

FINANCIAL REPORT
CITY OF TUPELO, MISSISSIPPI -
ELECTRIC DEPARTMENT

June 30, 2015 and 2014

Franks, Franks, Jarrell & Wilemon, P.A.
Certified Public Accountants

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

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INDEPENDENT AUDITORS' REPORT

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, 2015 and 2014, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2015 and 2014, 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. As disclosed in Note 13 to the financial statements, in 2015, the City of Tupelo-Electric Department implemented new accounting standards prescribed by GASB Statement No. 68 for its pension plan- a multiple-employer, cost-sharing, defined benefit pension plan that has a special funding situation. Because GASB Statement No. 68 implements new measurement criteria and reporting provisions, significant information has been added to the Government-Wide Statements. Our opinion is not modified with respect to these matters.

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 4 through 7, the schedule of the department's proportionate share of the net pension liability on page 24, and the schedule of the department's contributions on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tupelo-Electric Department's basic financial statements. The supplemental information, listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 a report dated October 23, 2015 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 23, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Required Supplementary Information for the Year Ended June 30, 2015 and 2014

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, 2015 and 2014. 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, 2015 and 2014 fiscal years by \$33,982,672 and \$38,021,234, respectively. Of this amount, \$7,727,008 and \$11,592,583 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, 2015 and 2014 fiscal years, the City of Tupelo – Electric Department reported net position balances of \$33,982,672 and \$38,021,234, a decrease of \$4,038,562, which is comprised of a \$259,137 decrease from operations and a \$3,779,425 decrease from implementation of new accounting standards, and an increase of \$633,509 in comparison to the prior years.
- 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, 2015 and 2014.

A large portion, 77.3% and 69.5%, 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, 2015 and 2014, 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</u> <u>6/30/15</u>	<u>Total</u> <u>6/30/14</u>
Current and Other Assets	\$ 20,078,711	\$ 20,182,170
Capital Assets	<u>26,255,664</u>	<u>26,428,651</u>
Total Assets	<u>46,334,375</u>	<u>46,610,821</u>
Total Deferred Outflows	<u>355,705</u>	<u>0</u>
Current and Other Liabilities	8,607,590	8,589,587
Long-Term Liabilities	<u>3,580,761</u>	<u>0</u>
Total Liabilities	<u>12,188,351</u>	<u>8,589,587</u>
Total Deferred Inflows	<u>519,057</u>	<u>0</u>
Net Position		
Net Investment in Capital Assets	26,255,664	26,428,651
Unrestricted	<u>7,727,008</u>	<u>11,592,583</u>
Total Net Position	<u>\$ 33,982,672</u>	<u>\$ 38,021,234</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, 2015 and 2014.

Table A-2

Revenues and Expenses of the City of Tupelo – Electric Department

	Total <u>6/30/15</u>	Total <u>6/30/14</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 56,657,037	\$ 57,482,640
Investment Income	<u>8,850</u>	<u>11,659</u>
Total Revenues	<u>56,665,887</u>	<u>57,494,299</u>
Expenses		
Power Cost	48,645,083	49,066,211
Distribution Expense – Operating	537,801	578,993
Maintenance – General Plant	1,269	1,525
Distribution Expense – Maintenance	863,740	746,589
Customer Accounting & Collection	591,528	592,432
Customer Service and Information	41,606	41,221
Sales Expense	41,683	39,451
Administrative and General	844,894	791,176
Depreciation Expense	2,043,891	1,710,405
Taxes and Equivalents	<u>3,313,529</u>	<u>3,292,787</u>
Total Expenses	<u>56,925,024</u>	<u>56,860,790</u>
Excess of Revenue Over Expenses	(259,137)	633,509
Transfers	<u>0</u>	<u>0</u>
Net Income (Loss)	(259,137)	633,509
Net Position – Beginning	<u>38,021,234</u>	<u>37,387,725</u>
Net Adjustment for Prior Year		
Pension Expense	<u>(3,779,425)</u>	<u>0</u>
Net Position – Ending	<u>\$ 33,982,672</u>	<u>\$ 38,021,234</u>

Business-Type Activities

The City of Tupelo – Electric Department net position decreased by \$4,038,562, which is comprised of a \$259,137 decrease from operations and a \$3,779,425 decrease from implementation of new accounting standards and increased \$633,509, respectively, which was a 10.62% decrease and a 1.69% increase for the fiscal years ended June 30, 2015 and 2014.

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, 2015 and 2014, amounted to \$26,255,664 and \$26,428,651, respectively, net of accumulated depreciation of \$26,986,146 and \$25,577,076. 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</u> <u>6/30/15</u>	<u>Total</u> <u>6/30/14</u>
Land	\$ 333,013	\$ 333,013
Distribution Equipment	45,079,714	44,396,338
General Plant	4,954,014	4,731,112
Transmission Equipment	1,630,839	1,630,839
Construction-In-Progress	1,244,230	914,425
Accumulated Depreciation	<u>(26,986,146)</u>	<u>(25,577,076)</u>
 Total	 <u>\$ 26,255,664</u>	 <u>\$ 26,428,651</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 13.9% of the total revenues of the Electric Department. The City of Tupelo – Electric Department anticipates revenues to be flat for next year. The budgeted expenditures increased by 2 % for underground utility projects and other capital improvements.

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.

BASIC FINANCIAL STATEMENTS

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

ASSETS	June 30,	
	2015	2014
ELECTRIC PLANT:		
In Service - at Cost	\$ 53,241,810	\$ 52,005,727
Less: Accumulated Provisions for Depreciation	26,986,146	25,577,076
Net Electric Plant	26,255,664	26,428,651
CURRENT ASSETS:		
Cash and Cash Equivalents	9,803,644	7,177,763
Accounts Receivable - (Net of Provision for Bad Debts of \$171,985 for 2015 and \$182,355 for 2014)	6,549,588	6,966,877
Unbilled Revenue	1,685,052	1,458,343
Other Accounts Receivable	278,475	269,531
Due from Municipality	44,747	34,246
Due from Other Governmental Units	0	2,453,591
Materials and Supplies	947,864	1,096,101
Prepaid Expenses	51,390	54,959
Other Current Assets	83,038	83,784
Total Current Assets	19,443,798	19,595,195
DEFERRED DEBITS AND OTHER ASSETS:		
Receivable from Customers for Energy Conservation Loans	593,332	544,492
Receivable from Central Service Association (CSA)	41,581	42,483
Total Deferred Debits and Other Assets	634,913	586,975
TOTAL ASSETS	\$ 46,334,375	\$ 46,610,821
DEFERRED OUTFLOWS OF RESOURCES		
Difference Between Expected and Actual Results - Pensions	\$ 55,859	\$ 0
City Pension Contributions Subsequent to the Measurement Date	299,846	0
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 355,705	\$ 0

See accompanying notes to the financial statements.

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

LIABILITIES	June 30,	
	2015	2014
CURRENT LIABILITIES:		
Accounts Payable	\$ 5,169,182	\$ 5,401,517
Accrued Expenses	339,749	226,470
Due to Municipality	2,459	7,401
Customer Deposits	2,478,240	2,399,255
 Total Current Liabilities	 7,989,630	 8,034,643
NONCURRENT LIABILITIES:		
Net Pension Liability	3,580,761	0
Advances from TVA - For Energy Conservation Loans	617,960	554,944
 Total Noncurrent Liabilities	 4,198,721	 554,944
 TOTAL LIABILITIES	 \$ 12,188,351	 \$ 8,589,587
 DEFERRED INFLOWS OF RESOURCES		
 Net Difference Between Projected and Actual Earnings on Pension Plan Assets	 \$ 519,057	 \$ 0
 NET POSITION		
 Net Investment in Capital Assets	26,255,664	26,428,651
Unrestricted	7,727,008	11,592,583
 TOTAL NET POSITION	 \$ 33,982,672	 \$ 38,021,234

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,	
	2015	2014
OPERATING REVENUES:		
Residential Sales	\$ 13,079,544	\$ 13,611,970
Commercial Sales	7,531,824	7,659,726
Industrial Sales	33,242,645	33,382,738
Street and Athletic Lighting	1,112,542	1,095,810
Outdoor Lighting	785,780	775,016
 Total Electric Revenues	 55,752,335	 56,525,260
 Revenue from Late Payments	 154,217	 163,734
Customer Service Charge	208,842	208,875
Rent from Electric Property	312,186	316,682
Miscellaneous Revenue	229,457	268,089
 Total Operating Revenues	 56,657,037	 57,482,640
OPERATING EXPENSES:		
Power Purchased	48,645,083	49,066,211
Distribution Expense - Operating	537,801	578,993
Maintenance - General Plant	1,269	1,525
Distribution Expense - Maintenance	863,740	746,589
Customer Accounting and Collection	591,528	592,432
Customer Service and Information	41,606	41,221
Sales Expense	41,683	39,451
Administrative and General	844,894	791,176
Depreciation Expense	2,043,891	1,710,405
Taxes and Equivalent	3,313,529	3,292,787
 Total Operating Expenses	 56,925,024	 56,860,790
 OPERATING INCOME (LOSS)	 (267,987)	 621,850
OTHER INCOME:		
Interest Income	8,850	11,659
 Total Other Income	 8,850	 11,659
 NET INCOME (LOSS)	 \$ (259,137)	 \$ 633,509

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,	
	2015	2014
Balance - Beginning of Year	\$ 38,021,234	\$ 37,387,725
Net Adjustment for Prior Year Pension Expense	(3,779,425)	0
Net Income for the Years as Shown on Statements of Revenues and Expenses	<u>(259,137)</u>	<u>633,509</u>
Balance - End of Year	<u>\$ 33,982,672</u>	<u>\$ 38,021,234</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,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 56,796,494	\$ 57,073,596
Payments to Suppliers	(49,034,646)	(49,509,910)
Payments to Employees	(1,862,169)	(2,020,911)
Payments for Other Services and Charges	(3,907,895)	(3,571,902)
Other Receipts (Payments)	42,925	46,660
Net Cash Provided (Used) by Operating Activities	2,034,709	2,017,533
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Due To (From) Municipality	(15,443)	13,528
Net Cash Provided (Used) by Noncapital Financing Activities	(15,443)	13,528
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	(477,366)	(5,537,942)
Cost of Removal Net of Salvage	(121,765)	(87,874)
Other Receipts	1,181,818	0
Conservation Advances from TVA	63,016	149,257
Net Cash Provided (Used) by Capital and Related Financing Activities	645,703	(5,476,559)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends	8,850	11,659
Receivable from Customers for Energy Conservation Loans	(48,840)	(147,924)
(Increase) Decrease in Receivable from CSA	902	(2,650)
Net Cash Provided (Used) by Investing Activities	(39,088)	(138,915)
Net Increase (Decrease) in Cash Equivalents	2,625,881	(3,584,413)
Cash and Cash Equivalents - Beginning of Year	7,177,763	10,762,176
Cash and Cash Equivalents - End of Year	\$ 9,803,644	\$ 7,177,763

See accompanying notes to the financial statements.

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

	For the years ended June 30,	
	2015	2014
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (267,987)	\$ 621,850
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	2,043,891	1,710,405
Net Pension Expense	(35,312)	0
Provision for Uncollectible Accounts	(10,370)	(11,555)
Change in Assets and Liabilities:		
Accounts Receivable	427,659	(515,517)
Unbilled Revenue	(226,709)	177,512
Other Accounts Receivable	(8,944)	(12,268)
Materials and Supplies	148,237	(308,121)
Prepaid Expenses	3,569	(23,065)
Other Current Assets	746	(556)
Accounts Payable	(232,335)	219,569
Accrued Expenses	113,279	32,215
Customer Deposits	78,985	127,064
Net Cash Provided (Used) by Operating Activities	\$ 2,034,709	\$ 2,017,533

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

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 balances, 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, 2015 and 2014

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, 2015 and 2014 was \$6,549,588 and \$6,966,877, 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, 2015 and 2014**

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.

Pensions

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

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, 2015 and 2014:

	<u>2015</u>	<u>2014</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>

CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 3 - ELECTRIC PLANT - continued

	<u>2015</u>	<u>2014</u>
Distribution Equipment		
Land & Land Rights	\$ 180,345	\$ 180,345
Station Equipment	10,487,226	10,483,146
Poles, Towers Etc.	6,961,805	6,665,621
Overhead Conductors and Devices	4,673,454	4,782,804
Underground Conductors and Devices	1,854,646	1,859,510
Underground Conduit	3,566,402	3,445,869
Line Transformers	8,432,615	8,138,518
Service	791,129	1,203,279
Meters	2,229,530	2,239,927
Installations on Customer's Premises	2,237,472	1,848,679
Street Lights and Signal System	<u>3,845,435</u>	<u>3,728,985</u>
 Total Distribution Equipment	 <u>45,260,059</u>	 <u>44,576,683</u>
 General Plant		
Land and Land Rights	120,866	120,866
Structure and Improvements	1,984,851	1,968,310
Office Furniture and Equipment	63,347	60,248
Transportation Equipment	1,141,647	1,067,885
Stores Equipment	8,065	8,065
Tools, Shop and Garage Equipment	126,918	122,327
Power Operated Equipment	1,547,538	1,425,340
Communications Equipment	48,202	43,947
Miscellaneous Equipment	<u>33,446</u>	<u>34,990</u>
 Total General Plant	 <u>5,074,880</u>	 <u>4,851,978</u>
 Total Plant In Service	 51,997,580	 51,091,302
 Construction Work In Progress	 <u>1,244,230</u>	 <u>914,425</u>
 Total Plant	 <u>53,241,810</u>	 <u>52,005,727</u>
 Accumulated Depreciation	 <u>26,986,146</u>	 <u>25,577,076</u>
 Net Electric Plant	 <u>\$ 26,255,664</u>	 <u>\$ 26,428,651</u>

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

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, 2015 and 2014, the amount loaned to C.S.A. by the Department was \$41,581 and \$42,483. 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, 2015 and 2014 was 1.25% and 1.25%, respectively. Interest income in the amount of \$441 and \$452 was received for years ended June 30, 2015 and 2014, respectively.

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Plan Description - Employees of the City of Tupelo-Electric Department are provided a defined benefit pension plan through the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing agent multiple-employer pension plan. The Public Employees' Retirement System of Mississippi (PERS) was created with the purpose to provide pension benefits for all state and public education employees, sworn officers of the Mississippi Highway Safety Patrol, other public employees whose employers have elected to participate in the System, and elected members of the State Legislature and the President of the Senate. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits Provided - For the cost-sharing plan participating members who are vested and retire at or after age 60 or those 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 2.00% 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 2.50% 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 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

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued

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. Retirees and beneficiaries who have been receiving benefit payments for at least one full fiscal year are eligible to receive an annual Cost-of-Living Adjustment (COLA). Designed to help offset the effects of inflation, the COLA is equal to 3 percent of your annual base benefit for each full fiscal year of retirement prior to the year in which you reach age 55 (Retirement Tiers 1 through 3) or age 60 (Retirement Tier 4), plus 3 percent compounded for each fiscal year thereafter, beginning with the fiscal year in which you turn age 55.

Employee membership data related to the Plan, as of June 30, 2015 was as follows:

Retirees and Survivors	93,504
Terminated Vested Employees	18,064
Inactive Nonvested Members	114,489
Active Members	<u>161,360</u>
Total	<u><u>387,417</u></u>

Contributions - The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. 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 contributions are deducted from the employees' wages or salary and remitted by the City to PERS on a monthly basis. By law, employer contributions are required to be paid. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

For the year ended June 30, 2015, the City of Tupelo-Electric Department's total payroll for all employees was \$1,940,136. Total covered payroll was also \$1,940,136. Covered payroll refers to all compensation paid by the Electric Department to active employees covered by the Plan.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions- At June 30, 2015, the City of Tupelo-Electric Department reported a liability of \$3,580,761 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Tupelo-Electric Department's proportion of the net pension liability was based on a projection of the City of Tupelo-Electric Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City of Tupelo-Electric Department's proportion was 0.032011 percent.

For the year ended June 30, 2015, the City of Tupelo-Electric Department recognized pension expense of \$264,534. At June 30, 2015, the City of Tupelo-Electric Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Results - Pensions	\$ 55,859	\$ 0
City Pension Contributions Subsequent to the Measurement Date	299,846	0
Net Difference Between Projected and Actual Earnings on Pension Plan Assets	0	519,057
Total	\$ 355,705	\$ 519,057

The \$299,846 of deferred outflows of resources resulting from the Electric Department's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2016	\$ 109,671
2017	109,671
2018	114,092
2019	129,764
Total	\$ 463,198

Actuarial Assumptions -The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.25 -19.50%, average, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. The experience report is dated June 12, 2013.

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

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	34.00 %	5.20 %
International Equity	19.00	5.00
Emerging Markets Equity	8.00	5.45
Fixed Income	20.00	0.25
Real Assets	10.00	4.00
Private Equity	8.00	6.15
Cash	1.00	(0.50)
Total	100.00 %	

Discount Rate -The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City of Tupelo-Electric Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -The following presents the City of Tupelo-Electric Department's proportionate share of the net pension liability using the discount rate of 8.0 percent, as well as what the City of Tupelo-Electric Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	Discount Rate	Electric Department's Proportionate Share of Net Pension Liability
1% Decrease	7.00%	\$ 4,881,643
Current Discount Rate	8.00%	3,580,761
1% Increase	9.00%	2,495,630

Plan Fiduciary Net Position-Detailed information about the Plan's fiduciary net position is available in the separately issued Public Employees' Retirement System of Mississippi (PERS) financial report.

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 8 - ECONOMIC DEPENDENCY

Sales to one major customer during the years ended June 30, 2015 and 2014 totaled approximately \$7,729,962 and \$7,808,271, respectively. This represented approximately 13.9% and 13.8% of the Department's total revenues for the years ended June 30, 2015 and 2014, respectively.

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, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Due From Municipality:		
General Fund	\$ 0	\$ 667
Water and Sewer Fund	<u>44,747</u>	<u>33,579</u>
Total	<u>\$ 44,747</u>	<u>\$ 34,246</u>
Due To Municipality:		
Solid Waste Management	\$ 2,459	\$ 7,401
Water and Sewer Fund	<u>0</u>	<u>0</u>
Total	<u>\$ 2,459</u>	<u>\$ 7,401</u>

NOTE 10 - DUE FROM OTHER GOVERNMENTAL UNITS

The due from other governmental units amount of \$2,453,591 as of June 30, 2014 is related to FEMA and MEMA reimbursements for storm related damage from the April 28, 2014 Tupelo tornado. The amount was collected subsequent to the June 30, 2014 year-end.

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

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.

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, 2015 and 2014, 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 - NEW ACCOUNTING STANDARD

During the year ended June 30, 2015, the Department implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. Implementation resulted in a direct decrease of \$3,779,425 to net position.

NOTE 14 - SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through October 23, 2015, the date on which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
Schedule of the Department's Proportionate
Share of the Net Pension Liability

	2015
A. Tupelo Electric's proportion of net pension liability (%)	0.032011 %
B. Tupelo Electric's proportionate share of net pension liability	\$ 3,580,761
C. Tupelo Electric's covered employee payroll	\$ 1,940,136
D. Tupelo Electric's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	184.56 %
E. Plan fiduciary net position as a percentage of total pension liability	67.21 %

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
Schedule of the Department's Contributions

	<u>2015</u>	<u>2014</u>
A. Statutorily required contributions	\$ 299,846	\$ 308,146
B. Contributions in relation to statutorily required contributions	\$ 299,846	\$ 308,146
C. Contribution deficiency (excess)	\$ -	\$ -
D. Tupelo Electric Department's covered employee payroll	\$ 1,940,136	\$ 2,053,126
E. Contributions as a percentage of covered employee payroll	15.45 %	15.01 %

REPORT ON COMPLIANCE AND INTERNAL CONTROL

**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, 2015, and the related notes to the financial statements and have issued our report thereon dated October 23, 2015.

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 23, 2015