

STARKVILLE ELECTRIC DEPARTMENT

STARKVILLE, MISSISSIPPI

AUDIT REPORT

JUNE 30, 2013

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
AUDIT REPORT
JUNE 30, 2013**

Contents

	<u>Page</u>
Independent Auditor's Report	1
Balance Sheets	3
Statements of Income	5
Statements of Accumulated Earnings	6
Statements of Cash Flows	7
Notes to Financial Statements	9
Supplemental Information:	
Mayor, Board of Aldermen and Manager	19
Analysis of Electric Plant in Service	20
Detailed Comparative Statement of Income	21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	24
Schedule of Findings and Responses	27
Status of Prior Audit Findings	30

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Board of Aldermen
City of Starkville, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric Department of the City of Starkville, Mississippi, as of and for the year ended June 30, 2013 and 2012, and the related statements of accumulated earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Electric Department of the City of Starkville, Mississippi, as of June 30, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014, on our consideration of the Electric Department of the City of Starkville, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Electric Department of the City of Starkville, Mississippi's internal control over financial reporting and compliance.

West Point, Mississippi
January 27, 2014



**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
BALANCE SHEETS**

Assets

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>Utility Plant:</u>		
Electric plant in service	\$ 44,735,001	43,819,140
Less: Accumulated provision for depreciation	(15,299,905)	(14,120,820)
Total Utility Plant	<u>29,435,096</u>	<u>29,698,320</u>
<u>Other Property and Investments:</u>		
Bond ordinance funds	-	613,529
Other Investments	117,772	98,181
Total Other Property and Investments	<u>117,772</u>	<u>711,710</u>
<u>Current Assets:</u>		
Cash and cash equivalents	3,321,115	1,347,408
Accounts receivable (net of allowance for doubtful accounts of \$124,468 in 2013 and \$124,468 in 2012)	5,621,479	5,614,506
Due from other city departments	89,738	52,804
Other receivables	55,223	54,085
Material and supplies	778,578	746,389
Prepaid expense	5,740,228	6,688,336
Total Current Assets	<u>15,606,361</u>	<u>14,503,528</u>
<u>Other Assets:</u>		
Receivables from customers for electric conservation loans	51,849	46,169
Unamortized work order closeout	991,323	-
Unamortized debt expense	145,009	88,929
Clearing accounts	(81,910)	(99,742)
Total Other Assets	<u>1,106,271</u>	<u>35,356</u>
	<u>\$ 46,265,500</u>	<u>44,948,914</u>

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

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
BALANCE SHEETS (CONTINUED)**

Liabilities and Capital

	June 30,	
	<u>2013</u>	<u>2012</u>
<u>Accumulated Earnings:</u>	\$ 31,857,534	29,034,049
<u>Long-term Debt</u>		
Long-term debt less current maturities of \$634,274 in 2013 and \$578,097 in 2012	4,430,058	5,434,332
Unamortized bond premium	120,396	23,157
Deferred loss on refunding	(153,798)	(33,115)
Total Long-term Debt	<u>4,396,656</u>	<u>5,424,374</u>
<u>Current Liabilities:</u>		
Accounts payable	6,035,466	6,401,939
Due to other city departments	1,149,666	1,383,429
Customer deposits	1,967,980	1,884,127
Accrued interest - long-term debt	34,886	38,678
Accrued leave	93,646	97,439
Current portion of long-term debt	634,274	578,097
Other current liabilities	42,588	46,585
Total Current Liabilities	<u>9,958,506</u>	<u>10,430,294</u>
<u>Other Liabilities:</u>		
Advances from TVA for customer conservation loans	52,804	46,884
Deferred credits	-	13,313
Total Other Liabilities	<u>52,804</u>	<u>60,197</u>
<u>Total Liabilities and Capital</u>	<u>\$ 46,265,500</u>	<u>44,948,914</u>

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

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
STATEMENTS OF INCOME**

	Years Ended June 30,	
	2013	2012
<u>Operating Revenue</u>	\$ 39,939,092	40,429,641
<u>Purchased Power</u>	31,582,472	31,930,421
<u>Operating Expenses:</u>		
Operation Expenses:		
Distribution expense	585,116	638,015
Customer accounts expense	348,396	351,826
Customer service and sales expense	49,123	54,978
Administrative and general	830,744	886,717
Total Operation Expense	1,813,379	1,931,536
Maintenance Expenses:		
Distribution expense	700,596	629,866
Administrative and general	16,614	14,978
Total Maintenance Expenses	717,210	644,844
Other Operating Expenses:		
Depreciation expense	1,499,957	1,545,291
Tax equivalent to city	1,257,500	1,300,000
Old age benefits	19,305	19,630
Total Other Operating Expenses	2,776,762	2,864,921
Total Operating Expenses	5,307,351	5,441,301
Total Purchased Power and Operating Expenses	36,889,823	37,371,722
<u>Operating Income</u>	3,049,269	3,057,919
<u>Non-Operating Revenues:</u>		
Interest on investments	17,615	39,523
Gain on disposition of property	1,000	-
Total Non-Operating Revenues	18,615	39,523
<u>Non-Operating Expenses:</u>		
Interest on long-term debt	188,005	213,707
Amortization of debt expense	39,072	24,507
Loss on disposition of property	-	481
Miscellaneous expense	17,322	43,155
Total Non-Operating Expenses	244,399	281,850
<u>Net Income</u>	\$ 2,823,485	2,815,592

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

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
STATEMENTS OF ACCUMULATED EARNINGS**

	<u>Years Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>Balance, Beginning of Year</u>	\$ 29,034,049	26,218,457
Net Income	<u>2,823,485</u>	<u>2,815,592</u>
<u>Balance, End of Year</u>	<u>\$ 31,857,534</u>	<u>29,034,049</u>

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

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2013	2012
<u>Cash Flows from Operating Activities:</u>		
Net Income	\$ 2,813,592	2,815,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,573,019	1,609,006
Amortization	(21,897)	11,608
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Receivables	(45,045)	(122,346)
Materials and supplies	(32,189)	(41,954)
Prepaid expense	948,108	(3,288,508)
Deferred debits	(1,043,338)	99,742
Increase (Decrease) in:		
Payables	(600,236)	448,487
Customer deposits	83,853	231,039
Other liabilities	(11,582)	(30,003)
Deferred credits	(13,313)	13,313
Net Cash Provided by Operating Activities	<u>3,650,972</u>	<u>1,745,976</u>
<u>Cash Flows From Investing Activities:</u>		
Additions to plant	(1,185,722)	(1,948,294)
Removal cost	(222,800)	(157,785)
Salvage	7,882	14,448
Other	90,845	344,353
(Increase) Decrease in:		
Other investments	593,938	(22,498)
Energy conservation loans receivable	(5,680)	5,359
Net Cash Used in Investing Activities	<u>(721,537)</u>	<u>(1,764,417)</u>

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

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
STATEMENTS OF CASH FLOWS (CONTINUED)**

	<u>Years Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Proceeds on borrowings	\$ 2,410,000	250,217
Principal payments on long-term debt	(3,358,097)	(552,788)
Bond issuance costs	(13,551)	-
Receipt for plant sold	-	338,213
Increase (Decrease) in:		
TVA advances for customer conservation loans	5,920	(5,499)
Net Cash Used in Capital and Related Financing Activities	<u>(955,728)</u>	<u>30,143</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	1,973,707	11,702
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>1,347,408</u>	<u>1,335,706</u>
<u>Cash and Cash Equivalents at End of Year</u>	<u>\$ 3,321,115</u>	<u>1,347,408</u>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	\$ <u>201,690</u>	<u>215,481</u>

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

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS**

Note 1: Summary of Significant Accounting Policies

The Electric Department is owned by the City of Starkville, Mississippi, and distributes electrical energy to consumers residing within the municipality. All energy distributed by the System is purchased on a wholesale basis from the Tennessee Valley Authority. The contract with TVA contains certain provisions as to the method required to be used when determining rates to be charged to consumers and the manner in which profits realized from operations are to be disposed.

Starkville Electric Department is a component unit of the City of Starkville, Mississippi. The determination of the status of a component unit was made by applying the criteria set forth in GAAP. The basic - but not only - criterion for the determination as a component unit is a governing body's ability to exercise oversight responsibility over the potential component unit. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and account- ability for fiscal matters. A second criterion used in evaluating the determination as a component unit is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to determine if the entity is a component unit is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Starkville Electric Department was considered to be a component unit of the City of Starkville, Mississippi.

These financial statements present only the financial statements of the Electric Department of the City of Starkville, and are not intended to present fairly the financial position of the City of Starkville, Mississippi, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

These financial statements are included in the audit report of the City of Starkville, Mississippi, for the year ended September 30, 2013. Management's Discussion and Analysis as it relates to the Electric Department is included as part of the City's audit report.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Note 1: Summary of Significant Accounting Policies (Continued)

Since the Electric Department's customer base consists entirely of residents of the City of Starkville and Mississippi State University, the continued existence of the Department is dependent on the general economy of that area.

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

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Basis of Accounting

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Department has elected to follow (1) all GASB pronouncements and (2) all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB), no matter when issued, except those that conflict with a GASB pronouncement. Accordingly, the financial statements of Starkville Electric Department have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

The Electric Department purchases 100% of its power for resale from Tennessee Valley Authority. As per the power contract, the Electric Department utilizes their prescribed chart of accounts, which is consistent with the requirements of the Federal Energy Regulatory Commissions.

Cash

The Department maintains cash balances at a financial institution. Such balances are insured by the Federal Deposit Insurance Corporation (FDIC).

The Department considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents."

Accounts Receivable

Accounts receivable consists of amounts due from customers for electricity purchased.

The Electric Department uses the reserve method of accounting for doubtful accounts.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable (Continued)

The Electric Department collects for the Water and Sewer Department and the City Sanitation Department as a means of convenience for both departments. These amounts are transferred to the appropriate departments monthly.

Inventories

Inventory is valued at the lower of cost or market as determined by the average cost method. Perpetual inventory records are maintained.

Depreciation of Fixed Assets

Fixed assets are capitalized and depreciated over their useful lives of from ten to fifty years using the straight-line method.

Use of Estimates

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

Concentrations

For the years ended June 30, 2013 and 2012, the Electric Department purchased 100% of its electricity to be resold from Tennessee Valley Authority, as per contract. At June 30, 2013 and 2012, amounts due to Tennessee Valley Authority for purchased power included in accounts payable were \$5,582,358 and \$5,973,706, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$3,405 and \$9,823 for 2013 and 2012.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Note 2: Utility Plant

The following is a summary of changes in the Utility Plant for the year ended June 30, 2013:

	<u>Balance 7/1/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass- ifications</u>	<u>Balance 6/30/2013</u>
<u>Non-Depreciable Capital Assets</u>					
Land	\$ 687,700	4,882	-	-	692,582
Electric Plant Sold	(338,213)	-	-	-	(338,213)
Construction in Progress	1,917,869	(1,005,083)	-	-	912,786
Total Non-Depreciable					
Capital Assets	<u>2,267,356</u>	<u>(1,000,201)</u>	<u>-</u>	<u>-</u>	<u>1,267,155</u>
<u>Depreciable Capital Assets</u>					
Transmission Plant	4,276,558	21,169	(16,990)	-	4,280,737
Distribution Plant	29,623,304	1,918,291	(240,022)	-	31,301,573
General Plant	7,651,922	246,463	(12,849)	-	7,885,536
Total Depreciable Capital Assets	<u>41,551,784</u>	<u>2,185,923</u>	<u>(269,861)</u>	<u>-</u>	<u>43,467,846</u>
<u>Less Accumulated Depreciation</u>					
Transmission Plant	(2,120,117)	(147,136)	34,002	-	(2,233,251)
Distribution Plant	(8,714,092)	(1,055,047)	445,811	-	(9,323,328)
General Plant	(3,286,611)	(469,563)	12,848	-	(3,743,326)
Total Accumulated Depreciation	<u>(14,120,820)</u>	<u>(1,671,746)</u>	<u>492,661</u>	<u>-</u>	<u>(15,299,905)</u>
Total Utility Plant	<u>\$ 29,698,320</u>	<u>(486,024)</u>	<u>222,800</u>	<u>-</u>	<u>29,435,096</u>

The following is a summary of changes in the Utility Plant for the year ended June 30, 2012:

	<u>Balance 7/1/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass- ifications</u>	<u>Balance 6/30/2012</u>
<u>Non-Depreciable Capital Assets</u>					
Land	\$ 680,427	7,273	-	-	687,700
Electric Plant Sold	-	-	(338,213)	-	(338,213)
Construction in Progress	1,901,166	265,468	-	(248,765)	1,917,869
Total Non-Depreciable					
Capital Assets	<u>2,581,593</u>	<u>272,741</u>	<u>(338,213)</u>	<u>(248,765)</u>	<u>2,267,356</u>
<u>Depreciable Capital Assets</u>					
Transmission Plant	4,269,193	9,698	(2,333)	-	4,276,558
Distribution Plant	28,728,107	1,380,368	(485,171)	-	29,623,304
General Plant	7,397,718	285,487	(31,283)	-	7,651,922
Total Depreciable Capital Assets	<u>40,395,018</u>	<u>1,675,553</u>	<u>(518,787)</u>	<u>-</u>	<u>41,551,784</u>
<u>Less Accumulated Depreciation</u>					
Transmission Plant	(1,963,678)	(159,050)	2,611	-	(2,120,117)
Distribution Plant	(8,253,610)	(1,103,161)	642,679	-	(8,714,092)
General Plant	(2,861,062)	(361,243)	31,282	(95,588)	(3,286,611)
Total Accumulated Depreciation	<u>(13,078,350)</u>	<u>(1,623,454)</u>	<u>676,572</u>	<u>(95,588)</u>	<u>(14,120,820)</u>
Total Utility Plant	<u>\$ 29,898,261</u>	<u>324,840</u>	<u>(180,428)</u>	<u>(344,353)</u>	<u>29,698,320</u>

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Note 2: Utility Plant (Continued)

An analysis of the utility plant and the related accumulated depreciation is presented on page 18 of this report.

Depreciation expense totaled \$1,573,019 and \$1,609,006 in 2013 and 2012, respectively. Of these amounts, \$1,499,957 and \$1,545,291 were charged to depreciation expense and \$73,062 and \$63,715 were charged to building and transportation clearings in 2013 and 2012, respectively.

Note 3: Other Investments

Other investments consist of the following:

	June 30,	
	2013	2012
CSA stockholder loan	\$ 20,185	20,676
Southeastern Data Co-operative	<u>97,587</u>	<u>77,505</u>
	<u>\$ 117,772</u>	<u>98,181</u>

Note 4: Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts Due Within 1 Year
General Obligation					
bonds payable	\$ 2,440,000	2,410,000	(230,000)	4,620,000	475,000
Revenue bonds payable	3,350,000	-	(3,095,000)	255,000	125,000
Notes payable	<u>222,429</u>	-	<u>(33,097)</u>	<u>189,332</u>	<u>34,274</u>
Total	<u>\$ 6,012,429</u>	<u>2,410,000</u>	<u>(3,358,097)</u>	<u>5,064,332</u>	<u>634,274</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Amounts Due Within 1 Year
General Obligation					
bonds payable	\$ 2,665,000	-	(225,000)	2,440,000	230,000
Revenue bonds payable	3,650,000	-	(300,000)	3,350,000	315,000
Notes payable	-	<u>250,217</u>	<u>(27,788)</u>	<u>222,429</u>	<u>33,097</u>
Total	<u>\$ 6,315,000</u>	<u>250,217</u>	<u>(552,788)</u>	<u>6,012,429</u>	<u>578,097</u>

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Note 4: Long-term Debt (Continued)

The following are details of the long-term debt:

	<u>June 30</u>	
	<u>2013</u>	<u>2012</u>
Revenue bonds issued November 1, 2004, at interest rates from 3.50% to 4.00%. These bonds are to be retired on November 1 through 2020 with annual maturities of \$160,000 to \$275,000 with interest payable on May 1 and November 1.	\$ -	1,870,000
Revenue bonds issued August 1, 2006, at interest rates from 4.00% to 5.25%. These bonds are to be retired on November 1 through 2021 with annual maturities of \$100,000 to \$180,000 with interest payable on May 1 and November 1.	255,000	1,480,000
General obligation refunding bonds issued March 22, 2012, at interest rates from 2.00% to 3.50%. These are to be retired on April 1, 2012 through 2021 with annual maturities of \$225,000 to \$315,000 with interest payable on April 1 and October 1.	2,210,000	2,440,000
General obligation refunding bonds issued May 17, 2013, at interest rates of 2%. These are to be retired on November 1, 2013 to 2020 with annual maturities of \$165,000 to \$420,000 with interest payable on May 1 and November 1.	2,410,000	-
Notes payable issued July 5, 2011, at 3.5% interest rate. This note is to be retired on July 5, 2018 with a monthly principal and interest payment in the amount of \$1,376.	76,785	90,350
Notes payable issued August 2, 2011, at 3.5% interest rate. This note is to be retired on August 2, 2018 with a monthly principal and interest payment in the amount of \$1,987.	<u>112,547</u>	<u>132,079</u>
Total Long-term Debt	<u>5,064,332</u>	<u>6,012,429</u>

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Note 4: Long-term Debt (Continued)

	June 30	
	2013	2012
Premium on issuance of General Obligation Refunding Bonds, Series 2012	\$ 20,510	23,157
Premium on issuance of General Obligation Refunding Bonds, Series 2012	99,886	-
Deferred loss on current refunding of General Obligation Bonds, Series 2012	(29,330)	(33,115)
Deferred loss on current refunding of General Obligation Bonds, Series 2013	(124,468)	-
Net Long-term Debt	5,030,930	6,002,471
Less: Current maturities	(634,274)	(578,097)
Net Long-term Debt Less Current Maturities	<u>\$ 4,396,656</u>	<u>5,424,374</u>

Following are maturities of long-term debt for each of the next 5 years:

June 30, 2014	\$ 639,274
2015	655,493
2016	676,755
2017	703,063
2018	719,417

General Obligation Bond, Series 2012

On March 22, 2011, the City of Starkville issued \$2,665,000 in General Obligation Refunding Bonds, Series 2012 with an average interest rate of 2.98% at a premium of \$26,465. The net proceeds of \$2,607,478 (after payment of \$79,950 of issuance costs and \$4,037 for contingencies) were used to refund the outstanding Electric System Revenue Bonds, Series 2001.

The refunding of the Revenue Bonds, Series 2001 resulted in a deferred loss of \$37,845 between the reacquisition price and the bond's net carrying value of \$2,550,000. This deferred loss, reported in the accompanying financial statements as a reduction to bonds payable, is being charged to operations through the year 2021 using the straight-line method.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Note 4: Long-term Debt (Continued)

The \$26,465 premium on the General Obligation Refunding Bonds, Series 2012, reported on the accompanying financial statements as an addition to bonds payable, is being charged to operations through the year 2021 using the straight-line method.

The bond refunding decreased the debt service payments relative to the refunded bonds by \$167,504 with a net present value saving of \$150,476 at 3.352% present value factor.

General Obligation Bond, Series 2013

On May 17, 2013, the City of Starkville issued \$2,410,000 in General Obligation Refunding Bonds, Series 2013 with an interest rate of 2% at a premium of \$101,009. The net proceeds of \$2,905,867 (after adding transfers from prior issue DSR Funds of \$475,469, less a payment of \$78,325 of issuance costs and \$2,286 for contingencies) were used to refund the outstanding Electric System Revenue Bonds, Series 2004 and Series 2006.

The refunding of the Revenue Bonds, Series 2004 and Series 2006 resulted in a deferred loss of \$125,867 between the reacquisition price and the bond's net carrying value of \$2,780,000. This deferred loss, reported in the accompanying financial statements as a reduction to bonds payable, is being charged to operations through the year 2021 using the straight-line method.

The \$101,009 premium on the General Obligation Refunding Bonds, Series 2013, reported on the accompanying financial statements as an addition to bonds payable, is being charged to operations through the year 2021 using the straight-line method.

The bond refunding decreased the debt service payments relative to the refunded bonds by \$201,242 with a net present value savings of \$192,955 at .8767% present value factor.

Note 5: Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Note 6: Pension Plan

Plan Description. The Starkville 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 information may be obtained by writing to Public Employee Retirement System, PERS Building 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9% of their annual covered salary and the Starkville Electric Department is required to contribute at an actuarially determined rate. The current rate is 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Starkville Electric Department contributions to PERS for the years ending June 30, 2013, 2012, and 2011 were \$193,139, \$171,837, and \$183,320, respectively, equal to the required contributions for each year.

Note 7: Subsequent Events

Subsequent events have been evaluated through January 27, 2014, which is the date the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTAL INFORMATION

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
JUNE 30, 2012**

Mayor, Board of Aldermen and Manager

<u>Name</u>	<u>Address</u>	<u>Principal Business</u>
Parker Wiseman, Mayor	101 E. Lampkin Street	Full-time Mayor
Sandra C. Sistrunk Vice-Mayor	522 Chestnut Drive	Retired
Roy A. Perkins	628 Hospital Road	Attorney
Eric Parker	112 Oakmont Road	Residential Contractor
Richard Corey	12 F Lummus Drive	Mississippi State University Employee
Jeremiah Dumas	407 White Drive	Mississippi State University Professor
Ben Carver	28 Lakes Boulevard	Governmental Training Officer
Henry N. Vaughn, Sr.	105 Henderson Street	Administrator
<u>Manager</u>		
Terry Kemp	860 Old West Point Road	General Manager

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
ANALYSIS OF UTILITY PLANT AND ACCUMULATED DEPRECIATION**

<u>Description</u>	<u>Balance 6/30/2012</u>	<u>Additions</u>	<u>Retirements and Deductions</u>	<u>Balance 6/30/2013</u>	<u>Rate</u>	<u>Balance 6/30/2012</u>	<u>Additions and Accruals</u>	<u>Deductions</u>	<u>Balance 6/30/2013</u>
<u>Transmission Plant:</u>									
Land and land rights	\$ 13,333	-	-	13,333	0.00%	-	-	-	-
Station equipment	2,271,541	21,169	-	2,292,710	3.00%	1,066,628	68,464	-	1,135,092
Towers and fixtures	72,003	-	-	72,003	4.00%	44,382	2,851	-	47,233
Poles and fixtures	1,370,740	-	-	1,370,740	4.00%	729,571	54,281	-	783,852
Overhead conductors and devices	527,398	-	16,990	510,408	4.00%	270,695	20,661	34,002	257,354
Roads and trails	34,876	-	-	34,876	2.50%	8,841	879	-	9,720
Total Transmission Plant	<u>4,289,891</u>	<u>21,169</u>	<u>16,990</u>	<u>4,294,070</u>		<u>2,120,117</u>	<u>147,136</u>	<u>34,002</u>	<u>2,233,251</u>
<u>Distribution Plant:</u>									
Land and land rights	299,576	-	-	299,576	0.00%	-	-	-	-
Station equipment	5,881,568	171,808	-	6,053,376	3.00%	2,436,607	180,302	-	2,616,909
Poles, towers and fixtures	4,425,942	358,584	81,852	4,702,674	4.00%	1,055,495	182,237	198,979	1,038,753
Overhead conductors and devices	3,201,558	557,437	66,434	3,692,561	3.25%	1,337,691	110,217	93,253	1,354,655
Underground conduit	1,525,267	55,513	-	1,580,780	4.00%	92,336	60,759	-	153,095
Underground conductors and devices	3,836,775	221,597	11,274	4,047,098	3.50%	497,631	138,240	16,440	619,431
Line transformers	5,305,154	272,787	25,959	5,551,982	2.50%	1,072,383	151,800	53,879	1,170,304
Services	2,058,704	31,849	7,934	2,082,619	4.00%	1,030,716	82,261	12,361	1,100,616
Meters	1,084,052	71,919	-	1,155,971	3.00%	426,902	36,171	-	463,073
Installations on customers' premises	870,216	79,175	17,127	932,264	6.00%	557,565	54,211	25,244	586,532
Street lighting and signal systems	1,434,068	97,622	29,442	1,502,248	4.00%	460,949	58,849	45,655	474,143
Total Distribution Plant	<u>29,922,880</u>	<u>1,918,291</u>	<u>240,022</u>	<u>31,601,149</u>		<u>8,968,275</u>	<u>1,055,047</u>	<u>445,811</u>	<u>9,577,511</u>
<u>General Plant:</u>									
Land and land rights	374,791	4,882	-	379,673	0.00%	-	-	-	-
Structures and improvements	3,973,757	-	-	3,973,757	2.50%	492,087	100,130	-	592,217
Office furniture and equipment	874,951	5,109	-	880,060	10.00%	413,664	57,941	-	471,605
Transportation equipment	1,177,386	161,696	12,849	1,326,233	4.00%	968,445	73,061	12,848	1,028,658
Stores equipment	40,352	7,489	-	47,841	5.00%	12,769	1,441	-	14,210
Tools, shop and garage equipment	148,954	47,625	-	196,579	8.00%	132,341	33,454	-	165,795
Laboratory equipment	100,469	7,716	-	108,185	2.00%	42,486	9,093	-	51,579
Power operated equipment	1,126,974	-	-	1,126,974	10.00%	498,373	71,685	-	570,058
Communications equipment	197,994	16,828	-	214,822	10.00%	78,819	31,263	-	110,082
Miscellaneous equipment	11,085	-	-	11,085	6.66%	2,372	650	-	3,022
Other	-	-	-	-		391,072	90,845	-	481,917
Total General Plant	<u>8,026,713</u>	<u>251,345</u>	<u>12,849</u>	<u>8,265,209</u>		<u>3,032,428</u>	<u>469,563</u>	<u>12,848</u>	<u>3,489,143</u>
Total Plant in Service	<u>42,239,484</u>	<u>2,190,805</u>	<u>269,861</u>	<u>44,160,428</u>		<u>14,120,820</u>	<u>1,671,746</u>	<u>492,661</u>	<u>15,299,905</u>
<u>Electric Plant Sold</u>	<u>(338,213)</u>	<u>-</u>	<u>-</u>	<u>(338,213)</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Construction Work in Progress</u>	<u>1,917,869</u>	<u>(1,005,083)</u>	<u>-</u>	<u>912,786</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Electric Plant</u>	\$ <u>43,819,140</u>	<u>1,185,722</u>	<u>269,861</u>	<u>44,735,001</u>		<u>14,120,820</u>	<u>1,671,746</u>	<u>492,661</u>	<u>15,299,905</u>
New additions to plant	\$	1,185,722							
Original cost of retirements			269,861					269,861	
Removal cost of retired assets								222,800	
Reclassifications							90,845		
Salvage on retired assets							7,882		
Current year depreciation							1,573,019		
	\$	<u>1,185,722</u>	<u>269,861</u>				<u>1,671,746</u>	<u>492,661</u>	

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
DETAILED COMPARATIVE STATEMENT OF INCOME
FOR THE YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE FIGURES FOR 2012**

	<u>2013</u>		<u>2012</u>		
	Amount	% of Total Operating Revenue	Amount	% of Total Operating Revenue	Increase or (Decrease)
<u>Operating Revenue:</u>					
Sales of Electric Energy:					
Residential	\$ 12,689,326	31.8%	12,770,778	31.6%	(81,452)
Small commercials	3,515,463	8.8%	3,485,506	8.6%	29,957
Large commercials	22,319,554	55.9%	22,722,870	56.2%	(403,316)
Street and outdoor lighting	814,547	2.0%	809,866	2.0%	4,681
Total Electric Revenue	<u>39,338,890</u>	<u>98.5%</u>	<u>39,789,020</u>	<u>98.4%</u>	<u>(450,130)</u>
Rent from electric property	151,206	0.4%	171,180	0.5%	(19,974)
Forfeited discounts	197,858	0.5%	208,316	0.5%	(10,458)
Miscellaneous electric revenue	251,138	0.6%	262,052	0.6%	(10,914)
Other revenue	-	0.0%	(927)	0.0%	927
Total Operating Revenue	<u>39,939,092</u>	<u>100.0%</u>	<u>40,429,641</u>	<u>100.0%</u>	<u>(490,549)</u>
<u>Purchased Power</u>	<u>31,582,472</u>	<u>79.1%</u>	<u>31,930,421</u>	<u>79.0%</u>	<u>(347,949)</u>
<u>Operating Expenses:</u>					
Distribution Expenses:					
Maintenance of overhead lines	4,783	0.0%	671	0.0%	4,112
Supervision and engineering	19,965	0.0%	19,506	0.1%	459
Station expense	30,374	0.1%	9,495	0.0%	20,879
Line expense	165,967	0.4%	174,812	0.4%	(8,845)
Street lighting and signal system	22,953	0.1%	22,786	0.1%	167
Meter expense	197,745	0.5%	208,302	0.5%	(10,557)
Customer installations	42,278	0.1%	50,176	0.2%	(7,898)
Rents	6,447	0.0%	12,640	0.0%	(6,193)
Miscellaneous	94,604	0.2%	139,627	0.3%	(45,023)
	<u>585,116</u>	<u>1.4%</u>	<u>638,015</u>	<u>1.6%</u>	<u>(52,899)</u>
Customer Accounts Expense:					
Meter reading expense	107,165	0.3%	142,125	0.4%	(34,960)
Customer records and collections	241,815	0.6%	215,822	0.5%	25,993
Uncollectible accounts	(584)	0.0%	(6,121)	0.0%	5,537
	<u>348,396</u>	<u>0.9%</u>	<u>351,826</u>	<u>0.9%</u>	<u>(3,430)</u>

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
DETAILED COMPARATIVE STATEMENT OF INCOME
FOR THE YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE FIGURES FOR 2012 (CONTINUED)**

	<u>2013</u>		<u>2013</u>		<u>Increase or (Decrease)</u>
	<u>Amount</u>	<u>% of Total Operating Revenue</u>	<u>Amount</u>	<u>% of Total Operating Revenue</u>	
<u>Operating Expenses (Continued)</u>					
Sales Expense:					
Customer assistance	\$ 10,129	0.0%	11,911	0.0%	(1,782)
Customer service	28,380	0.1%	19,299	0.1%	9,081
Advertising	3,405	0.0%	9,823	0.0%	(6,418)
Miscellaneous	7,209	0.0%	13,945	0.0%	(6,736)
	<u>49,123</u>	<u>0.1%</u>	<u>54,978</u>	<u>0.1%</u>	<u>(5,855)</u>
Administrative and General:					
Salaries	213,410	0.5%	200,963	0.5%	12,447
Office expense	151,428	0.4%	207,745	0.5%	(56,317)
Outside services employed	104,981	0.3%	86,579	0.2%	18,402
Property insurance	17,700	0.0%	12,644	0.0%	5,056
Injuries and damages	82,397	0.2%	142,543	0.4%	(60,146)
Employee pensions and benefits	159,107	0.4%	150,480	0.4%	8,627
Miscellaneous	101,721	0.3%	85,763	0.2%	15,958
	<u>830,744</u>	<u>2.1%</u>	<u>886,717</u>	<u>2.2%</u>	<u>(55,973)</u>
Maintenance Expense:					
Supervision and engineering	19,965	0.0%	19,506	0.1%	459
Station equipment	43,442	0.1%	8,070	0.0%	35,372
Line maintenance	523,240	1.3%	534,652	1.2%	(11,412)
Line transformer maintenance	(2,183)	0.0%	9,183	0.0%	(11,366)
Street lighting and signal system	110,318	0.2%	47,365	0.2%	62,953
Meter maintenance	3,065	0.0%	5,216	0.0%	(2,151)
Miscellaneous distribution plant	2,749	0.0%	5,874	0.0%	(3,125)
General plant	16,614	0.0%	14,978	0.1%	1,636
	<u>717,210</u>	<u>1.8%</u>	<u>644,844</u>	<u>1.6%</u>	<u>72,366</u>

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
DETAILED COMPARATIVE STATEMENT OF INCOME
FOR THE YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE FIGURES FOR 2012 (CONTINUED)**

	<u>2013</u>		<u>2012</u>		
	<u>Amount</u>	<u>% of Total Operating Revenue</u>	<u>Amount</u>	<u>% of Total Operating Revenue</u>	<u>Increase or (Decrease)</u>
<u>Operating Expenses (Continued)</u>					
Other Operating Expenses:					
Depreciation	\$ 1,499,957	3.8%	1,545,291	3.8%	(45,334)
Tax equivalent to city	1,257,500	3.2%	1,300,000	3.3%	(42,500)
Old age benefits	19,305	0.0%	19,630	0.0%	(325)
	<u>2,776,762</u>	<u>7.0%</u>	<u>2,864,921</u>	<u>7.1%</u>	<u>(88,159)</u>
Total Operating Expenses	<u>5,307,351</u>	<u>12.7%</u>	<u>5,441,301</u>	<u>13.5%</u>	<u>(133,950)</u>
 Total Purchased Power and Operating Expenses	 <u>36,889,823</u>	 <u>91.8%</u>	 <u>37,371,722</u>	 <u>92.5%</u>	 <u>(481,899)</u>
 <u>Income From Operations</u>	 <u>3,049,269</u>	 <u>8.2%</u>	 <u>3,057,919</u>	 <u>7.5%</u>	 <u>(8,650)</u>
 <u>Non-Operating Income:</u>					
Interest on investments	17,615	0.0%	39,523	0.1%	(21,908)
Gain on disposition of property	1,000	0.0%	-	0.0%	1,000
	<u>18,615</u>	<u>0.0%</u>	<u>39,523</u>	<u>0.1%</u>	<u>(20,908)</u>
 <u>Non-Operating Deductions:</u>					
Interest on long-term debt	188,005	0.5%	213,707	0.5%	(25,702)
Amortization of debt expense	39,072	0.1%	24,507	0.1%	14,565
Loss on disposition of property	-	0.0%	481	0.0%	(481)
Miscellaneous	17,322	0.0%	43,155	0.1%	(25,833)
	<u>244,399</u>	<u>0.6%</u>	<u>281,850</u>	<u>0.7%</u>	<u>(37,451)</u>
 <u>Net Income</u>	 <u>\$ 2,823,485</u>	 <u>7.6%</u>	 <u>2,815,592</u>	 <u>6.9%</u>	 <u>7,893</u>

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

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

To the Honorable Mayor and Board of Aldermen
City of Starkville, 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 Electric Department of the City of Starkville, Mississippi, as of and for the year ended June 30, 2013 and 2012, and the related statement of accumulated earnings and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 3, 2014.

Internal Control Over Financial Reporting

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

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

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [Finding 2013-1 and 2013-2].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

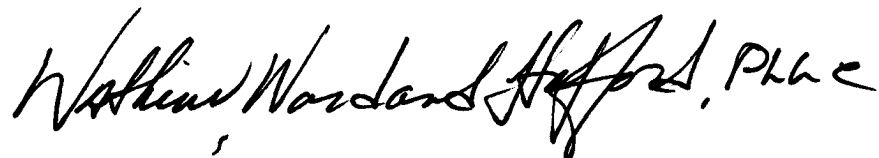
Compliance and Other Matters

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

Purpose of this Report

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

West Point, Mississippi
January 27, 2014

A handwritten signature in black ink that reads "William Wardlaw Hefford, Ph.D." The signature is written in a cursive style with a small mark below the name.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2013**

2013-1 Unassigned Electric Meters (Repeat Finding)

Statement of Condition

Starkville Electric Department has seventeen meters not assigned to a single location, sealed and read monthly. These “floating” meters were provided to customers needing temporary services at varying locations on a routine basis. Customer sets the meter when and where temporary service is needed and is responsible for bringing meter in for periodic readings.

Criteria

To insure all power usage is captured for billing, Starkville Electric Department’s policies require meters to be assigned to a route, physically set, and sealed by Electric Department employees per a service order at the time service is provided.

Effect

Energy consumption through these “floating” meters is not billed and collected on a timely basis.

Cause

Starkville Electric Department provides these unset, unsealed meters to customers requesting temporary services after evaluating the circumstances relative to the request.

Recommendation

Meters should only be issued, set and sealed by Electric Department personnel upon receipt of a proper service order assigning meter to a route.

Response

Starkville Electric Department acknowledges the problem and is working to resolve it.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2013**

2013-2 Bank Reconciliations (Repeat Finding)

Statement of Condition

The Department's year-end reconciled balance of its operating cash account was \$12,765 more than the balance per the financial statements.

Criteria

All cash accounts should be reconciled to bank balances monthly to substantiate the financials statement balances.

Effect

Cash at June 30, 2013 and net income for the year then ended was understated by the \$12,765.

Cause

The Department's monthly reconciliations contain an "un-located variance". Cash per financial statements aren't adjusted for such variances.

Recommendation

The Department should adequately investigate variances in all cash reconciliations and adjust financial statement cash as needed.

Response

Starkville Electric Department will implement the necessary procedures to insure monthly cash reconciliations are prepared and are in agreement with the financial statements.

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2013**

2012-1 Audit Adjustments

Condition

Five non-cash adjustments were made to the accounting records subsequent to the start of the auditing process.

Recommendation

The Electric Department should implement policies and procedures to insure the correct valuation and recording on all disbursements and journal entries. Monthly reviews of all general ledger accounts should be performed to insure correctness.

Status

This finding was corrected in the current year.

2012-2 Unassigned Electric Meters

Condition

Starkville Electric Department had approximately twenty meters not assigned to a single location, sealed and read monthly. These “floating” meters were provided to customers needing temporary services at varying locations on a routine basis. Customer sets the meter when and where temporary service is needed and is responsible for bringing the meter in for periodic readings.

Recommendation

Meters should only be issued, set and sealed by Electric Department personnel upon receipt of a service order assigning a meter to a route.

Status

The Electric Department still has seventeen meters not assigned to a single location. This is still a finding in their report. See Finding 2013-1.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
June 30, 2013**

2012-3 Auditor Prepared Financial Statements and Disclosures

Condition

The auditor prepared the financial statements and the related notes to the financial statements.

Recommendation

If the Department prefers auditor prepared financial statements, management should review and accept the auditor prepared financial statements, including disclosures prior to their issuance.

Status

This finding was corrected in the current year.

2012-4 Construction in Progress

Condition

Starkville Electric Department has not timely closed construction work orders.

Recommendation

The Department should have its employees receive the necessary training to enable them to adequately and timely close construction work orders.

Status

This finding was corrected in the current year.

2012-5 Revenue Bond Ordinance Requirements

Condition

Starkville Electric Department failed to adequately fund the accounts as required by the bond resolutions of its 2004 and 2006 Revenue Bond Issues.

Recommendation

All required bond related accounts should be adequately funded.

Status

This finding was corrected in the current year.

**STARKVILLE ELECTRIC DEPARTMENT
STARKVILLE, MISSISSIPPI
SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
June 30, 2013**

2012-6 Bank Reconciliations

Condition

The Department's year-end reconciled balance of its operating cash account was \$26,374 less than the balance per the financial statements.

Recommendation

The Department should adequately investigate variances in all cash reconciliations and adjust financial statement cash as needed.

Status

This is still a finding in their report. See finding 2013-2.