221	41,573
Sales Expense	39,451	38,675
Administrative and General	791,176	737,216
Depreciation Expense	1,710,405	1,682,742
Taxes and Equivalents	3,292,787	3,197,195
Total Operating Expenses	56,860,790	56,155,448
OPERATING INCOME	621,850	588,491
OTHER INCOME:		
Interest Income	11,659	21,329
Total Other Income	11,659	21,329
NET INCOME	\$ 633,509	\$ 609,820

See accompanying notes to the financial statements.

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
STATEMENTS OF CHANGES IN NET POSITION

	For the years ended June 30,	
	2014	2013
Balance - Beginning of Year	\$ 37,387,725	\$ 36,777,905
Add: Net Income for the Years as Shown on Statements of Revenues and Expenses	<u>633,509</u>	<u>609,820</u>
Balance - End of Year	<u>\$ 38,021,234</u>	<u>\$ 37,387,725</u>

See accompanying notes to the financial statements.

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 57,073,596	\$ 57,255,360
Payments to Suppliers	(49,509,910)	(48,806,680)
Payments to Employees	(2,020,911)	(1,956,672)
Payments for Other Services and Charges	(3,571,902)	(3,721,304)
Other Receipts (Payments)	46,660	31,787
Net Cash Provided (Used) by Operating Activities	2,017,533	2,802,491
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Due To (From) Municipality	13,528	100,855
Net Cash Provided (Used) by Noncapital Financing Activities	13,528	100,855
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	(5,537,942)	(2,629,309)
Cost of Removal Net of Salvage	(87,874)	(114,090)
Conservation Advances from TVA	149,257	99,418
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,476,559)	(2,643,981)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends	11,659	21,329
Receivable from Customers for Energy Conservation Loans	(147,924)	(94,768)
(Increase) Decrease in Receivable from CSA	(2,650)	880
Net Cash Provided (Used) by Investing Activities	(138,915)	(72,559)
Net Increase (Decrease) in Cash Equivalents	(3,584,413)	186,806
Cash and Cash Equivalents - Beginning of Year	10,762,176	10,575,370
Cash and Cash Equivalents - End of Year	\$ 7,177,763	\$ 10,762,176

See accompanying notes to the financial statements.

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2014	2013
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 621,850	\$ 588,491
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	1,710,405	1,682,742
Provision for Uncollectible Accounts	(11,555)	138,713
Change in Assets and Liabilities:		
Accounts Receivable	(515,517)	474,064
Unbilled Revenue	177,512	(73,674)
Other Accounts Receivable	(12,268)	(17,502)
Materials and Supplies	(308,121)	(80,150)
Prepaid Expenses	(23,065)	29,533
Other Current Assets	(556)	21,607
Accounts Payable	219,569	(19,497)
Accrued Expenses	32,215	(41,242)
Customer Deposits	127,064	99,406
Net Cash Provided (Used) by Operating Activities	\$ 2,017,533	\$ 2,802,491

See accompanying notes to the financial statements.

CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tupelo, Mississippi - Electric Department is an enterprise fund of the City of Tupelo. The Department provides electric utility service for customers within the City and in a limited surrounding area.

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of significant accounting policies:

Fund Accounting

Governmental basis reports are organized on the basis of funds, each of which is considered to be a separate accounting entity. The transactions of each fund are accounted for with a separate set of self-balancing accounts that include its assets, liabilities, fund equity, revenues, and expenditures/expenses. Resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Proprietary Funds

Proprietary Funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a Proprietary Fund's activities are included on its balance sheet. The following are the Proprietary Fund types:

Enterprise Funds

The Enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Proprietary Fund Types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, including unbilled water and sewer services which are accrued. Expenses are recorded at the time liabilities are incurred.

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Electric Plant

The electric plant is carried at cost. Additions to plant are recorded at cost, which includes materials, labor and overhead. Plant retirements including original cost and removal cost less salvage are charged against appropriate accumulated depreciation accounts. The cost of current repairs and maintenance is charged to appropriate operating expenses and clearing accounts. The cost of renewals and replacements are capitalized.

Straight-line depreciation is provided on a composite basis at prescribed rates that approximate the useful life of the assets. Current rates in effect are: transmission plant - 3%, distribution plant - 2.25% to 5% and general plant - 2% to 10%.

Inventories

Inventories are priced at average cost.

Accounts Receivable

The Department's Customer Accounts Receivable balance, net of unbilled receivables, for June 30, 2014 and 2013 was \$6,966,877 and \$6,439,805, respectively. The net provision for bad debts is calculated by comparing actual annual write offs for the past five 5 years to annual sales revenue. When accounts are 90 to 120 days past due, they are turned over to a collection agency. If the agency is unable to collect the account it is written off as a bad debt, after approval of the Council. All bad debts are written off twice a year. If an account that has been previously written off is collected, it is posted to the bad debt reserve account.

Cash Equivalents

For purposes of the statements of cash flows, the Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Estimates

Management and the Council use estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not used by the Department.

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Concentrations of Credit Risks

The Department sells electric utility service to local customers with its facilities located in Tupelo, Mississippi. The Department extends credit to customers located within the City and surrounding areas.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2 - CASH, OTHER DEPOSITS AND CASH INVESTMENTS

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

NOTE 3 - ELECTRIC PLANT

The following is a summary of the electric plant at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Transmission		
Land and Land Rights	\$ 31,802	\$ 31,802
Poles and Fixtures	1,017,052	1,017,052
Overhead Conductors	<u>613,787</u>	<u>613,787</u>
Total Transmission	<u>1,662,641</u>	<u>1,662,641</u>
Distribution Equipment		
Land & Land Rights	180,345	180,345
Station Equipment	10,483,146	10,483,146
Poles, Towers Etc.	6,665,621	5,950,889
Overhead Conductors and Devices	4,782,804	4,403,338
Underground Conductors and Devices	1,859,510	1,786,917
Underground Conduit	3,445,869	3,270,318
Line Transformers	8,138,518	7,836,233
Service	1,203,279	1,525,190
Meters	2,239,927	2,205,699
Installations on Customer's Premises	1,848,679	1,761,335
Street Lights and Signal System	<u>3,728,985</u>	<u>3,634,873</u>
Total Distribution Equipment	<u>\$ 44,576,683</u>	<u>\$ 43,038,283</u>

CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 3 - ELECTRIC PLANT - continued

	<u>2014</u>	<u>2013</u>
General Plant		
Land and Land Rights	\$ 120,866	\$ 120,866
Structure and Improvements	1,968,310	650,393
Office Furniture and Equipment	60,248	73,917
Transportation Equipment	1,067,885	1,070,744
Stores Equipment	8,065	8,065
Tools, Shop and Garage Equipment	122,327	109,780
Power Operated Equipment	1,425,340	1,411,240
Communications Equipment	43,947	42,375
Miscellaneous Equipment	<u>34,990</u>	<u>17,597</u>
Total General Plant	<u>4,851,978</u>	<u>3,504,977</u>
Total Plant In Service	51,091,302	48,205,901
Construction Work In Progress	<u>914,425</u>	<u>1,749,709</u>
Total Plant	<u>52,005,727</u>	<u>49,955,610</u>
Accumulated Depreciation	<u>25,577,076</u>	<u>24,988,779</u>
Net Electric Plant	\$ <u>26,428,651</u>	\$ <u>24,966,831</u>

CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4 - RECEIVABLE FROM CUSTOMERS FOR ENERGY CONSERVATION LOANS

Receivables from customers for energy conservation loans represent unbilled amounts due from customers as a result of their participation in an energy conservation program sponsored by the Tennessee Valley Authority (TVA) in which the customers install energy conservation measures approved by a TVA energy advisor. The installation charges are paid by the Department and billed to the customer over a period of time on the customer's monthly utility bill. TVA reimburses the Department for amounts paid out under the program. Repayments are made to TVA by the Department as collections are made from the customers.

NOTE 5 - ADVANCES FROM TVA FOR ENERGY CONSERVATION LOANS

Advances from TVA for energy conservation loans represent the amounts advanced by TVA, net of repayments, under the energy conservation loan program referred to in Note 4.

NOTE 6 - RECEIVABLE FROM CENTRAL SERVICE ASSOCIATION

The Department is a member of the Central Service Association. At June 30, 2014 and 2013, the amount loaned to C.S.A. by the Department was \$42,483 and \$39,833. Repayment of the loan will begin upon retirement of the debt for a new building constructed to house the Central Service Association. Interest is payable yearly and the rate at June 30, 2014 and 2013 was 1.25% and 1.25%, respectively. Interest income in the amount of \$452 and \$463 was received for years ended June 30, 2014 and 2013, respectively.

NOTE 7 - DEFINED BENEFIT PENSION PLAN

The City of Tupelo-Electric Department contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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 report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

PERS members are required to contribute 9.00% of their annual covered salary and the City of Tupelo-Electric Department is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City of Tupelo-Electric Department's contributions to PERS for the fiscal years ending June 30, 2014, 2013, and 2012 were \$308,146, \$267,133, and \$239,264 respectively, which equaled the required contributions for each year.

NOTE 8 - ECONOMIC DEPENDENCY

Sales to one major customer during the years ended June 30, 2014 and 2013 totaled approximately \$7,808,271 and \$8,160,992, respectively. This represented approximately 13.8% and 14.6% of the Department's total revenues for the years ended June 30, 2014 and 2013.

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 9 - DUE FROM / TO MUNICIPALITY

The Electric Department is an Enterprise Fund of the City of Tupelo, thus it has certain inter-fund transfers with other Departments. Customers are billed for electric, water, and sanitation services on the same bill. The Electric Department collects the bills and then disburses the fees collected to the respective departments/funds of the City. The City of Tupelo Accounting and Finance Department provides accounting services to the Electric Department for which it reimburses the General Fund for the cost of services provided. The Electric Department also reimburses the City a portion of the Mayor and City Council salaries based on the amount of time their duties were devoted to the Electric Department. The Electric Department makes in lieu property tax payments to the General Fund based on the Electric Department properties located in the City.

The Department has certain quasi-external transactions, which are reported as revenues and receivables as if they involved organizations external to the City that consist of utility billings to the City departments. Thus, the receivable related to the sale of electric power to the City is recorded in accounts receivable.

The balance of Due From Municipality and Due To Municipality at June 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Due From Municipality:		
General Fund	\$ 667	\$ 21,011
Water and Sewer Fund	<u>33,579</u>	<u>30,306</u>
Total	<u>\$ 34,246</u>	<u>\$ 51,317</u>
Due To Municipality:		
Solid Waste Management	\$ 7,401	\$ 10,944
Water and Sewer Fund	<u>0</u>	<u>0</u>
Total	<u>\$ 7,401</u>	<u>\$ 10,944</u>

NOTE 10 - DUE FROM OTHER GOVERNMENTAL UNITS

The due from other governmental units amount of \$2,453,591 is related to FEMA and MEMA reimbursements for storm related damage from the April 28, 2014 Tupelo tornado.

NOTE 11 - RISK MANAGEMENT

The Department is exposed to various risks of losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs of the City except for certain employment practices liabilities, certain environmental liabilities, worker's compensation liabilities funded through a public entity risk pool, and catastrophic natural disasters that may exceed insurance coverages for which the City retains the risk of loss.

CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 11 - RISK MANAGEMENT - continued

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 worker's 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.

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2014 and 2013, will not materially affect the financial condition of the City. Therefore, no provisions have been made for estimated claims. There have been no material claims paid by the City during the current or prior year.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Under its wholesale power agreement, the Department is committed to purchase its power from the Tennessee Valley Authority. The rates paid for such purchases are subject to review annually.

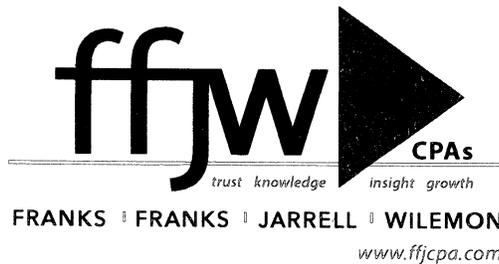
NOTE 13 - SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through October 16, 2014, the date on which the financial statements were available to be issued.

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

Mayor and City Council
City of Tupelo, 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 City of Tupelo, Mississippi-Electric Department as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated October 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Tupelo, Mississippi-Electric Department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tupelo, Mississippi-Electric Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tupelo, Mississippi-Electric Department'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

Franks, Franks, Jarrell & Wilemon, P.A.

FRANKS, FRANKS, JARRELL & WILEMON, P.A.
October 16, 2014