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Dane Maxwell
Mayor

Michael W. Mangum
City Manager

Frank Corder
Assistant City Manager

Ryan Frederic
City Attorney



CITY COUNCIL

Willie C. Jones	Councilman, Ward 1
George L. Wolverton, Sr.	Councilman, Ward 2
Stephen Burrow	Councilman, Ward 3
Matt Parker	Councilman, Ward 4
Scott Tipton	Councilman, Ward 5
Jennifer Colmer	Councilwomen at Large

September 28, 2017

Office of the State Auditor
P.O. Box 956
Jackson, Mississippi 39205

Re: Annual Municipal Audit

Accompanying this letter are two copies of the annual audit of the City of Pascagoula, Mississippi, for the fiscal year ended September 30, 2016. In connection with this audit, a separate management letter was written to the city. Enclosed you will find a copy of this management letter along with the audit reports. In addition, you will find an electronic version of both.

Sincerely,



Robert J. Parker
City Clerk

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Jesse J. Wolfe, CPA (1927-2009)
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June 29, 2017

To the Honorable Mayor and Members of the City Council
City of Pascagoula, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Pascagoula, Mississippi for the year ended September 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 27, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Pascagoula, Mississippi are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by City of Pascagoula, Mississippi during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the allowance for uncollectible accounts is based on historical bad debt experience related to the nature of each receivable balance. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciable lives and methods is based on the City's concepts and reasonable assumptions of future events. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable to the financial statements taken as a whole.

Management's estimate of net pension liability is based on the City's proportionate share of the Public Employees Retirement System (PERS) of Mississippi's net pension liability. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

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To the Honorable Mayor and Members of the City Council
City of Pascagoula, Mississippi

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Pascagoula, Mississippi as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered City of Pascagoula, Mississippi's internal control over financial reporting (internal control) as a basis for designing 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 City of Pascagoula, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Pascagoula, Mississippi's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

During our audit, we also became aware of the following deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency:

The City of Pascagoula, Mississippi has not established procedures to ensure that its external financial statements are free from material errors. As a result, it was necessary for the auditor to identify account balances where material adjustments were required in order for the information to be presented in accordance with generally accepted accounting principles.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Mayor and the City Council, others within City of Pascagoula, Mississippi, and is not intended to be, and should not be, used by anyone other than these specified parties.

Wolfe, McDuff & Oppie

Wolfe, McDuff & Oppie, P.A.

Pascagoula, Mississippi

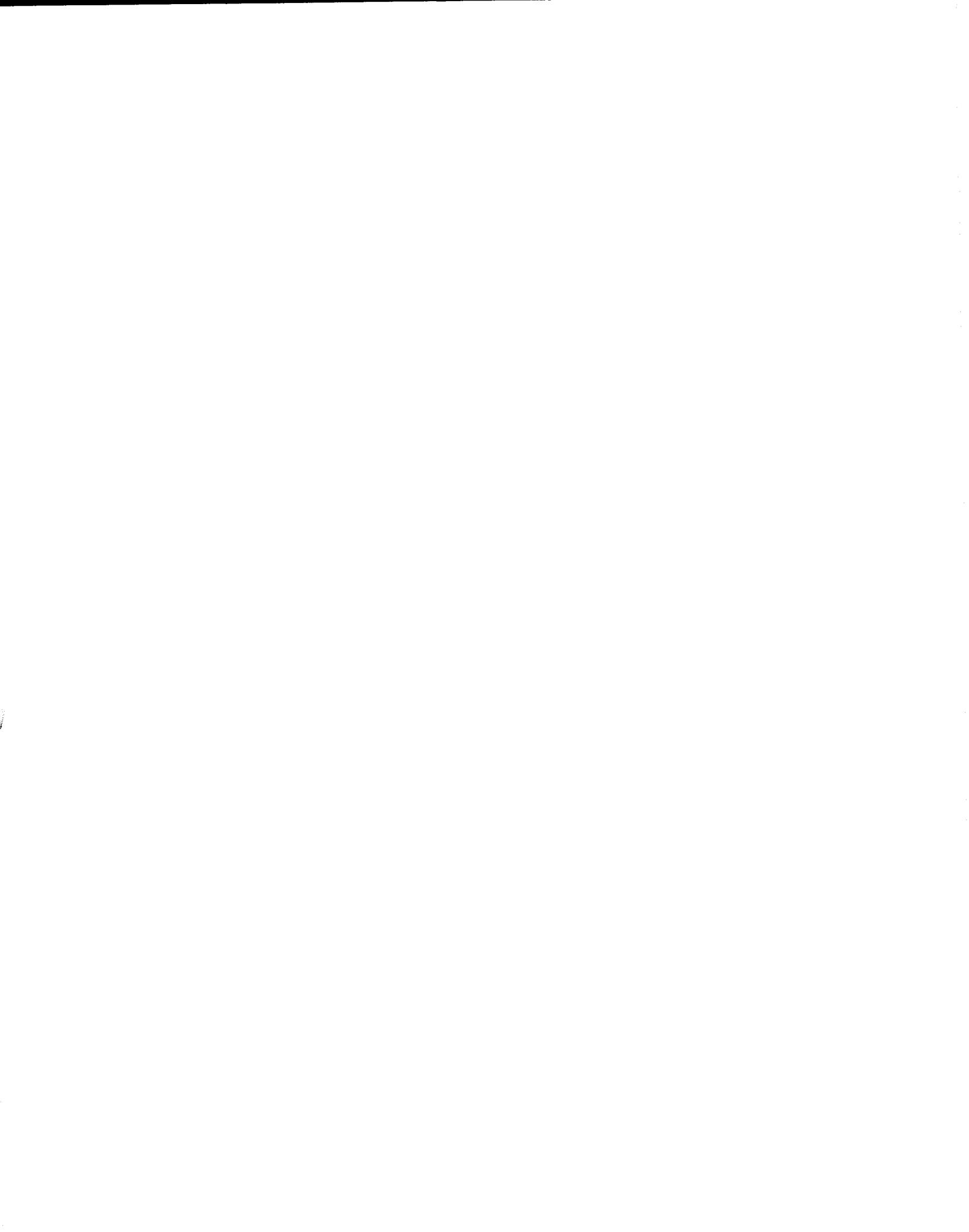
June 29, 2017

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CITY OF PASCAGOULA, MISSISSIPPI

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

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CITY OF PASCAGOULA, MISSISSIPPI

CITY OFFICIALS

For the Year Ended September 30, 2016

CITY OFFICIALS

Mayor Harry J. Blevins

CITY COUNCIL

Councilman at Large	Brenda H. Simkins
Councilman Ward #1	Marvin L. Pickett, Sr.
Councilman Ward #2	Freddy L. Jackson
Councilman Ward #3	David Tadlock
Councilman Ward #4	Burton L. Hill
Councilman Ward #5	Scott Tipton

DEPARTMENT HEADS

City Manager	Joseph R. Huffman
City Clerk/Comptroller	Robert J. Parker
City Attorney	Eddie Williams
Community Development	Jennifer Dearman
City Engineer	Jaci Turner
Fire Department	Donald Carlson
Human Resources	Valarie Moore
Parks & Recreation	Darcie Crew
Planning & Inspections	Donovan Scruggs
Police Department	Kenny Johnson

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Pascagoula, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pascagoula, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pascagoula, Mississippi, as of September 30, 2016, 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.

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Independent Auditor's Report

Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and net pension schedules on pages 11 - 19, 83 - 86, and 87 - 90 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 Pascagoula, Mississippi's basic financial statements. The introductory section, and other supplementary information section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The introductory and other supplementary information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of the City of Pascagoula, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Pascagoula, Mississippi's internal control over financial reporting and compliance.

Wolfe, McDuff & Oppi

Pascagoula, Mississippi
June 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

The discussion and analysis of the City of Pascagoula, Mississippi's (the City's) financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2016. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities and its deferred inflows of resources at the close of the current year by approximately \$52,659,500 (net position). Of this amount, approximately \$31,031,263 and \$21,628,237 were related to the City's governmental and business-type activities, respectively. In addition, the City's unrestricted net position (which may be used to meet the government's ongoing obligations to citizens and creditors) was approximately \$(31,287,755) (a deficit) for its governmental activities and approximately \$3,020,339 for its business-type activities.
- ◆ The government's total net position decreased by approximately \$8,544,900 for governmental activities and increased by approximately \$2,339,066 for business-type activities compared to the prior restated net position.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$1,668,352, a decrease of approximately \$7,516,745 from the prior year's fund balance.
- ◆ The City's General Fund reported total fund balance of approximately \$(794,299) (a deficit). Approximately \$(811,101) of this total amount, or approximately 102%, is available for spending at the government's discretion (unassigned fund balance). The unassigned fund balance for the General Fund was approximately (3)% of total General Fund expenditures for the year ended September 30, 2016.
- ◆ The City's governmental activities capital assets decreased less than 1% (\$237,271) during the current fiscal year due to depreciation expense of \$2,914,664 and disposals of approximately \$2,809,936, partially offset by capital asset additions of approximately \$5,487,329. The City's business-type activities capital assets increased by approximately 10% (\$3,219,434) during the current year primarily due to capital asset additions of approximately \$5,037,664, partially offset depreciation expense of approximately \$1,818,230.
- ◆ The governments's total debt (including general and special obligations) decreased approximately \$710,130 (2%) during the current year primarily due principle payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The *statement of net position* presents information on all the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

Both of the government-wide financial statements outline functions of the City that are principally supported by intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government operations, public safety, public works, culture and recreation, and urban renewal and economic development. The City's proprietary funds include the Pascagoula Utilities Fund, Transfer Station Fund, Energy Recovery Facility Fund, and Solid Waste Fund.

The City has no component units.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

The fund financial statements can be found as listed in the table of contents.

Governmental Funds

Governmental funds are used to account for essentially the same activities reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of financial resources and the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may be able to better understand the long-term impact of near-term financing decisions. Reconciliations from the governmental fund statements to the government-wide statements are provided to aid in the comparison.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

The City maintains three major governmental funds. Information is presented separately on the governmental fund balance sheet and on the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Community Development Fund and the Hurricane Katrina Fund. Information for the other governmental funds is combined into a single, aggregated column.

The City adopts annual appropriated budgets for its general fund and major special revenue funds. Budgetary comparison schedules are provided to demonstrate compliance with budgetary requirements. These schedules can be found in the required supplementary information section of this report as listed in the table of contents.

Proprietary Funds

The City maintains one type of proprietary funds. They are the enterprise funds. Enterprise funds are included in business-type activities since they serve the entire community. Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statements. The City has four enterprise funds. Three enterprise funds, the Pascagoula Utilities Fund, Transfer Station Fund, and Energy Recovery Facility Fund are considered major funds and are reported individually throughout the report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has four fiduciary funds, which are maintained as private-purpose trust funds and agency funds. The agency funds have no attempt to create ongoing fund balances.

Notes to the Financial Statements

The notes provide additional information that is essential to a user's understanding of the basic financial statements. The notes to the financial statements can be found on pages 49 through 80 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process and net pension liability information. This required supplementary information can be found on pages 83 through 90 of this report.

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CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the City's net position for September 30, 2016 as compared to September 30, 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 6,656,914	11,014,706	11,388,137	11,515,324	18,045,051	22,530,030
Capital assets	<u>71,307,348</u>	<u>71,544,619</u>	<u>34,330,265</u>	<u>31,110,831</u>	<u>105,637,613</u>	<u>102,655,450</u>
Total assets	<u>77,964,262</u>	<u>82,559,325</u>	<u>45,718,402</u>	<u>42,626,155</u>	<u>123,682,664</u>	<u>125,185,480</u>
Deferred outflows of resources	<u>5,106,537</u>	<u>3,461,544</u>	<u>221,806</u>	<u>148,435</u>	<u>5,328,343</u>	<u>3,609,979</u>
Liabilities						
Long-term debt outstanding	13,281,848	13,248,312	16,056,354	16,800,020	29,338,202	30,048,332
Other liabilities	<u>38,089,959</u>	<u>31,612,237</u>	<u>8,148,375</u>	<u>6,524,757</u>	<u>46,238,334</u>	<u>38,136,994</u>
Total liabilities	<u>51,371,807</u>	<u>44,860,549</u>	<u>24,204,729</u>	<u>23,324,777</u>	<u>75,576,536</u>	<u>68,185,326</u>
Deferred inflows of resources	<u>667,729</u>	<u>1,584,157</u>	<u>107,242</u>	<u>160,642</u>	<u>774,971</u>	<u>1,744,799</u>
Net assets						
Invested in capital assets, net of debt	58,025,500	58,296,307	18,273,911	14,310,811	76,299,411	72,607,118
Restricted	4,293,518	3,138,725	333,987	381,731	4,627,505	3,520,456
Unrestricted	<u>(31,287,755)</u>	<u>(21,858,869)</u>	<u>3,020,339</u>	<u>4,596,629</u>	<u>(28,267,416)</u>	<u>(17,262,240)</u>
Total net position	<u>\$ 31,031,263</u>	<u>39,576,163</u>	<u>21,628,237</u>	<u>19,289,171</u>	<u>52,659,500</u>	<u>58,865,334</u>

By far the largest portion of the City's net position (145%) reflects its investment in capital assets (e.g., land, buildings, improvements, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are not likely to be used to liquidate these liabilities.

A portion of the City's net position (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$(28,267,416) (a deficit) ((5+)%) may be used to meet the City's ongoing obligation to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances for two of the three categories of net position, both for the government as a whole, as well as for its governmental and business-type activities. The City reported a negative net position for one of the three categories of net position.

Net investment in capital assets increased by \$3,692,293 during the year. Restricted net position increased by \$1,107,049. Unrestricted net position decreased by \$11,005,176 during the year with the unrestricted net position of business-type activities decreasing by \$1,576,290 and the unrestricted net position of governmental activities decreasing by \$9,428,886.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

The following table shows the changes in the City's net position for 2016 compared to 2015.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program revenues:						
Charges for services	\$ 6,390,238	6,611,475	13,351,465	12,035,895	19,741,703	18,647,370
Operating grants and contributions	838,634	1,107,844	-	-	838,634	1,107,844
Capital grants and contributions	1,161,865	4,591,164	-	-	1,161,865	4,591,164
General revenues:						
Property taxes	9,437,909	9,705,632	234,322	241,424	9,672,231	9,947,056
Franchise taxes	1,361,915	1,567,986	-	-	1,361,915	1,567,986
Sales tax	5,304,244	5,593,617	-	-	5,304,244	5,593,617
Other taxes	1,179,322	1,406,849	-	-	1,179,322	1,406,849
Other general revenues	<u>670,029</u>	<u>1,487,388</u>	<u>295,915</u>	<u>38,052</u>	<u>965,944</u>	<u>1,525,440</u>
Total revenues	<u>26,344,156</u>	<u>32,071,955</u>	<u>13,881,702</u>	<u>12,315,371</u>	<u>40,225,858</u>	<u>44,387,326</u>
Program expenses						
General government	12,813,136	12,347,494	-	-	12,813,136	12,347,494
Public safety	12,657,871	12,245,957	-	-	12,657,871	12,245,957
Public works	3,461,451	3,860,623	-	-	3,461,451	3,860,623
Culture and recreation	1,845,783	1,774,528	-	-	1,845,783	1,774,528
Urban renewal and economic development	938,174	1,036,723	-	-	938,174	1,036,723
Debt service - interest	454,988	527,680	-	-	454,988	527,680
Water, sewer and gas	-	-	12,931,081	12,645,755	12,931,081	12,645,755
Transfer station	-	-	10,669	10,671	10,669	10,671
Energy recovery and solid waste	-	-	<u>1,318,539</u>	<u>1,132,660</u>	<u>1,318,539</u>	<u>1,132,660</u>
Total expenses	<u>32,171,403</u>	<u>31,793,005</u>	<u>14,260,289</u>	<u>13,789,086</u>	<u>46,431,692</u>	<u>45,582,091</u>
Excess(deficiency) of revenues over (under) expenditures	<u>(5,827,247)</u>	<u>278,950</u>	<u>(378,587)</u>	<u>(1,473,715)</u>	<u>(6,205,834)</u>	<u>(1,194,765)</u>
Transfers in (out)	<u>(2,717,653)</u>	<u>(615,877)</u>	<u>2,717,653</u>	<u>615,877</u>	<u>-</u>	<u>-</u>
Change in net position	<u>(8,544,900)</u>	<u>(336,927)</u>	<u>2,339,066</u>	<u>(857,838)</u>	<u>(6,205,834)</u>	<u>(1,194,765)</u>
Net position - beginning of year	<u>39,576,163</u>	<u>39,913,090</u>	<u>19,289,171</u>	<u>20,147,009</u>	<u>58,865,334</u>	<u>60,060,099</u>
Net position - end of year	<u>\$ 31,031,263</u>	<u>39,576,163</u>	<u>21,628,237</u>	<u>19,289,171</u>	<u>52,659,500</u>	<u>58,865,334</u>

Governmental Activities

Governmental activities decreased the City's net position by \$8,544,900. The overall decrease reflects expenses exceeding revenues for the year by \$5,827,247. This amount was also partially due to \$2,717,653 in transfers out, of which is for various administrative activities.

Revenues for the year experienced a decrease of \$3,698,509 in operating and capital grants as well as a decrease of \$1,808,053 in general revenues including various taxes from the previous year, which resulted in a substantial portion of the decrease in net position in the governmental funds.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

Business-type Activities

Business-type activities increased the City's total net position by \$2,339,066 during the year. Revenues for the business-type activities increased by \$1,566,331 (13%). Expenses for the business-type activities increased \$471,203 (3%). Expenses increased by \$841,243 in the Pascagoula Utilities Fund. Expenses also increased by \$185,879 in the Other Non-Major funds.

The overall increase in revenues in the Pascagoula Utilities Fund is due to an increase in charges for services received as a result of rate increases.

Pascagoula Utilities Fund experienced an increase in wastewater treatment expenditures of \$1,111,354 related to an increase in the cost of solid waste disposal.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing City's financing requirements.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,668,352, a decrease of \$7,516,745 in comparison with the prior year. This overall decrease was primarily due to the \$7,684,831 decrease in the General fund. The balance in this fund decreased primarily due to less grant funds being received by the City, as well as the increase in capital outlay and public works expenditures.

Of the combined \$1,668,352 governmental fund balances at year end, \$16,802 is classified as nonspendable; \$4,293,518 (257%) is classified as restricted by grantors, state or federal laws, or enabling legislation; and \$360,472 is classified as committed. The remaining \$(3,002,440) (a deficit) is classified as unassigned ((180)%). By definition unassigned balances include all deficit balances. There were two funds with unassigned fund balance deficits at year-end, the General Fund and Community Development Fund.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$(811,101) (a deficit), while the total fund balance was \$(794,299) (a deficit). As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned and total general fund balances at the end of the fiscal year represent (3)% and (3)%, respectively, of total general fund expenditures. These percentages decreased from the prior year computation of unassigned and total fund balances of 28% and 29%, respectively. The City's general fund balance decreased by \$7,684,831 during the current fiscal year.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail.

Total net position for the City's enterprise funds as of September 30, 2016 was \$21,628,237, an increase of 2,339,066 from the previous fiscal year's restated net position. Of the net position of the enterprise funds, \$18,273,911 is the net investment in capital assets of the enterprise funds. Restricted and unrestricted net position totaled \$333,987 and \$3,020,339, a decrease of \$47,744 and \$1,576,290, respectively, compared to the previous year.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

Unrestricted net position of the Enterprise Funds at the end of the fiscal year were \$1,619,027 for the Pascagoula Utilities Fund; \$1,607,588 for the Transfer Station Fund; and \$(1,817,875) (deficit) for the Energy Recovery Fund. The Pascagoula Utilities Fund showed an increase in fund balance while the Transfer Station Fund and Energy Recovery Fund showed no change. Other factors concerning the finances of these funds are addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's budget is prepared according to Mississippi Law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund and the Community Development Fund.

Schedules showing the original and final budget amounts compared to the City's actual financial activity for the General Fund, Community Development Fund, and the Hurricane Katrina Fund are provided in this report on pages 83 through 86 as required supplemental information.

During the year there was a \$678,372 increase in appropriations between the original budget and the final amended budget. Budgeted revenues increased by \$56,434 from the original to the amended budget.

Following is the main component of the overall budget appropriations increase during the year:

- ◆ There was an \$722,727 increase in the public works capital outlay appropriation from the original budget to the amended budget. The overall increase was due to budget for capital outlay expenses related to expenditures of bond funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$105,637,613 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure, buildings and improvements, vehicles, equipment, and library materials. The City's investment in capital assets for the current fiscal year decreased by \$237,271 and increased by \$3,219,434 for governmental activities and business-type activities, respectively, compared to the prior year.

Major capital asset events during the current fiscal year included the following:

- ◆ Additions to capital assets (net of asset retirements) totaled \$7,715,057.
- ◆ Major asset additions included \$6,744,340 in construction in progress and improvements for various community projects.

Depreciation expense totaled \$4,732,894 for the year with \$2,914,664 in the governmental activities and \$1,818,230 in the business-type activities.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

The following table presents a summary of the City's capital assets (net of depreciation) for the current and prior fiscal year.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 13,081,825	12,916,341	84,751	84,751	13,166,576	13,001,092
Construction in progress	7,174,449	8,986,560	7,076,316	2,075,482	14,250,765	11,062,042
Buildings	3,642,828	3,908,508	4,352,000	4,726,973	7,994,828	8,635,481
Improvements - other	24,470,617	22,001,899	22,619,379	23,964,495	47,089,996	45,966,394
Equipment	2,308,858	2,270,865	197,819	259,130	2,506,677	2,529,995
Infrastructure	20,628,771	21,460,446	-	-	20,628,771	21,460,446
Total	\$ 71,307,348	71,544,619	34,330,265	31,110,831	105,637,613	102,655,450

Additional information on the City's capital assets can be found in Note 4 of this report.

Debt Administration

At September 30, 2016 and 2015, the City had \$29,338,202 and \$30,048,332, respectively, in long-term debt outstanding. As of September 30, 2016, principal payments in the amount of \$1,866,397 were due within one year.

The following table summarizes debt outstanding as of September 30, 2016 and 2015.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation bonds (backed by the City)	\$ 9,599,333	10,315,000	-	-	9,599,333	10,315,000
Revenue bonds and notes (backed by specific tax and fee revenues)	2,513,486	2,513,486	16,056,354	16,800,020	18,569,840	19,313,506
Capital leases	1,169,029	419,826	-	-	1,169,029	419,826
Total	\$13,281,848	13,248,312	16,056,354	16,800,020	29,338,202	30,048,332

More detailed information about the City's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Pascagoula continues to project a mostly positive outlook in terms of its economic environment. It is the home of Mississippi's largest employer, Huntington-Ingalls Shipbuilding, as well as a plethora of other major industrial companies such as Chevron, Mississippi Phosphates, and VT Halter Marine. Although its residential population hovers around 22,000, Pascagoula's daytime population swells to an estimated 60,000 with all of the people who commute to work.

According to a study conducted by the United States Council of Mayors, Pascagoula experienced a 6.2% increase in gross metropolitan product in 2013, making it the nation's third fastest growing economy. It also ranked number one nationally in construction job growth, with a 51% increase over 2012 – a rate of increase which was more than double that of any other metropolitan statistical area examined in the study conducted by Associated General Contractors.

Pascagoula's unemployment rate also fell from 6.8% in 2015 to 5.9% in 2016. In addition, the City's rate has finally pulled even with the State of Mississippi's current unemployment rate (as of April of 2017) of 5.0%, something it has not accomplished since 2011.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

While Pascagoula continues to make strides in terms of its economic growth, it still faces some challenges as a municipal government. Its current economic growth comes after years of devastation left by Hurricane Katrina, the BP Oil Spill, and the economic recession in 2008. As a result, Pascagoula's transportation infrastructure, water and sewer systems, and recreational facilities are in need of considerable upgrades. The current City Council has reached a consensus to move forward with a \$15 million bond issue as a means of financing some these infrastructure upgrades. Also, plans are still in the works for a potential \$12.5 million bond issue for the needed recreational facility enhancements. In the meantime, further growth is projected for the city's gross metropolitan product. A proposed 2% prepared food tax is expected to generate an additional \$800,000 plus in revenue, which will offset the cost of the debt service on the recreation bond.

Given the information above, Pascagoula is positioned to achieve more economic growth as a community. This growth will bring more revenue to the City, and will improve its fiscal standing as an organization.

In the fiscal year 2016/2017 Budget, General Fund revenues are budgeted at \$32,634,488, an decrease of \$2,082,944 from the 2015/2016 budgeted revenues of \$34,717,432. That represents a 6.0% decrease. The major factor contributing to this decrease is in the amount budgeted in Other Financing Sources for loan proceeds which represented a decrease of \$2,221,822. The primary sources of revenue for the General Fund are property taxes and sales taxes, which amount to 28.3% and 18.4%, respectively, of the revenue budgeted for the fiscal year 2017.

General Fund expenditures for the fiscal year 2016/2017 are budgeted at \$32,634,488, an decrease of \$2,082,944 (6.0%) over fiscal year 2016 budget of \$34,717,432. The major portion of the General Fund's budget goes to Public Safety, which represents 41.9% of the budget for fiscal year 2017. The General Fund budget for 2016/2017 includes \$7,718,731 in capital outlay most of which is to be financed by some type of financing instrument, such as a bond issue, which is being contemplated by the governing board. The decrease of 6.0% referred to above in General Fund expenditures would revert to a decrease of \$9,801,674 (28.2%) in expenditures if the budgeted capital projects are not funded.

Utility Fund revenues are budgeted to be \$21,956,400 for 2016/2017. This represents an increase of \$1,452,012 from the fiscal year 2016 budget, which totaled \$20,504,388. The principal source of revenue for the Utility Fund is charges for utility services which amounts to \$15,952,200, or 72.7%, of the Utility Fund's total budgeted revenue for the fiscal year 2017.

Utility Fund expenditures are budgeted to be \$20,860,934 for fiscal year 2017, an increase of \$356,546 (1.7%) over the \$20,504,388, budgeted for fiscal year 2015/2016. The Utility Fund budget includes \$6,005,500 in the fiscal year 2017 for capital outlay that will only be utilized if funded by some type of debt instrument, such as a bond issue. Funding options for these capital outlay items is also being considered by the governing board. The increase of 1.74% referred to above in Utility Fund expenditures would revert to a decrease of \$5,648,954 (27.5%) in expenditures if the budgeted capital projects are not funded.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Comptroller's Office at 603 Watts Avenue, Pascagoula, Mississippi.

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BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

- ◆ Government-wide financial statements:
 - Statement of Net Position
 - Statement of Activities

- ◆ Fund financial statements:
 - Governmental funds
 - Proprietary (enterprise) funds
 - Fiduciary funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF PASCAGOULA, MISSISSIPPI
GOVERNMENT-WIDE STATEMENT OF NET POSITION
September 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ -	9,348,723	9,348,723
Receivables, net	1,897,253	1,372,940	3,270,193
Prepaid items	326,604	14,703	341,307
Internal balances	4,433,057	-	4,433,057
Restricted cash and cash equivalents	-	651,771	651,771
Capital assets:			
Land and construction in progress	20,256,274	7,161,067	27,417,341
Other capital assets, net of depreciation	51,051,074	27,169,198	78,220,272
Total capital assets	<u>71,307,348</u>	<u>34,330,265</u>	<u>105,637,613</u>
Total assets	<u>77,964,262</u>	<u>45,718,402</u>	<u>123,682,664</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred bond charges	99,397	-	99,397
Deferred outflows of resources related to pensions	5,007,140	221,806	5,228,946
Total deferred outflows of resources	<u>5,106,537</u>	<u>221,806</u>	<u>5,328,343</u>
LIABILITIES			
Interfund payable-pooled cash	310,638	-	310,638
Accounts payable and accrued expenses	4,733,665	1,521,434	6,255,099
Unearned revenues	2,269	-	2,269
Customer deposits	-	651,771	651,771
Internal balances	-	4,433,057	4,433,057
Long-term liabilities:			
Due within one year			
Bond obligations	730,978	679,021	1,409,999
Notes payable	93,579	38,269	131,848
Capital leases	324,550	-	324,550
Compensated absences	61,411	11,657	73,068
Sales tax audit lien	-	99,577	99,577
Due in more than one year			
Bond obligations	8,868,355	14,998,247	23,866,602
Notes payable	2,419,907	340,817	2,760,724
Capital leases	844,479	-	844,479
Net pension liability	32,252,948	1,403,144	33,656,092
Compensated absences	729,028	27,735	756,763
Total liabilities	<u>51,371,807</u>	<u>24,204,729</u>	<u>75,576,536</u>
DEFERRED INFLOWS OF RESOURCES			
Unamortized premium on bond	-	41,708	41,708
Deferred savings on revenue refundings	-	31,059	31,059
Deferred inflows of resources related to pensions	667,729	34,475	702,204
Total deferred inflows of resources	<u>667,729</u>	<u>107,242</u>	<u>774,971</u>
NET POSITION			
Investment in capital assets (net of related debt)	58,025,500	18,273,911	76,299,411
Restricted net position:			
Forfeiture and seizure	290,854	-	290,854
Fire rebate	138,895	-	138,895
Hurricane recovery	794,774	-	794,774
Fire and police disability	125,063	-	125,063
Capital projects	70,231	-	70,231
Debt service	2,046,898	333,987	2,380,885
Recreation special tax	778,865	-	778,865
South Mississippi metro enforcement team	9,622	-	9,622
Other purposes	38,316	-	38,316
Unrestricted net position	(31,287,755)	3,020,339	(28,267,416)
Total net position	<u>\$ 31,031,263</u>	<u>21,628,237</u>	<u>52,659,500</u>

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

CITY OF PASCAGOULA, MISSISSIPPI
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

	Program revenue				Net (expense) revenue and changes in net position		
	Expenses	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$12,813,136	5,734,685	838,634	1,161,865	(5,077,952)	-	(5,077,952)
Public safety	12,657,871	122,864	-	-	(12,535,007)	-	(12,535,007)
Public works	3,461,451	-	-	-	(3,461,451)	-	(3,461,451)
Culture and recreation	1,845,783	497,914	-	-	(1,347,869)	-	(1,347,869)
Urban renewal and economic development	938,174	34,775	-	-	(903,399)	-	(903,399)
Debt service - interest	454,988	-	-	-	(454,988)	-	(454,988)
Total governmental activities	<u>32,171,403</u>	<u>6,390,238</u>	<u>838,634</u>	<u>1,161,865</u>	<u>(23,780,666)</u>	<u>-</u>	<u>(23,780,666)</u>
Business-type activities:							
Water, sewer and gas fund	12,931,081	12,156,320	-	-	-	(774,761)	(774,761)
Transfer station	10,669	-	-	-	-	(10,669)	(10,669)
Energy recovery and solid waste	1,318,539	1,195,145	-	-	-	(123,394)	(123,394)
Total business-type activities	<u>14,260,289</u>	<u>13,351,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(908,824)</u>	<u>(908,824)</u>
Total primary government	<u>\$46,431,692</u>	<u>19,741,703</u>	<u>838,634</u>	<u>1,161,865</u>	<u>(23,780,666)</u>	<u>(908,824)</u>	<u>(24,689,490)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					7,624,421	-	7,624,421
Property taxes, levied for debt service					1,813,488	234,322	2,047,810
Franchise taxes					1,361,915	-	1,361,915
Sales tax					5,304,244	-	5,304,244
Other taxes					1,179,322	-	1,179,322
Contributions in aid					204,729	-	204,729
Unrestricted investment earnings					37,370	31,716	69,086
Insurance proceeds					1,694	-	1,694
Payments to escrow agent					(933)	(817)	(1,750)
Gain (loss) on the sale of capital assets					(8,473)	-	(8,473)
Miscellaneous					435,642	265,016	700,658
Transfers in (out)					<u>(2,717,653)</u>	<u>2,717,653</u>	<u>-</u>
Total general revenues and transfers					<u>15,235,766</u>	<u>3,247,890</u>	<u>18,483,656</u>
CHANGE IN NET POSITION					(8,544,900)	2,339,066	(6,205,834)
Net position - beginning, as previously reported					39,814,423	18,946,103	58,760,526
Prior period adjustments, Note 14					<u>(238,260)</u>	<u>343,068</u>	<u>104,808</u>
Net position - beginning of year, as restated					<u>39,576,163</u>	<u>19,289,171</u>	<u>58,865,334</u>
Net position - end of year					<u>\$ 31,031,263</u>	<u>21,628,237</u>	<u>52,659,500</u>

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

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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CITY OF PASCAGOULA, MISSISSIPPI
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2016

	<u>General Fund</u>	<u>Special Revenue Funds</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
		<u>Community Development Fund</u>	<u>Hurricane Katrina Fund</u>		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	120,554	5,449,028	3,420,705	8,990,287
Receivables, net	1,571,432	289,552	-	36,269	1,897,253
Due from other funds	14,276,120	-	78,779	821,323	15,176,222
Prepaid expenses	16,802	-	-	-	16,802
Total assets	<u>15,864,354</u>	<u>410,106</u>	<u>5,527,807</u>	<u>4,278,297</u>	<u>26,080,564</u>
LIABILITIES					
Liabilities:					
Interfund payable-pooled cash	8,861,170	-	-	-	8,861,170
Accounts payable	3,298,872	180,742	-	-	3,479,614
Other accrued liabilities	835,610	-	-	-	835,610
Compensated absences, current	61,411	-	-	-	61,411
Unearned revenue	487,929	241,722	-	2,269	731,920
Due to other funds	3,113,661	1,835,650	5,061,545	431,631	10,442,487
Total liabilities	<u>16,658,653</u>	<u>2,258,114</u>	<u>5,061,545</u>	<u>433,900</u>	<u>24,412,212</u>
FUND BALANCES					
Nonspendable	16,802	-	-	-	16,802
Restricted for:					
Debt service	-	-	-	2,046,898	2,046,898
Recreation special tax	-	-	-	778,865	778,865
Hurricane recovery	-	-	466,262	328,512	794,774
South Mississippi metro enforcement team	-	-	-	9,622	9,622
Forfeiture and seizure	-	-	-	290,854	290,854
Fire rebate	-	-	-	138,895	138,895
Fire and police disability	-	-	-	125,063	125,063
Capital projects	-	-	-	70,231	70,231
Other purposes	-	-	-	38,316	38,316
Committed for:					
Machpelah cemetery	-	-	-	201,446	201,446
Lighthouse preservation	-	-	-	150,127	150,127
Rental rehabilitation	-	-	-	7,019	7,019
Historic preservations	-	-	-	1,880	1,880
Unassigned	(811,101)	(1,848,008)	-	(343,331)	(3,002,440)
Total fund balances	<u>(794,299)</u>	<u>(1,848,008)</u>	<u>466,262</u>	<u>3,844,397</u>	<u>1,668,352</u>
Total liabilities and fund balances	<u>\$ 15,864,354</u>	<u>410,106</u>	<u>5,527,807</u>	<u>4,278,297</u>	<u>26,080,564</u>

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

CITY OF PASCAGOULA, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2016

Total governmental funds balance **\$ 1,668,352**

Amounts reported for governmental activities in the statement of net position are different than those reported in the fund financial statements because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives and reported as depreciation expense.

Governmental capital assets	113,778,488	
less: accumulated depreciation	<u>(42,471,140)</u>	71,307,348

A portion of the City's receivables are collected after year-end; but they are not collected soon enough to be available as financial resources for the current year. The revenues related to these receivables are deferred and not reported in the governmental funds. 729,651

Prepaid items, such as prepaid insurance, are accounted for as expenditures in the period of acquisition and, therefore, are not reported in the funds. 309,802

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	5,007,140	
Deferred inflows of resources related to pensions	<u>(667,729)</u>	4,339,411

Internal service funds are used by management to charge the costs of certain insurance activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position less any portion allocated to business-type activities. (915,678)

Bond deferred charges are reported as an asset and amortized over the life of the loan at the government-wide level and expensed as incurred at the fund level. 99,397

Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued interest payable	(243,196)	
Bond obligations	(9,599,333)	
Notes payable	(2,513,486)	
Capital leases	(1,169,029)	
Compensated absences	(729,028)	
Net pension liability	<u>(32,252,948)</u>	<u>(46,507,020)</u>

Net position of governmental activities **\$ 31,031,263**

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

CITY OF PASCAGOULA, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	<u>General Fund</u>	<u>Community Development Fund</u>	<u>Hurricane Katrina Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property taxes	\$ 7,624,421	-	-	1,813,488	9,437,909
Franchise fees	1,361,915	-	-	-	1,361,915
Fees and fines	555,888	-	-	426,637	982,525
Licenses and permits	122,864	-	-	-	122,864
Intergovernmental	6,483,566	-	-	300,051	6,783,617
Charges for services	2,236,652	-	-	-	2,236,652
Investment earnings	30,860	-	-	6,510	37,370
Contribution in aid	204,729	-	-	-	204,729
Grants	131,152	1,325,855	-	344,734	-
Miscellaneous	318,967	-	-	84,987	403,954
Total revenues	<u>19,071,014</u>	<u>1,325,855</u>	<u>-</u>	<u>2,976,407</u>	<u>23,373,276</u>
EXPENDITURES					
Current:					
General government	4,654,963	-	-	804,936	5,459,899
Public safety	12,252,324	-	-	405,547	12,657,871
Public works	3,461,451	-	-	-	3,461,451
Culture and recreation	1,826,917	-	-	18,866	1,845,783
Urban renewal and economic development	566,205	371,969	-	-	938,174
Debt service:					
Principal payments	287,124	-	-	816,258	1,103,382
Interest and fiscal charges	11,708	-	-	326,368	338,076
Capital outlay	<u>1,021,862</u>	<u>595,518</u>	<u>-</u>	<u>794,714</u>	<u>2,412,094</u>
Total expenditures	<u>24,082,554</u>	<u>967,487</u>	<u>-</u>	<u>3,166,689</u>	<u>28,216,730</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,011,540)</u>	<u>358,368</u>	<u>-</u>	<u>(190,282)</u>	<u>(4,843,454)</u>
OTHER FINANCING SOURCES (USES)					
Payments to bond escrow agent	(933)	-	-	-	(933)
Proceeds from sale of capital assets	11,913	-	-	-	11,913
Seized assets	31,688	-	-	-	31,688
Insurance recoveries	1,694	-	-	-	1,694
Transfers in (out)	<u>(2,717,653)</u>	<u>11,765</u>	<u>-</u>	<u>(11,765)</u>	<u>(2,717,653)</u>
Total other financing sources (uses)	<u>(2,673,291)</u>	<u>11,765</u>	<u>-</u>	<u>(11,765)</u>	<u>(2,673,291)</u>
Net change in fund balances	(7,684,831)	370,133	-	(202,047)	(7,516,745)
Fund balance - beginning, as previously reported	6,891,850	(2,218,141)	466,262	4,046,444	9,186,415
Prior period adjustments, Note 14	<u>(1,318)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,318)</u>
Fund balance - beginning of year, as restated	<u>6,890,532</u>	<u>(2,218,141)</u>	<u>466,262</u>	<u>4,046,444</u>	<u>9,185,097</u>
Fund balance - end of year	<u>\$ (794,299)</u>	<u>(1,848,008)</u>	<u>466,262</u>	<u>3,844,397</u>	<u>1,668,352</u>

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

CITY OF PASCAGOULA, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Net change in fund balances - total governmental funds \$ (7,516,745)

Amounts reported for governmental activities in the statement of activities are different than those reported in the fund financial statements because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period:

Capital outlay	2,697,781	
Depreciation expense	<u>(2,914,664)</u>	
Excess of capital outlay over depreciation expense		(216,883)

Governmental funds report the entire net sales price (proceeds) from the sale of an asset as revenue. However, the statement of activities reports only the gain or loss on the sale. Thus, the change in net position differs from the change in fund balance by the net book value of the asset sold. (20,386)

Receivables that do not meet the "measurable and available" criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities they are recognized as revenue when levied or earned. 20,904

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,103,381

The proceeds of new debt is reported as revenue in the governmental funds, but as a long-term liability in the statement of net assets. (1,136,917)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and therefore, are not reported as expenditures in governmental funds. 349,147

Governmental funds report pension contributions as expenditures. However, the Statement of Activities reports pension expense and other activity related to pension liability:

Pension contributions	1,036,660	
Cost of benefits earned net of employee contributions (pension expense from the pension schedule)	<u>(2,349,786)</u>	(1,313,126)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds:

Accrued compensated absences	(7,165)	
Accrued interest payable	(116,912)	
Prepaid expenses	<u>309,802</u>	<u>185,725</u>

Changes in net position of governmental activities \$ (8,544,900)

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

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CITY OF PASCAGOULA, MISSISSIPPI
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2016

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	Enterprise Funds					
	Major Funds					Internal Service Fund
	Pascagoula Utilities Fund	Transfer Station Fund	Energy Recovery Facility Fund	Other Nonmajor Funds	Total Enterprise Funds	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 6,599,719	1,556,774	-	1,686,995	9,843,488	-
Accounts receivable, net	1,038,953	-	-	333,987	1,372,940	-
Due from other funds	93,405	65,828	363	113,864	273,460	-
Prepaid expenses	14,703	-	-	-	14,703	-
Restricted cash and cash equivalents	651,771	-	-	-	651,771	-
Total current assets	8,398,551	1,622,602	363	2,134,846	12,156,362	-
Noncurrent assets:						
Capital assets:						
Land and construction in progress	7,076,316	-	84,751	-	7,161,067	-
Other capital assets, net of accumulated depreciation	26,922,905	246,293	-	-	27,169,198	-
Total noncurrent assets	33,999,221	246,293	84,751	-	34,330,265	-
Total assets	42,397,772	1,868,895	85,114	2,134,846	46,486,627	-
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources related to pensions						
	221,806	-	-	-	221,806	-
Total deferred outflows of resources	221,806	-	-	-	221,806	-
LIABILITIES						
Current liabilities:						
Interfund payable-pooled cash	-	-	494,765	-	494,765	439,755
Accounts payable and accrued liabilities	154,910	-	1,177,627	188,897	1,521,434	175,245
Compensated absences	11,657	-	-	-	11,657	-
Due to other funds	4,545,294	15,014	145,846	363	4,706,517	300,678
Bond obligations	679,021	-	-	-	679,021	-
Notes payable	38,269	-	-	-	38,269	-
Sales tax audit lien	99,577	-	-	-	99,577	-
Total current liabilities	5,528,728	15,014	1,818,238	189,260	7,551,240	915,678
Noncurrent liabilities:						
Deposits	651,771	-	-	-	651,771	-
Compensated absences	27,735	-	-	-	27,735	-
Bond obligations	8,871,646	-	6,126,601	-	14,998,247	-
Notes payable	340,817	-	-	-	340,817	-
Net pension liability	1,403,144	-	-	-	1,403,144	-
Total noncurrent liabilities	11,295,113	-	6,126,601	-	17,421,714	-
Total liabilities	16,823,841	15,014	7,944,839	189,260	24,972,954	915,678

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

CITY OF PASCAGOULA, MISSISSIPPI
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2016

	<u>Enterprise Funds</u>						
	<u>Major Funds</u>					<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
	<u>Pascagoula Utilities Fund</u>	<u>Transfer Station Fund</u>	<u>Energy Recovery Facility Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total Enterprise Funds</u>		
DEFERRED INFLOWS OF RESOURCES							
Unamortized premium on bond	41,708	-	-	-	41,708	-	
Deferred savings on revenue refundings	31,059	-	-	-	31,059	-	
Deferred inflows of resources related to pensions	<u>34,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,475</u>	<u>-</u>	
Total deferred inflows of resources	<u>107,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,242</u>	<u>-</u>	
NET POSITION							
Invested in capital assets, net of related debt	24,069,468	246,293	(6,041,850)	-	18,273,911	-	
Restricted:							
Debt service	-	-	-	333,987	333,987	-	
Group Insurance	-	-	-	-	-	(889,245)	
Unemployment Insurance	-	-	-	-	-	(26,433)	
Unrestricted	<u>1,619,027</u>	<u>1,607,588</u>	<u>(1,817,875)</u>	<u>1,611,599</u>	<u>3,020,339</u>	<u>-</u>	
Total net position	<u>\$ 25,688,495</u>	<u>1,853,881</u>	<u>(7,859,725)</u>	<u>1,945,586</u>	<u>21,628,237</u>	<u>(915,678)</u>	

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

CITY OF PASCAGOULA, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	Enterprise Funds					
	Major Funds					Internal Service Fund
	Pascagoula Utilities Fund	Transfer Station Fund	Energy Recovery Facility Fund	Other Nonmajor Funds	Total Enterprise Funds	
OPERATING REVENUES						
Charges for services	\$ 12,156,320	-	-	1,195,145	13,351,465	-
Property taxes	-	-	-	234,322	234,322	-
Miscellaneous	265,016	-	-	-	265,016	2,926,000
Total operating revenues	12,421,336	-	-	1,429,467	13,850,803	2,926,000
OPERATING EXPENSES						
Personnel services	892,957	-	-	3,779	896,736	-
Insurance claims and expenses	-	-	-	-	-	2,576,853
Administrative expenses	3,472,236	-	-	81,070	3,553,306	-
Wastewater treatment	3,801,382	-	-	-	3,801,382	-
Natural gas purchases	1,071,142	-	-	-	1,071,142	-
Waste collection	-	-	-	1,095,342	1,095,342	-
Waste disposal	-	-	-	32,058	32,058	-
Utilities	629,405	-	-	-	629,405	-
Supplies	606,247	-	-	-	606,247	-
Depreciation	1,807,561	10,669	-	-	1,818,230	-
Other services and charges	387,602	-	-	106,290	493,892	-
Total operating expenses	12,668,532	10,669	-	1,318,539	13,997,740	2,576,853
Operating income (loss)	(247,196)	(10,669)	-	110,928	(146,937)	349,147
NONOPERATING REVENUES (EXPENSES)						
Bond issuance costs	(817)	-	-	-	(817)	-
Interest earnings	27,740	-	-	3,976	31,716	-
Interest expense	(262,549)	-	-	-	(262,549)	-
Transfers in (out)	2,717,653	-	-	-	2,717,653	-
Total nonoperating revenues	2,482,027	-	-	3,976	2,486,003	-
Change in net position	2,234,831	(10,669)	-	114,904	2,339,066	349,147
Total net position - beginning, as previously reported	23,110,596	1,864,550	(7,859,725)	1,830,682	18,946,103	(1,264,825)
Prior period adjustments, Note 14	343,068	-	-	-	343,068	-
Total net position - beginning of year, as restated	23,453,664	1,864,550	(7,859,725)	1,830,682	19,289,171	(1,264,825)
Total net position - end of year	\$ 25,688,495	1,853,881	(7,859,725)	1,945,586	21,628,237	(915,678)

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

CITY OF PASCAGOULA, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	<u>Enterprise Funds</u>					
	<u>Major Funds</u>			<u>Other Nonmajor Funds</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
	<u>Pascagoula Utilities Fund</u>	<u>Transfer Station Fund</u>	<u>Energy Recovery Facility Fund</u>			
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	S 11,812,988	-	363	1,574,888	13,388,239	-
Payments for goods and services	(8,611,516)	-	(363)	(1,129,578)	(9,741,457)	(2,926,000)
Payments to employees	(715,423)	-	-	(3,779)	(719,202)	-
Other receipts (payments)	265,833	-	-	-	265,833	2,926,000
Net cash provided (used) by operating activities	<u>2,751,882</u>	<u>-</u>	<u>-</u>	<u>441,531</u>	<u>3,193,413</u>	<u>-</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Sales tax lien payments	(240,000)	-	-	-	(240,000)	-
Transfers to / from other funds	2,717,653	-	-	-	2,717,653	-
Net cash used in non-capital financing activities	<u>2,477,653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,477,653</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase and construction of capital assets	(5,037,664)	-	-	-	(5,037,664)	-
Principal paid on capital debt	(743,666)	-	-	-	(743,666)	-
Bond issuance costs	(817)	-	-	-	(817)	-
Bond amortization	(81,864)	-	-	-	(81,864)	-
Interest paid on capital debt	(262,549)	-	-	-	(262,549)	-
Net cash used in capital and related financing activities	<u>(6,126,560)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,126,560)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Restricted customer deposits	1,820	-	-	-	1,820	-
Interest received	27,740	-	-	3,976	31,716	-
Net cash provided by investing activities	<u>29,560</u>	<u>-</u>	<u>-</u>	<u>3,976</u>	<u>33,536</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(867,465)	-	-	445,507	(421,958)	-
Cash and cash equivalents:						
Beginning of year	8,118,955	1,556,774	-	1,241,488	10,917,217	-
End of year	<u>S 7,251,490</u>	<u>1,556,774</u>	<u>-</u>	<u>1,686,995</u>	<u>10,495,259</u>	<u>-</u>

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

CITY OF PASCAGOULA, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	<u>Enterprise Funds</u>					<u>Internal Service Fund</u>
	<u>Major Funds</u>				<u>Total Enterprise Funds</u>	
	<u>Pascagoula Utilities Fund</u>	<u>Transfer Station Fund</u>	<u>Energy Recovery Facility Fund</u>	<u>Other Nonmajor Funds</u>		
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>						
Operating income (loss)	\$ (247,196)	(10,669)	-	110,928	(146,937)	349,147
Adjustments to reconcile operating income (loss) to net cash						
Depreciation expense	1,807,561	10,669	-	-	1,818,230	-
(Increase) decrease in						
current assets:						
Accounts receivable	(343,332)	-	-	47,744	(295,588)	-
Due from other	-	-	(363)	97,677	97,314	-
funds	-	-	-	-	817	-
Other assets	817	-	-	-	817	-
Increase (decrease) in						
current liabilities:						
Accounts payable	(132,436)	-	-	184,819	52,383	(349,147)
Due to other funds	1,479,590	-	363	363	1,480,316	-
Other liabilities	187,590	-	-	-	187,590	-
Compensated						
absences	(712)	-	-	-	(712)	-
Net cash provided						
(used) by operating						
activities	<u>\$ 2,751,882</u>	<u>-</u>	<u>-</u>	<u>441,531</u>	<u>3,193,413</u>	<u>-</u>

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

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

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CITY OF PASCAGOULA, MISSISSIPPI
STATEMENT OF FIDUCIARY NET POSITION
September 30, 2016

	<u>Private-Purpose Trust Funds</u>		<u>Agency Funds</u>		<u>Total Fiduciary Funds</u>
	<u>South Mississippi Metro Enforcement Team Fund</u>	<u>Pascagoula Port Commission Fund</u>	<u>Pascagoula Redevelopme nt Authority Fund</u>	<u>Tax Clearing Fund</u>	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	55,692	62,122	2,643	120,457
Property tax receivable	-	-	-	152,698	152,698
Total assets	<u>-</u>	<u>55,692</u>	<u>62,122</u>	<u>155,341</u>	<u>273,155</u>
LIABILITIES					
Due to other governments	-	-	62,122	155,341	217,463
Total liabilities	<u>-</u>	<u>-</u>	<u>62,122</u>	<u>155,341</u>	<u>217,463</u>
NET POSITION					
Restricted for port commission	-	55,692	-	-	55,692
Total net position	<u>\$ -</u>	<u>55,692</u>	<u>-</u>	<u>-</u>	<u>55,692</u>

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

CITY OF PASCAGOULA, MISSISSIPPI
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended September 30, 2016

	<u>Private-Purpose Trust Funds</u>		
	South Mississippi Metro Enforcement Team Fund	Pascagoula Port Commission Fund	Total Fiduciary Funds
ADDITIONS			
Forfeits and seizures	\$ 709,687	-	709,687
Capital contributions	34,784	-	34,784
Rental income	-	1,696	1,696
Interest income	<u>2,578</u>	<u>-</u>	<u>2,578</u>
Total additions	<u>747,049</u>	<u>1,696</u>	<u>748,745</u>
DEDUCTIONS			
Confidential fund expenditures	65,422	-	65,422
Uniforms	2,200	-	2,200
Payments to other governments	<u>894,579</u>	<u>-</u>	<u>894,579</u>
Total deductions	<u>962,201</u>	<u>-</u>	<u>962,201</u>
Change in net position	(215,152)	1,696	(213,456)
Net position - beginning of year	<u>215,152</u>	<u>53,996</u>	<u>269,148</u>
Net position - end of year	<u>\$ -</u>	<u>55,692</u>	<u>55,692</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City was incorporated on September 14, 1896. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, public health and welfare, culture, recreation and water, sewer and gas system.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units, hereinafter referred to as GAAP (generally accepted accounting principles). The accepted standard-setting body of establishing governmental accounting and financial reporting principles is GASB (the Governmental Accounting Standards Board).

The City does not have any component units as defined by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*.

B. Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to function in the statement of activities. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows/inflows, liabilities, net position/fund equity, revenues, and expenditures/expenses. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and deferred outflows of resources and its liabilities and deferred inflows of resources as fund balance.

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CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The proprietary funds are classified as enterprise funds.

Fiduciary funds are those used to account for funds held by the City in trust for others that cannot be used to support the City's programs.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are a least 10 percent of the corresponding total for all funds of that category or type, and
2. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is a least 5 percent of the corresponding total for all governmental and enterprise funds combined.
3. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

Major Governmental Funds

- ◆ General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- ◆ Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes, (other than debt service or capital projects). Currently, there are two major special revenue funds, the Community Development Fund and the Hurricane Katrina Fund. These funds separately identify transactions incurred for the specific purposes of enhancing the community and hurricane restoration efforts, respectively.

Major Enterprise Funds

- ◆ Pascagoula Utilities Fund accounts for operations of the City's water, sewer, and gas system.
- ◆ Transfer Station Fund accounts for operations of the transfer station.
- ◆ Energy Recovery Facility Fund accounts for operations of the energy recovery facility.

Non-Major Governmental Funds

Other Non-major governmental funds is a summarization of all of the non-major governmental including:

- ◆ Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes, (other than debt service or capital projects).
- ◆ Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of general long-term debt principal, interest and related costs, other than enterprise debt. Currently, there is one debt service fund, the General Obligation Debt Service Fund.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ◆ Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). During the year ended September 30, 2016, the City had four capital project funds: the ISTEА-Capital Projects Fund, ISTEА-Orchard Road Fund, Bond Capital Improvements Fund and the Capital Projects Fund.

Non-Major Enterprise Fund

- ◆ Solid Waste Management Fund accounts for operations of the solid waste operations.

In addition, the City reports the following fund types:

- ◆ Internal Service Funds are used to account for the financing of goods or services provided by one department/agency to other departments/agencies of the City, or to other governments on a cost reimbursement basis. The City's internal service funds are the Group Insurance Fund and Self-funded Unemployment Insurance Fund

Fiduciary Funds

- ◆ Fiduciary fund types include the private-purpose trust funds (Pascagoula Port Commission Fund and South Mississippi Metro Enforcement Team Fund) and the agency funds (Pascagoula Redevelopment Authority Fund and Tax Clearing Fund). These funds are used to account for assets held by the City in a trustee capacity for individuals, other governments, and/or other funds and are accounted for in essentially the same manner as Proprietary Funds. Private-purpose Trust funds account for resources that are required to be held in trust for the benefit of the respective entities. Agency funds are generally used to account for miscellaneous assets that the government holds on behalf of others. Agency funds are custodial in nature and do not present results of operations.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

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CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Intergovernmental aids and grants are recognized as revenues in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and unearned revenues. Amounts received prior to the entitlement period are also recorded as unearned revenues.

The City reports unearned revenues on its governmental funds balance sheet. Unearned revenues arise from taxes levied in the current year which are for subsequent year's operations. For governmental fund financial statements, unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

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

D. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balances

Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. All cash and cash equivalents are reported at their carrying amounts, which reasonably approximates fair value.

Receivables

All trade receivables are reported net of an allowance for uncollectible amounts, where applicable. Unbilled charges are accrued as receivables and revenue at September 30, 2016.

Allowance for Uncollectible Amounts

An allowance for uncollectible amounts relates to the estimated uncollectible balance of the revenues earned or accrued that have been included in accounts receivable at year end. An allowance is recorded on receivable balances based on historical bad debt experience related to the nature of each receivable balance.

Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/interfund payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items, such as prepaid insurance, are not reported for Governmental Fund Types since the costs of such items are accounted for as expenditures in the period of acquisition.

Capital Assets

General capital assets are those capital assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the governmental fund financial statements. Capital position utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

Capital assets purchased or acquired with an original cost of \$5,000 or more (\$50,000 for improvements) are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Water and sewer system	30-35 years
Machinery and equipment	7-10 years
Improvements	30-35 years
Other infrastructures	10-60 years
Vehicles	5 years

Compensated Absences

Vacation benefits and sick leave are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. All compensated absences liabilities include salary-related payments, where applicable.

The City accrues accumulated unpaid vacation leave at the end of the fiscal year. The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated absence liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only "when due". The non-current portion (the amount estimated to be used beyond the next fiscal year) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to two years generally. Upon termination, any accumulated vacation will be paid to the employee. Any earned vacation hours in excess of 240 hours is certified and sent to the Public Employees Retirement System (PERS). Sick leave is not paid upon termination, however, any unused sick time is also certified and sent to PERS.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Capital leases are recognized as a liability in the governmental fund financial statements when due.

Debt Premiums, Discounts and Issuance Costs

On the government-wide and proprietary fund type statement of activities, unamortized debt premiums and discounts, are deferred and amortized over the life of the debt using the straight-line method that approximates the effective interest method. Debt issuance costs are expenses as incurred.

At the governmental fund reporting level, debt fund reporting level, debt premiums and discounts are reported as other financing sources and uses, separately from the face amount of the debt issued. Debt issuance costs are reported as debt service expenditures.

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 Mississippi Public Employees' Retirement System and additions to/deductions from the Systems' fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has a deferred outflow which is presented as a deferred outflow of resources related to bond charges and pension obligations.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The City has a deferred inflow which is presented as a deferred inflow of resources related to bonds and pension obligations.

Net Position/Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the Government-Wide financial statements, the difference between the City's total assets and deferred outflows of resources, total liabilities and deferred inflows of resources represents net position. Net position displays three components:

- ◆ Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, constructions or improvement of those assets.
- ◆ Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.
- ◆ Unrestricted net position - All other net position not meeting the definition of "restricted" or "invested in capital assets, net of related debt." Unrestricted net position represents the net position available for future operations.

Generally, governmental fund balances represent the difference between assets and deferred outflows of resources, liabilities and deferred inflows of resources. Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- ◆ Nonspendable - Includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.
- ◆ Restricted - Includes amounts that have constraints placed upon the use of the resources either by external party or imposed by law through a constitutional provision or enabling legislation.
- ◆ Committed - Includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the City's Council as approved in the board minutes.
- ◆ Assigned - Includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent can be expressed by the City's Council or by an official or body to which the City's Council delegates the authority. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed.
- ◆ Unassigned - Is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City has various restrictions placed over certain revenue sources from federal, state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source:</u>	<u>Legal Restrictions in Use:</u>
Sales Tax	Sewer Rehabilitation Notes
Gasoline Excise & Commercial Vehicle Tax	Street and Road purposes
Water, Sewer and Gas Revenue	Debt Service and Utility Operations
Cemetery Revenue	Cemetery Capital Improvements
Grant Program Expenditures	Grant agreements
Ad Valorem Tax	Debt Service

For the year ended September 30, 2016, the City complied, in all material respects, with these revenue restrictions.

Net position restricted through enabling legislation consists of \$4,627,505 for purposes as indicated in the government-wide statement of net position.

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

The City does not have a minimum fund balance policy.

Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and unearned revenue by the recipient.

Expenditures

Expenditures are recognized when the related fund liability is incurred.

Internal Activity

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund from which expenditures were initially made that are properly applicable to another fund are recorded as expenditures in the fund that is reimbursed. Outstanding reimbursements are recorded as due to or from other funds. Net receivables or payables from other funds are reported as internal balances in the government-wide statement of net position.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

New GASB Pronouncements

The Governmental Accounting Standards Board has issued several new pronouncements that the City has reviewed for application to their accounting and reporting.

GASB Statement No. 72, *Fair Value Measurement and Application*, is effective for the periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City has implemented this reporting requirement for the year ended September 30, 2016.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68, and Amendments to certain Provisions of GASB 67 and 68*, is effective for the periods beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The City has implemented this reporting requirement for the year ended September 30, 2016.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is effective for the periods beginning after June 15, 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The City has implemented this reporting requirement for the year ended September 30, 2016.

NOTE 2. DEPOSITS

State law requires that all deposits in excess of FDIC insurance limits be 105% collateralized by U.S. Government obligations or by state municipal obligations that have a fair value of not less than the principal amount of the deposits. The collateral for public entities' deposits in financial institutions are 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 FDIC.

At year-end, the carrying amount of the City's deposits was \$9,689,256, and the respective bank balances totaled \$10,869,571.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 2. DEPOSITS (continued)

The City's deposits were fully insured or collateralized as required by statute at September 30, 2016.

The City's policies regarding deposits of cash are discussed in Note 1 D. The City deposits funds in financial institutions selected by the City's Council in accordance with Mississippi statutes. The approved city depositories for the 2015-2016 calendar years are Merchants & Marine Bank and The First.

Deposits at September 30, 2016, (including restricted deposits) are as follows:

Deposits	Bank Balances	Total Carrying Value
Pooled deposits:		
Cash and cash equivalents	\$ 9,971,075	8,789,979
Non-pooled deposits:		
Cash and cash equivalents:		
Payroll fund	803,527	801,986
Municipal court fund	64,439	66,761
SMMET	30,530	30,530
Cash drawer	-	600
	\$ 10,869,571	9,689,856
Reconciliation to government-wide statement of net assets:		
Restricted cash		\$ 651,771
Unrestricted cash		9,038,085
		\$ 9,689,856

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The City does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Depositories must be insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in an amount equal to 105% of the uninsured deposit. The City's policies regarding legal requirements of deposits are discussed above.

A. Restricted Cash

The amounts reported as restricted assets are cash and accrued interest held by the trustee bank on behalf of the various public trusts (authorities) related to their required note payable accounts and amounts held in trust for customer utility meter deposits.

The restricted assets as of September 30, 2016, are as follows:

Restricted Assets	Cash Including Time Deposits
Business-type activities:	
Customer deposits	\$ 651,771
Total business-type activities	\$ 651,771

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2016, consisted of the following:

<u>Functions/Programs</u>	<u>Accounts Receivable</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net Accounts Receivable</u>
Governmental activities:			
General Fund:			
Ad valorem taxes	\$ 65,757	-	65,757
Franchise taxes	471,077	-	471,077
Sales tax	442,904	-	442,904
Grants	31,703	-	31,703
Police court fines	27,819,209	27,356,116	463,093
Other	117,447	-	117,447
	<u>28,948,097</u>	<u>27,356,116</u>	<u>1,591,981</u>
Special Revenue:			
Other	7,508	489	7,019
Debt Service:			
Ad valorem taxes	8,701	-	8,701
Community Development Fund:			
Grants	289,552	-	289,552
Total governmental activities	<u>\$ 29,253,858</u>	<u>27,356,605</u>	<u>1,897,253</u>
Business-type activities:			
Water, sewer and gas services	\$ 2,623,134	1,584,181	1,038,953
Solid waste management	333,987	-	333,987
Total business-type activities	<u>\$ 2,957,121</u>	<u>1,584,181</u>	<u>1,372,940</u>

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CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016, was as follows:

<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,916,341	185,870	(20,386)	13,081,825
Construction in progress	8,986,560	977,439	(2,789,550)	7,174,449
Total capital assets not being depreciated	<u>21,902,901</u>	<u>1,163,309</u>	<u>(2,809,936)</u>	<u>20,256,274</u>
Capital assets being depreciated:				
Buildings	8,681,874	-	-	8,681,874
Improvements - other	25,892,083	3,555,617	-	29,447,700
Infrastructure	43,737,482	-	-	43,737,482
Equipment	10,886,755	768,403	-	11,655,158
Total capital assets being depreciated	<u>89,198,194</u>	<u>4,324,020</u>	<u>-</u>	<u>93,522,214</u>
Less accumulated depreciation for:				
Buildings	4,773,366	265,680	-	5,039,046
Improvements - other	3,890,184	1,086,899	-	4,977,083
Infrastructure	22,277,036	831,675	-	23,108,711
Equipment	8,615,890	730,410	-	9,346,300
Total accumulated depreciation	<u>39,556,476</u>	<u>2,914,664</u>	<u>-</u>	<u>42,471,140</u>
Total capital assets being depreciated, net	<u>49,641,718</u>	<u>1,409,356</u>	<u>-</u>	<u>51,051,074</u>
Total governmental activities	<u>\$ 71,544,619</u>	<u>2,572,665</u>	<u>(2,809,936)</u>	<u>71,307,348</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 84,751	-	-	84,751
Construction in progress	2,075,482	5,000,834	-	7,076,316
Total capital assets not being depreciated	<u>2,160,233</u>	<u>5,000,834</u>	<u>-</u>	<u>7,161,067</u>
Capital assets being depreciated:				
Buildings	8,369,385	-	-	8,369,385
Infrastructure and improvements - other	57,368,882	-	-	57,368,882
Equipment	6,762,953	36,830	-	6,799,783
Total capital assets being depreciated	<u>72,501,220</u>	<u>36,830</u>	<u>-</u>	<u>72,538,050</u>
Less accumulated depreciation for:				
Buildings	3,642,412	374,973	-	4,017,385
Infrastructure and improvements - other	33,404,387	1,345,116	-	34,749,503
Equipment	6,503,823	98,141	-	6,601,964
Total accumulated depreciation	<u>43,550,622</u>	<u>1,818,230</u>	<u>-</u>	<u>45,368,852</u>
Total capital assets being depreciated, net	<u>28,950,598</u>	<u>(1,781,400)</u>	<u>-</u>	<u>27,169,198</u>
Total business-type activities	<u>\$ 31,110,831</u>	<u>3,219,434</u>	<u>-</u>	<u>34,330,265</u>

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 4. CAPITAL ASSETS (continued)

A summary of construction-in-progress transactions for the year ended September 30, 2016, follows:

<u>Construction In-Progress</u>	<u>Expended through September 30, 2016</u>	<u>Remaining Commitment</u>
Governmental activities:		
Beachfront Promenade Project	\$ 1,671,825	3,766,356
FY 2014 CDBG Community Garden	50,750	8,640
FY 2014 CDBG BB Jennings	16,245	73,755
Lowry Island Project	3,587,928	191,000
Round Island Lighthouse Project	1,652,890	33,772
Safe Routes to School-Jackson Elementary	65,026	198,975
Safe Routes to School-Beach Elementary	36,545	103,445
MCC Park Improvements	23,241	46,759
Recreation Center Improvements	69,999	43,270
Total governmental activities	<u>\$ 7,174,449</u>	<u>4,465,972</u>
Business-type Activities:		
Cherokee Forest - Bond	\$ 2,507,343	595,977
DeSoto Street - Bond	431,573	65,805
Drainage Improvement-Holland (Bond)	1,890,179	552,720
Drainage Improvement-Washington (Bond)	140,237	1,144,054
1020 Eastwood Drainage (Bond)	148,864	10,536
Hospital Road Widening	379,016	222,114
Market Street (Bond)	160,648	429,447
Grant Avenue (Bond)	29,478	20,522
SPAP Sewer Rehabilitation Project	1,388,978	337,945
Total business-type activities	<u>\$ 7,076,316</u>	<u>3,379,120</u>

Depreciation expense was charged to programs for the year ended September 30, 2016 as follows:

<u>Functions/Programs</u>	<u>Depreciation Expense</u>
Governmental activities:	
General government	<u>\$ 2,914,664</u>
Business-type activities:	
Water, sewer and gas fund	\$ 1,807,561
Transfer station	10,669
Total business-type activities	<u>\$ 1,818,230</u>

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CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5. LONG-TERM LIABILITIES

The City's long-term liabilities are segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Long-term liability activity for the year ended September 30, 2016, is shown below:

<u>Long-Term Liabilities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Debt obligations:					
General obligation debt	\$ 10,315,000	-	715,667	9,599,333	730,978
Notes payable	2,513,486	-	-	2,513,486	93,579
Capital leases	<u>419,826</u>	<u>1,136,917</u>	<u>387,714</u>	<u>1,169,029</u>	<u>324,550</u>
Total debt obligations	<u>13,248,312</u>	<u>1,136,917</u>	<u>1,103,381</u>	<u>13,281,848</u>	<u>1,149,107</u>
Other liabilities:					
Compensated absences	809,757	-	19,318	790,439	61,411
Net pension liability	<u>28,365,977</u>	<u>3,886,971</u>	-	<u>32,252,948</u>	-
Total other liabilities	<u>29,175,734</u>	<u>3,886,971</u>	<u>19,318</u>	<u>33,043,387</u>	<u>61,411</u>
Total governmental activities	<u>\$ 42,424,046</u>	<u>5,023,888</u>	<u>1,122,699</u>	<u>46,325,235</u>	<u>1,210,518</u>
Business-type activities:					
Debt obligations:					
Water and sewer bonds	\$ 10,220,000	-	669,333	9,550,667	679,021
Water and sewer notes payable	453,419	-	74,333	379,086	38,269
Energy Recovery Facility (ERF)	<u>6,126,601</u>	-	-	<u>6,126,601</u>	-
Total debt obligations	<u>16,800,020</u>	-	<u>743,666</u>	<u>16,056,354</u>	<u>717,290</u>
Other liabilities:					
Compensated absences	40,104	-	712	39,392	11,657
Net pension liability	1,170,647	232,497	-	1,403,144	-
Sales tax audit lien	<u>339,577</u>	-	<u>240,000</u>	<u>99,577</u>	<u>99,577</u>
Total other liabilities	<u>1,550,328</u>	<u>232,497</u>	<u>240,712</u>	<u>1,542,113</u>	<u>111,234</u>
Total business-type activities	<u>\$ 18,350,348</u>	<u>232,497</u>	<u>984,378</u>	<u>17,598,467</u>	<u>828,524</u>

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5. LONG-TERM LIABILITIES (continued)

A. Bonds Payable

At September 30, 2016, the City's outstanding bonds payable are described as follows:

<u>Bond Obligations</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Rates</u>	<u>Original Issue</u>	<u>Balance September 30, 2016</u>
Governmental activities:					
General obligation bonds:					
2006 General Obligation Refunding Bonds	11/7/2006	11/1/2023	3.53% - 4.20%	\$ 4,255,000	1,930,000
General Obligation Bonds, Series 2014	12/1/2014	4/1/2034	1.31% - 3.2% ⁰	8,000,000	<u>7,669,333</u>
Total governmental activities					<u>\$ 9,599,333</u>
Business-type activities:					
Revenue refunding bonds:					
2012 Combined Water & Sewer System Revenue Refunding Bonds	11/8/2012		2.00% - 2.50%	\$ 4,160,000	2,840,000
Revenue bonds:					
1981 Incinerator System Revenue Bonds	1/1/1981			6,430,000	5,626,601
1983 Incinerator System Revenue Bonds	1/1/1981			500,000	500,000
Special Revenue Bonds, Series 2014,	12/1/2014	4/1/2034	1.48%	7,000,000	<u>6,710,667</u>
Total business-type activities					<u>\$ 15,677,268</u>

The annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities - Bonds</u>			
	<u>Bonds</u>		<u>Water, Sewer and Gas</u>		<u>Incinerator/ERF</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 730,979	193,795	679,021	157,713	-	-
2018	753,979	192,309	696,022	162,337	-	-
2019	769,312	182,874	705,686	153,566	-	-
2020	787,311	167,595	722,689	148,419	-	-
2021	432,977	203,987	742,023	230,837	-	-
2022-2126	6,124,775	1,329,999	2,580,125	852,239	-	-
2027-2036	-	-	3,425,101	332,832	-	-
suspended	-	-	-	-	6,126,601	1,177,627
Total	<u>\$ 9,599,333</u>	<u>2,270,559</u>	<u>9,550,667</u>	<u>2,037,943</u>	<u>6,126,601</u>	<u>1,177,627</u>

General Obligation Bonds

General obligation debt represents direct obligations issued on a pledge of the general taxing power of the City for the payment of its debt obligations

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The governmental activities bonds are generally repaid from ad valorem taxes through the debt service funds.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5. LONG-TERM LIABILITIES (continued)

Revenue Refunding Bonds

On November 8, 2012 the City issued \$4,160,000 in revenue refunding bonds with an average interest rate of 2.15% to refund \$4,138,532 in outstanding general obligation bonds accounted for as business-type activities, with an average interest rate of 3.00% - 4.00%. The refunding was undertaken to take advantage of favorable interest rates. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of 4.026%.

Revenue Bonds

In 1979, the U.S. Department of Commerce, National Oceanic and Atmospheric Administration (NOAA) purchased the City of Pascagoula, Mississippi's 6% Incinerator System Revenue Bonds, the proceeds of which were used in prior years for the construction of a resource recovery facility. Incinerator System Revenue Bonds debt service is payable solely from revenues from system operation. System revenues are derived from tonnage charges for garbage dumping and from sale of generated steam through a contract with a single commercial customer. Terms of that contract tie the price to be paid for steam to the price of natural gas. The price of natural gas has declined substantially, resulting in a decline in system revenues. Accordingly, the system has not produced sufficient revenues to meet maturing revenue bond principal and interest, or to meet required "cushion" accumulations. For the fiscal year ended September 30, 2016, the principal balance was \$6,126,601. NOAA, the U.S. Department of Commerce, and the City entered into an agreement as of November 18, 1992, which provided for the following loan modifications:

- ◆ The City's obligation to make principal and interest payments was suspended through December 31, 1996.
- ◆ Interest accruals were suspended until at least January 1998. Income generated by the system was to be re-evaluated in 1997 to determine whether it was sufficient to reinstate the payment of interest.
- ◆ Beginning in 1997, 50% of net income before depreciation was to be paid on the obligation, which consisted of \$6,920,000 principal and \$2,832,960 interest accrued to November 18, 1992, plus any interest subsequently reinstated.
- ◆ All remaining net income is to be placed in a reserve for equipment replacement, the use of which requires prior written approval of NOAA. Upon execution of the agreement, NOAA authorized the use of reserve funds for necessary repairs.

Due to the closure of the Transfer Station in December of 2012, the Incinerator System did not incur operating income or expense in fiscal year 2016. Therefore, based on the terms of the agreement with NOAA, no payment is due for the year ended September 30, 2016.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5. LONG-TERM LIABILITIES (continued)

B. Notes Payable

At September 30, 2016, the City's outstanding notes payable are described as follows:

<u>Notes Payable</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Rates</u>	<u>Original Issue</u>	<u>Balance September 30, 2016</u>
Governmental activities:					
2006 Unsecured community disaster loan	1/20/2006	9/30/2035	2.72%	\$ 4,461,387	<u>2,513,486</u>
Total governmental activities					<u><u>\$ 2,513,486</u></u>
Business-type activities:					
2011 State Revolving Fund Loan	5/6/2011	1/15/2017	2.00%	\$ 249,065	18,571
2013 State Revolving Fund Loan	1/1/2013	9/1/2032	1.75%	429,865	<u>360,515</u>
Total business-type activities					<u><u>\$ 379,086</u></u>

Principal and interest maturities will be as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Notes Payable</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 93,579	63,934	\$ 38,269	6,798
2018	96,124	61,319	20,046	5,881
2019	98,738	58,634	20,370	5,450
2020	101,424	55,875	20,729	5,091
2021	104,183	53,041	-	4,724
2022-2126	564,994	219,926	132,539	17,898
2027-2036	<u>1,454,444</u>	<u>177,860</u>	<u>147,133</u>	<u>7,966</u>
Total	<u><u>\$ 2,513,486</u></u>	<u><u>690,589</u></u>	<u><u>379,086</u></u>	<u><u>53,808</u></u>

Community Disaster Loans

In fiscal year 2006, the City borrowed \$7,757,433 from the U.S. Department of Homeland Security (FEMA) under the Special Community Disaster Loan (SCDL) program. This is a shortfall note payable, and its purpose was to provide funds for a shortfall in the local budget that was caused because of damages to properties and tax assessments and related tax collection as a result of Hurricane Katrina in August 2005. Payments on the notes were deferred for a five-year period. On February 27, 2011, Pursuant to HR 2206 - Public Law 110-28, FEMA forgave \$2,942,496 and associated interest of \$411,116, of the City's Community Disaster Loans.

In June 2014, the City was notified by FEMA of debt cancellation for the remaining portion of the enterprise activity balance. The City's Special Community Disaster Loan, with a principal balance of \$352,689 outstanding as of September 30, 2013, was fully cancelled. During fiscal year 2015, the City's remaining SCDL principal balance within the governmental funds was partially cancelled by the amount of \$1,118,804. The principal balance of \$2,513,486 remains outstanding as of September 30, 2016.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5. LONG-TERM LIABILITIES (continued)

C. Capital Leases

The City has entered into several capital leasing agreements as of September 30, 2016. At September 30, 2016, the City's outstanding capital leases are described as follows:

<u>Capital Leases</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Rates</u>	<u>Original Issue</u>	<u>Annual Installment</u>	<u>Balance September 30, 2016</u>
Governmental activities:						
Capital lease payable to Tax-Exempt Leasing Corp., secured by a 2012 E-One HP78 Aerial Fire Truck	8/15/2011	8/15/2018	3.49%	\$ 681,989	104,100	211,832
Capital lease payable to Ford Motor Credit Co., secured by a 2013 Ford F150 Police Vehicle	1/14/2013	12/2/2016	5.95%	27,154	1,883	1,883
Capital lease payable to Key Government Finance, Inc., secured by Cisco network equipment	11/17/2015	2/17/2018	0%*	177,813	59,271	118,542
Capital lease payable to Ford Motor Credit Co., secured by 5 2016 Ford Explorer police cars	12/16/2015	12/16/2017	6.00%	147,055	48,963	48,963
Capital lease payable to Government Capital Corporation, secured by police emergency management software	4/15/2016	10/15/2019	3.25%	743,369	137,723	743,369
Capital lease payable to Ford Motor Credit Co., secured by a Ford F150 and 2 police cars	5/31/2016	5/31/2018	6.00%	68,680	21,573	44,440
Total governmental activities						<u>\$ 1,169,029</u>

*Interest is not paid by the City of Pascagoula, Mississippi.

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

<u>Year Ending September 30,</u>	<u>Future Minimum Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
Governmental activities:		
2017	\$ 324,550	26,827
2018	434,296	30,027
2019	201,813	13,327
2020	208,370	6,770
2021	-	-
Total governmental activities	<u>\$ 1,169,029</u>	<u>76,951</u>

As of September 30, 2016, the cost of the vehicles and equipment under capital leases for governmental activities was \$1,286,898 and accumulated depreciation for those assets was \$644,154. Annual amortization expense is included in depreciation expense.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5. LONG-TERM LIABILITIES (continued)

D. Legal Debt Margin

Per Section 21-33-303 Miss. Code Ann. (1972), the City cannot issue bonds in an amount which, when added to the then outstanding bonded indebtedness of the City shall exceed fifteen percent of the assessed value of taxable property according to the last completed assessment for taxation. In computing bonded indebtedness, there may be deducted all bonds issued for school, water, sewage systems, gas light and power purposes. However, in no case shall the total indebtedness exceed twenty percent of all assessed value of the property.

At September 30, 2016, based on the assessed valuations as of August 31, 2016 of \$225,803,731, the constitutional total general obligation debt limit for "City purposes" was \$45,160,746, which after reduction for outstanding bonds of \$25,276,601, outstanding notes payable of \$2,892,572, outstanding capital leases of \$1,169,029, provides a general obligation debt margin of \$15,822,544.

NOTE 6. INTERFUND BALANCES

Interfund balances at September 30, 2016, consisted of the following:

DUE FROM:	DUE TO:							Total
	Governmental Activities			Business-type Activities				
	General Fund	Hurricane Katrina Fund	Other Governmental Funds	Water, Sewer and Gas Fund	Transfer Station Fund	Energy Recovery Facility Fund	Other Enterprise Funds	
Governmental activities:								
General Fund	\$ 2,318,405	-	781,323	9,753	4,180	-	-	3,113,661
Community Development Fund	1,835,650	-	-	-	-	-	-	1,835,650
Hurricane Katrina Fund	5,061,545	-	-	-	-	-	-	5,061,545
Other governmental funds	352,852	78,779	-	-	-	-	-	431,631
Internal service funds	300,678	-	-	-	-	-	-	300,678
Business-type activities:								
Water, Sewer and Gas	4,391,430	-	40,000	-	-	-	113,864	4,545,294
Transfer Station	15,014	-	-	-	-	-	-	15,014
Energy Recovery Fund	546	-	-	83,652	61,648	-	-	145,846
Other enterprise funds	-	-	-	-	-	363	-	363
Total	<u>\$ 14,276,120</u>	<u>78,779</u>	<u>821,323</u>	<u>93,405</u>	<u>65,828</u>	<u>363</u>	<u>113,864</u>	<u>15,449,682</u>

Interfund balances resulted from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 7. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2016 are as follows:

	TRANSFERS IN:					Total
	Governmental Activities			Business-type Activities		
	General Fund	Community Development Funds	Other Governmental Funds	Water, Sewer and Gas Fund	Other Enterprise Funds	
TRANSFERS OUT:						
Governmental activities:						
General fund	\$ -	-	-	2,717,653	-	2,717,653
Other governmental funds	-	11,765	-	-	-	11,765
Total	<u>\$ -</u>	<u>11,765</u>	<u>-</u>	<u>2,717,653</u>	<u>-</u>	<u>2,729,418</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires collecting to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

NOTE 8. PROPERTY TAX

Property tax is levied on the assessed (appraised) value as compiled by the Jackson County Tax Assessor for all real and business personal property located in the City. The assessment roll is approved and the levy is set before September 30 following a series of public hearings to receive citizen objections. Resulting taxes are due on or before February 1. Installment payments are accepted on or before February 1, May 1, and July 1. An inter-local government agreement effective October 1, 1989, provided for billing and collection of City and Pascagoula School District taxes by Jackson County, Mississippi.

Included in revenues are taxes for automobile tags, which are assessed and collected by Jackson County. Such taxes, less a collection fee, are remitted to the City monthly.

Property tax revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue.

Increases in taxes are generally limited by State law to 10% of the taxes collected for the prior assessment year, excluding taxes from property added to the tax assessment rolls in the current year.

The City is required by law to assess and collect taxes necessary for operation of the Pascagoula School District (PSD) and for service of certain related debt. PSD provides services to residents of inside and outside the geographic boundaries of the City and has a separate appointed and/or elected board. The school district is not included as a component unit of the City's financial reporting entity because the City does not have the ability to exercise control over school operations or approve budgets. A similar situation exists with the Jackson-George Regional Library System, who receives a portion of the City's tax levy for library operation.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 8. PROPERTY TAX (continued)

For the year ended September 30, 2016, the City's 2016 tax rate was as follows:

Ad Valorem Tax Levy	MILLS
<u>For the Municipality:</u>	
General Fund	32.17
Firemen and Policemen Disability and Relief Fund	3.00
Library	1.14
City Bonds and Interest	4.74
Garbage	1.00
<u>For the Pascagoula-Gautier School District:</u>	
Pascagoula-Gautier School District Operations	45.88
Total levy of ad valorem taxes for municipal and school district purposes	87.93

NOTE 9. PENSIONS

A. Defined Benefit Pension Plan

Plan Description

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

Benefits Provided

Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 9. PENSIONS (continued)

in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions

PERS members are required to contribute 9.00% of their annual covered salary and the City of Pascagoula, Mississippi is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2016 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature.

The City of Pascagoula, Mississippi's contribution to PERS for the year ended September 30, 2016, 2015, and 2014 was \$1,643,481, \$1,607,812, and \$1,634,716 respectively, which equal to the required contributions for each year.

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

At September 30, 2016, the City reported a liability of \$28,579,995 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the City's proportion was 0.16 percent, which did not change from its proportion measured as of June 30, 2015.

For the year ended September 30, 2016, the City recognized pension expense of \$3,147,254. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Annual Changes</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 797,145	-
Net difference between projected and actual earnings on pension plan investments	1,936,155	-
Changes of assumptions	1,347,323	75,946
Changes in proportion and differences between the City contributions and proportionate share of contributions	-	626,258
The City contributions subsequent to the measurement date	437,775	-
Total	<u>\$ 4,518,398</u>	<u>702,204</u>

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 9. PENSIONS (continued)

\$437,775 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Pension Expense
2017	\$ 1,035,043
2018	771,133
2019	1,007,666
2020	564,577
2021	-
Total	\$ 3,378,419

Actuarial assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75-19.00%, average, including inflation
Investment rate of return	7.75%, net of pension plan investments expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table with Scale BB to 2016, set forward one year for males.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016, 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 %	

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 9. PENSIONS (continued)

Discount Rate

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

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
The City's proportionate share of the net pension liability	\$ 36,645,962	28,579,995	21,887,858

Pension plan fiduciary net position

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

B. Pension Plan - Municipal Retirement Systems and Firemen and Policemen Disability and Relief Fund

Plan Description

The Municipal Retirement Systems and Fire and Police Disability and Relief Fund (MRS or the Plan) is an agent multiple-employer defined benefit pension plan comprised of municipal employee plans from around the State of Mississippi for municipal employees, firefighters, and police officers serving in the participating municipalities. The Public Employees' Retirement System of Mississippi (PERS), in coordination with the governing authorities of the respective municipalities, has administered these plans since July 1, 1987. Membership in the two general municipal employee plans and the 17 fire and police disability and relief systems under MRS was granted to all municipal employees, fire fighters, and police officers who were not already members of PERS and who were hired prior to July 1, 1976. Two fire and police plans elected to extend the eligibility period for membership to July 1, 1987. All MRS plans were closed to new members by July 1, 1987. Eligible employees hired after July 1, 1987, automatically become members of PERS.

Members covered by MRS are required to contribute varying amounts of their salary, depending on the actuarial soundness of their respective plans. Each employer contributes the remaining amounts necessary to finance participation of its own employees in MRS. Plan provisions are established by Mississippi Code Ann. § 21-29-1 et seq., Articles 1, 3, 5, and 7, (1972, as amended), and annual local and private legislation. Statutes may be amended only by the Mississippi Legislature. The Plan is included in the PERS Comprehensive Annual Financial Report (CAFR) as part of the pension trust funds. The System's most recent CAFR for the year ended June 30, 2016 should be read in conjunction with these financial statements.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 9. PENSIONS (continued)

Benefits Provided

Regardless of age, participating employees who retire with at least twenty years of membership service are entitled to an annual retirement allowance payable monthly for life in an amount equal to 50.0 percent of their average monthly compensation and to an additional 1.7 percent for each year of creditable service beyond 20 years, not to exceed 66.67 percent of average monthly compensation, except as may otherwise be provided through local and private legislation. Average monthly compensation for the MRS plans is the monthly average for the last six months of service. Certain participating employers provide a minimum monthly retirement allowance. Benefits vest upon reaching twenty years of membership service. MRS plans also provide certain death and disability benefits. Members who terminate employment from all covered employers and are not eligible to receive monthly retirement benefits may request a full refund of employee contributions. Members covered by MRS do not receive interest on their accumulated contributions. Upon withdrawal of contributions, a member forfeits service credit represented by those contributions.

The retirees and beneficiaries of MRS plans with provisions for a Cost-of-Living Adjustment (COLA) who are receiving a retirement allowance on July 1 of each fiscal year may be entitled to a COLA. This payment is equal to the annual percentage change of the Consumer Price Index (CPI) but not to exceed 2.5 percent of the annual retirement allowance for each full fiscal year of retirement. Certain MRS plans may adopt a COLA other than one linked to the change in the CPI. These additional payments will be made only when funded by the employers. For the year ended June 30, 2016, the total COLAs for MRS plans were \$5,533,876.

Administration of the Plan

The Plan is administered as an agent multiple-employer defined benefit pension plan by PERS, in coordination with the governing authorities of the respective municipalities.

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms:

	Number
Inactive members or their beneficiaries currently receiving benefits	72
Inactive members entitled to but not yet receiving benefits	-
Active members	-
Total	72

Contributions

Each plan has an established employee contribution rate. Employer contributions in each municipality are paid through an annual millage rate on the assessed property values in that municipality. These millage rates are determined through reviews of each plan's benefit structure during the MRS annual actuarial valuation and certifications by the actuary as to the funding level required of each participating municipality. For the year ended September 30, 2016, the City's millage rate for the Firemen and Policemen Disability and Relief Fund was 3.00 mills. The City's contributions to the plan for the year ended September 30, 2016, 2015, 2014 was \$706,304, \$695,520, and \$789,347 respectively, which equal to the required contributions for each year.

Service credit is awarded for employment in a covered position based on the number of months a member works during a fiscal year. All wages and contributions must be properly reported before service credit can be awarded.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 9. PENSIONS (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50-6.00%, including inflation
Investment rate of return	8.00%, net of pension plan investments expense, including inflation

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for the fiscal year ended September 30, 2016 were based on the June 30, 2014 actuarial valuation.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that there would be no employee contributions due to the Plan being closed to new entrants and that employer contributions will be made at the current actuarially determined contribution rates. 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 inactive employees. 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.

Changes in the Net Pension Liability

<u>Annual Changes</u>	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (Asset) (a) - (b)</u>
Balances at June 30, 2015	\$ 12,675,799	7,872,019	4,803,780
Changes for the year:			
Service cost	-	-	-
Interest	928,517	-	928,517
Changes of assumptions	-	-	-
Difference between expected and actual experience	119,699	-	119,699
Contributions - employer	-	706,304	(706,304)
Contributions - employee	-	-	-
Net investment income	-	39,757	(39,757)
Benefit payments, including refunds of employee contributions	(1,389,869)	(1,389,869)	-
Administrative expense	-	(14,126)	14,126
Other changes	-	43,964	(43,964)
Net changes	<u>(341,653)</u>	<u>(613,970)</u>	<u>272,317</u>
Balances at June 30, 2016	<u>\$ 12,334,146</u>	<u>7,258,049</u>	<u>5,076,097</u>

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 9. PENSIONS (continued)

Roll-forward of the Total Pension Liability

Total Pension Liability Roll-Forward	
(a) Total pension liability as of June 30, 2015	\$ 12,675,799
(b) Entry age normal cost for the period July 1, 2015 - July 1, 2016	-
(c) Actual benefit payments and refunds for the period July 1, 2015 - July 1, 2016	(1,389,869)
(d) Expected total pension liability as of June 30, 2016 = [(a) x (1.08)] + (b) - [(c) x (1.4)]	12,214,447
(e) Actual total pension liability as of June 30, 2016 with new assumptions (7.75%)	12,334,146
(f) Assumptions (Gains)/Loss: (e) - (d)	\$ 119,699

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Plan's net pension liability (asset)	\$ 5,982,375	5,076,097	4,280,829

Pension plan fiduciary net position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the MRS Plan

For the year ended September 30, 2016, the City recognized pension expense of:

Pension Expense	
Service Cost	\$ -
Interest on the total pension liability	928,517
Current period benefit changes	-
Expensed portion of current period difference between expected and actual experience in the total pension liability	119,699
Expensed portion of current period changes of assumptions	-
Member contributions	-
Projected earnings on plan investments	(583,046)
Expensed portion of current period difference between actual and projected earnings on plan investments	108,658
Administrative expense	14,126
Other	(43,964)
Recognition of beginning deferred outflows of resources as pension expense	78,583
Recognition of beginning deferred inflows of resources as pension expense	-
Pension expense (income)	\$ 622,573

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CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 9. PENSIONS (continued)

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the MRS Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	670,381	-
Total	\$ 670,381	-

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the MRS Plan will be recognized in pension expense as follows:

Year ended September 30,	Pension Expense
2017	\$ 187,241
2018	187,241
2019	187,242
2020	108,657
2021	-
Total	\$ 670,381

C. Deferred Compensation Plan

The City, through PERS, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The requirements of Internal Revenue Code Section 457(g) prescribes that the City does not own the amounts deferred by employees, including the related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and the liability for compensation deferred by plan participants, including earnings on plan assets, are not included in the City's financial statements.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 10. COMMITMENTS AND CONTINGENCIES

A. Group Insurance

Since 1991, the City has maintained the Group Insurance Fund to account for the City's employee health care coverage which is self-insured by the City. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. Processing of claims is accomplished through a contract with a claims administration firm. Eighty percent of the first \$2,500 of preferred provider expenses and 100% of preferred provider expenses thereafter are payable by the plan after a \$500 deductible per participant per calendar year, with a lifetime maximum benefit of \$2,000,000. For non-preferred provider expenses, there is no out-of-pocket expense limit and covered expenses are payable at 50%, unless otherwise specified in the plan. The plan carries insurance to cover claims in excess of \$50,000 per participant. At September 30, 2016, a liability of \$175,244 has been recorded, which represents estimated claims incurred but not yet reported.

Changes in this claims liability during fiscal year 2016 and 2015 were as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2015 - 2016	\$ 284,447	1,807,000	1,916,203	175,244
2014 - 2015	260,135	3,463,196	3,438,884	284,447

B. Unemployment Insurance

The City became self-insured for unemployment claims effective January 1, 2005. As claims are presented, they are paid directly by the City. The amount of future claims against the City attributable to prior year wages paid cannot be determined, therefore a contingent liability has not been recorded.

C. Grants and Awards

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed by management to be material.

D. Litigation

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

E. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is covered for significant losses through commercial insurance carriers except for the following self-insurance funds as noted below, which are covered through self-insurance risk pools.

Self-Insurance - Workers Compensation Fund

The City is a member of the Mississippi Municipal Workers' Compensation Group, Inc. This non-profit corporation is a self-insurance worker's compensation fund organized under the non-profit laws of the State of Mississippi. The group is self-insured under statutory workers compensation protection up to a limit as required by the State of Mississippi Workers' Compensation Statute. Members are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

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CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 10. COMMITMENTS AND CONTINGENCIES (continued)

Self-Insurance - Liability Fund

The City is a member of the Mississippi Municipal Liability Plan. The Plan is a private non-profit corporation organized under the laws of the State of Mississippi. The plan provides liability and tort claims insurance for its members according to limits established by the Mississippi Tort Claims Act. The plan is totally self-insured with claims and expenses paid out of the premiums and the members are jointly and severally liable for any claims and expenditures beyond the premium base. The possibility of additional liability exists, but that amount, if any, cannot be determined.

F. Contract Commitments

Service Contracts

The City contracts with private contractors for various services.

On December 19, 2006, the City entered into a contract with Utility Partners, LLC to provide utility management, operations and maintenance services. The contract calls for amounts payable as follows:

Period	Monthly Payments	Annual Payments
December 1, 2016 - November 30, 2017	\$ 297,389	3,568,668
December 1, 2015 - November 30, 2016	\$ 297,389	3,568,668

The 2016 contract has been extended to 2017. There were no cost of living adjustments for the year ended September 30, 2016.

The City has a two-year term contract with Delta Sanitation Services. The contractor is paid on a per unit basis.

Construction Contracts

The City has entered into various construction contracts for infrastructure improvements with an estimated remaining commitment of \$7,845,092. The majority of these commitments are being funded by various state and federal grants. See Note 4 for more detailed information on these commitments.

NOTE 11. RELATED-PARTY TRANSACTIONS

No known transactions requiring disclosure occurred between the City and its employees or elected officials.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 12. JOINT VENTURE

The City is a member of the joint venture Jackson County Utility Authority (the Authority), which was established by an act of the Mississippi Legislature to design and implement a water pollution abatement plan. The Authority is responsible for the operations and maintenance of the wastewater treatment plants for the cities of Gautier, Moss Point, Ocean Springs and Pascagoula. The Authority enters into subscription agreements with each of the governing bodies and districts to fund its operations. The City of Pascagoula, Mississippi's subscription agreement called for monthly payments of \$311,838 for 2015-2016 fiscal year.

The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2016, a complete copy of which is on file at the administrative offices of the Authority located at 1225 Jackson Avenue, Pascagoula, MS 39567.

STATEMENT OF NET POSITION

ASSETS	
Current assets	\$ 4,961,364
Restricted investments	29,323,459
Capital assets	<u>146,570,377</u>
Total assets	<u>180,855,200</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,233,605</u>
LIABILITIES	
Current liabilities	7,274,005
Noncurrent liabilities	<u>60,575,100</u>
Total liabilities	<u>67,849,105</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>32,586</u>
NET POSITION	<u>\$ 116,207,114</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION

Operating revenues	\$ 15,458,591
Operating expenses	(19,281,537)
Non-operating revenues	29,292
Non-operating expenses	(2,175,701)
Capital contributions and grants	<u>3,363,024</u>
Change in net position	<u>\$ (2,606,331)</u>

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 13. DEFICIT FUND BALANCES/RETAINED EARNINGS

Deficit fund balances of individual funds are as follows:

Fund Description	Deficit Fund Balance
Governmental activities:	
General Fund	\$ 794,299
Community Development Fund	1,848,008
Inner Harbor Fund	129,335
FEMA Acquisition Fund	213,996
ISTEA Fund	6
Internal Service Fund	\$ 915,678
Business-type activities:	
Energy Recovery Fund	\$ 7,859,725
Group Insurance Fund	889,245
Unemployment Insurance Fund	\$ 26,433

NOTE 14. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$104,808 was made to correct September 30, 2015 net position related to the understatement of fixed assets.

Net position, September 30, 2015 as originally presented	\$ 58,760,526
To correct understatement of net position	104,808
Net position, September 30, 2015 as restated	<u>\$ 58,865,334</u>

NOTE 15. SUBSEQUENT EVENTS

Events that occur after the statement of net assets date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events that provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes. Management of the City evaluated the activity of the City through June 29, 2017, (the date the financial statements were available to be issued) and the following item was noted:

- ◆ In June 2017, the City issued General Obligation Bonds, series 2017, in the amount of \$12,500,000. The proceeds of this issue are to be used for the implementation of projects contained in the City's Comprehensive Parks and Recreation Master Plan, to fund a debt service reserve fund for the bonds and paying for costs of issuance and documentation of the bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF PASCAGOULA, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)
GENERAL FUND
For the Year Ended September 30, 2016

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Over (Under)</u>
Resources (inflows):				
Taxes	\$ 8,810,296	8,810,296	10,443,989	1,633,693
Licenses and permits	1,920,617	1,920,617	1,484,846	(435,771)
Grants	283,790	336,624	181,151	(155,473)
Inter-governmental revenues	8,093,907	8,093,907	6,959,519	(1,134,388)
Charges for services	2,042,372	2,042,372	2,059,850	17,478
Fines and forfeitures	1,020,637	1,020,637	497,914	(522,723)
Interest	92,153	92,153	30,859	(61,294)
Rents	84,197	84,197	63,754	(20,443)
Miscellaneous	314,429	318,029	449,661	131,632
Amounts available for appropriations	<u>22,662,398</u>	<u>22,718,832</u>	<u>22,171,543</u>	<u>(547,289)</u>

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

CITY OF PASCAGOULA, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)
GENERAL FUND
For the Year Ended September 30, 2016

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Over (Under)</u>
Charges to appropriations (outflows):				
<i>General Government</i>				
Personnel services	1,706,228	1,706,228	1,612,924	(93,304)
Supplies	111,150	111,170	118,711	7,541
Other charges	700,596	702,096	485,219	(216,877)
Capital outlay	100,000	100,000	4,982	(95,018)
Debt service	-	-	59,271	59,271
<i>General Administration</i>				
Supplies	7,300	7,300	7,455	155
Other charges	1,783,948	1,783,803	2,090,760	306,957
Capital outlay	153,000	153,000	-	(153,000)
Debt service	-	-	12,641	12,641
<i>Public Safety</i>				
Personnel services	11,664,656	11,680,056	10,967,291	(712,765)
Supplies	506,350	486,407	420,737	(65,670)
Other charges	493,634	517,234	470,630	(46,604)
Debt service	8,200	8,200	227,853	219,653
Capital outlay	984,913	1,036,814	50,745	(986,069)
<i>Public Works</i>				
Supplies	379,700	379,900	223,946	(155,954)
Other charges	2,723,402	2,674,320	2,094,710	(579,610)
Capital outlay	6,519,022	7,241,749	714,650	(6,527,099)
<i>Health & Welfare</i>				
Personnel services	202,768	202,768	174,208	(28,560)
Supplies	14,350	14,350	9,080	(5,270)
Other charge	43,950	43,950	40,112	(3,838)
Capital outlay	55,000	55,000	29,391	(25,609)
<i>Culture & Recreation</i>				
Personnel services	1,212,993	1,229,993	1,112,617	(117,376)
Supplies	264,300	281,650	244,071	(37,579)
Other charge	1,638,012	1,519,175	1,374,221	(144,954)
Capital outlay	1,562,900	1,562,900	221,003	(1,341,897)
<i>Planning, Building, & Code Enforcement</i>				
Personnel services	585,980	585,980	569,832	(16,148)
Supplies	56,200	56,200	16,374	(39,826)
Other charge	205,640	220,621	99,621	(121,000)
Capital outlay	22,000	22,000	21,474	(526)
<i>Conservation, Urban & Economic Development</i>				
Personnel services	368,189	368,189	310,079	(58,110)
Supplies	26,900	26,900	17,455	(9,445)
Other charge	483,650	485,350	238,671	(246,679)
Capital outlay	86,500	86,500	-	(86,500)
Total charges to appropriations	<u>34,671,431</u>	<u>35,349,803</u>	<u>24,040,734</u>	<u>(11,309,069)</u>
Excess (deficiency) of revenues over expenditures	(12,009,033)	(12,630,971)	(1,869,191)	10,761,780

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

CITY OF PASCAGOULA, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)
GENERAL FUND
For the Year Ended September 30, 2016

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Over (Under)</u>
Other Financing Sources (Uses):				
Other financing sources	10,464,021	10,464,022	43,601	(10,420,421)
Transfers (out)	<u>1,545,012</u>	<u>1,542,578</u>	<u>(2,763,653)</u>	<u>(4,306,231)</u>
Total other financing sources (uses)	<u>12,009,033</u>	<u>12,006,600</u>	<u>(2,720,052)</u>	<u>(14,726,652)</u>
Net change in fund balance	<u>\$ -</u>	<u>(624,371)</u>	<u>(4,589,243)</u>	<u>(3,964,872)</u>
Fund balance - beginning of year			6,890,532	
Fund balance - end of year			<u>\$ 2,301,289</u>	
Differences between budgetary and GAAP fund balance:				
Fund Balance - end of year (Budgetary Basis)				\$ 2,301,289
Accruals for expenses incurred but not paid				1,588,234
Accruals for revenues recognized but not year received				<u>(4,683,822)</u>
Fund Balance - end of year (GAAP)				<u>\$ (794,299)</u>

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

CITY OF PASCAGOULA, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)
COMMUNITY DEVELOPMENT FUND
For the Year Ended September 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
Resources (inflows):				
Grants	\$ 2,239,021	6,092,337	1,217,045	(4,875,292)
Amounts available for appropriations	<u>2,239,021</u>	<u>6,092,337</u>	<u>1,217,045</u>	<u>(4,875,292)</u>
Charges to appropriations (outflows):				
Other charges	1,914,419	6,633,085	371,969	(6,261,116)
Capital outlay	-	-	595,518	595,518
Total charges to appropriations	<u>1,914,419</u>	<u>6,633,085</u>	<u>967,487</u>	<u>(5,665,598)</u>
Excess (deficiency) of revenues over expenditures	324,602	(540,748)	249,558	790,306
Other Financing Sources (Uses):				
Transfers (out)	-	11,765	11,765	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>11,765</u>	<u>11,765</u>
Net change in fund balance	<u>\$ 324,602</u>	<u>(540,748)</u>	<u>261,323</u>	<u>802,071</u>
Fund balance - beginning of year			(2,218,141)	
Fund balance - end of year			<u>\$ (1,956,818)</u>	
Differences between budgetary and GAAP fund balance:				
Fund Balance, end of year (Budgetary Basis)				\$ (1,956,818)
Accruals for expenses incurred but not paid				289,552
Accruals for revenues recognized but not year received				(180,742)
Fund Balance, end of year (GAAP)				<u>\$ (1,848,008)</u>

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

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY*
Public Employees Retirement System of Mississippi
Last 10 Fiscal Years (Only 2 Years Shown)**

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.16 %	0.16 %
City's proportionate share of the net pension liability (asset)	\$ 28,579,995	24,732,844
City's covered-employee payroll	\$ 10,434,800	10,208,330
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	273.89 %	242.28 %
Plan fiduciary net position as a percentage of the total pension liability	57.47 %	67.21 %

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

**This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

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

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF CITY CONTRIBUTIONS*
Public Employees Retirement System of Mississippi
Last 10 Fiscal Years (Only 2 Years Shown)**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,643,481	1,607,812
Contributions in relation to the contractually required contribution	<u>(1,643,481)</u>	<u>(1,607,812)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City of Pascagoula's covered-employee payroll	\$ 10,434,800	10,208,330
Contributions as a percentage of covered-employee payroll	15.75 %	15.75 %

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

**This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

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

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY*
Municipal Retirement System and Fire and Police Disability and Relief Fund
Last 10 Fiscal Years (Only 2 Years Shown)**

	2016	2015
Total pension liability		
Service cost	\$ -	-
Interest	928,517	965,667
Changes of benefit terms	-	-
Differences between expected and actual experience	119,699	(40,288)
Changes of assumptions	-	395,634
Benefit payments, including refunds of employee contributions	(1,389,869)	(1,432,103)
Net change in total pension liability	(341,653)	(111,090)
Total pension liability - beginning	12,675,799	12,786,889
Total pension liability - ending (a)	12,334,146	12,675,799
Plan fiduciary net position		
Contributions - employer	706,304	695,520
Contributions - member	-	-
Net investment income	39,757	247,097
Benefit payments, including refunds of employee contributions	(1,389,869)	(1,432,103)
Administrative expense	(14,126)	(13,910)
Other	43,964	-
Net change in plan fiduciary net position	(613,970)	(503,396)
Plan net position - beginning	7,872,019	8,375,415
Plan net position - ending (b)	7,258,049	7,872,019
Net pension liability (asset) - ending (a) - (b)	\$ 5,076,097	4,803,780
Plan fiduciary net position as a percentage of the total pension liability	58.85 %	62.10 %
Covered-employee payroll***	N/A	N/A
Net pension liability (asset) as a percentage of covered-employee payroll***	N/A	N/A

*The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the two prior years to the fiscal year presented.

**This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

***Payroll-related information not provided because plan is closed to new entrants and there are very few remaining active members and many municipalities have no remaining active members.

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

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF EMPLOYER CONTRIBUTIONS*
Municipal Retirement System and Fire and Police Disability and Relief Fund
Last 10 Fiscal Years (Only 2 Years Shown)**

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 706,304	695,520
Contributions in relation to the actuarially determined contribution	<u>(706,304)</u>	<u>(695,520)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
Covered employee payroll***	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A

*The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the two prior years to the fiscal year presented.

**This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

***Payroll-related information not provided because plan is closed to new entrants and there are very few remaining active members and many municipalities have no remaining active members.

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

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2016

NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

Statutory requirements dictate how and when the City's budget is to be prepared. Generally, during August, a budget is prepared by the City's management and submitted to the City Council for approval. The completed budget for the fiscal year includes for all funds every source of revenue, each general item of expenditure, and unencumbered cash and investment balances. On a periodic basis, as required by changing conditions, the budgeted amounts are amended.

The City's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year-end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP, Cash Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP, Cash Basis) and variance between the final budget and the actual amounts. The schedule is presented for the General Fund and the Community Development Fund of the City. The City is not required to legally adopt an annual budget for its Hurricane Katrina Fund, a major special revenue fund; therefore, budgetary comparison information is not presented. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP, Cash Basis) is a part of required supplemental information.

B. Excess of Expenditures over Appropriations (Budget)

There were no expenditures in excess of appropriations (budget) for the fiscal year ended September 30, 2016.

NOTE 2. PENSION SCHEDULES

A. Methods and Assumptions Used to Determine Contribution Rates for Public Employees' Retirement System of Mississippi (PERS)

Changes of Benefit Terms

None.

Changes of Assumptions

None.

B. Methods and Assumptions Used to Determine Contribution Rates for Municipal Retirement System and Fire and Police Disability and Relief Fund

Actuarial cost method	Ultimate asset reserve
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Five year smoothed market
Inflation	3.50%
Salary increase	4.50 - 6.00%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

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OTHER SUPPLEMENTARY INFORMATION

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CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF SURETY BONDS OF MUNICIPAL OFFICIALS
For the Year Ended September 30, 2016

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Jim Blevins	Mayor	\$ 100,000
Marvin Pickett	Councilman	100,000
Freddy Jackson	Councilman	100,000
David Tadlock	Councilman	100,000
Burt Hill	Councilman	100,000
Scott Tipton	Councilman	100,000
Brenda Simkins	Councilman	100,000
Joseph R. Huffman	City Manager	162,000
Eddie Williams	City Attorney	162,000
Kenneth Johnson	Chief of Police	50,000
Robert J Parker	City Clerk / Comptroller	50,000
Donnie Carlson	Fire Chief	50,000

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CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance (CFDA) Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed through State of Mississippi</i>			
Cooperative Forestry Assistance	10.664		\$ 24,781
Total U.S. Department of Agriculture			<u>24,781</u>
<u>U.S. Department of Commerce National Oceanic and Atmospheric Administration (NOAA)</u>			
<i>Passed through Mississippi Department of Marine Resources</i>			
Coastal Zone Management Administration Awards	11.419	FY2010-P414	3,244
	11.419	FY2014-P401-8PA	69,961
	11.419	FY2015-P501-12PA	236,850
	11.419	FY2016-P604-03	9,000
	11.419	FY2016-P604-02	6,368
Total Department of Commerce National Oceanic and Atmospheric Administration (NOAA)			<u>325,423</u>
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through State of Mississippi</i>			
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-28-0005	28,274
	14.218	B-15-MC-28-0005	109,007
Total U.S. Department of Housing and Urban Development			<u>137,281</u>
<u>U.S. Department of the Interior Fish and Wildlife Service</u>			
<i>Passed through Mississippi Department of Environmental Quality</i>			
Natural Resource Damage Assessment, Restoration and Implementation	15.658*	MDEQ 15-0067	343,600
<i>Passed through Mississippi Department of Marine Resources</i>			
Coastal Impact Assistance Program	15.668	MS.R.752	33,282
<i>Passed through Mississippi Department of Archives and History</i>			
Historic Preservation Fund Grants-In-Aid	15.904	CLG FY2015	1,950
Total U.S. Department of the Interior Fish and Wildlife Service			<u>378,832</u>
<u>U.S. Department of Justice</u>			
<i>Passed through State of Mississippi</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0233	14,283
Total U.S. Department of Justice			<u>14,283</u>

The accompanying notes are an integral part of this schedule

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance (CFDA) Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation</u>			
<i>Passed through Mississippi Department of Transportation</i>			
Highway Training and Education	20.215	STP-999-09(03)/10684	31,703
<i>Passed through Mississippi Office of Highway Safety</i>			
Highway Safety Cluster			
National Priority Safety Programs	20.616	154-AL-2016-ST-22-61	4,668
Total U.S. Department of Transportation			<u>36,371</u>
<u>U.S. Environmental Protection Agency</u>			
<i>Passed through State of Mississippi:</i>			
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	00D11813	95,290
Total U.S. Environmental Protection Agency			<u>95,290</u>
<u>U.S. Department of Homeland Security</u>			
<i>Passed through State of Mississippi:</i>			
Assistance to Firefighters Grant	97.044*	EMW-2014-FO-00483	117,652
Total U.S. Department of Homeland Security			<u>117,652</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,129,913</u>

* Major Program

The accompanying notes are an integral part of this schedule

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2016

NOTE 1. BASIS OF PRESENTATION

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City of Pascagoula, Mississippi has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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CERTIFIED PUBLIC ACCOUNTANTS

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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*

The Honorable Mayor and Members of the City Council
City of Pascagoula, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Pascagoula, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Pascagoula, Mississippi's basic financial statements and have issued our report thereon dated June 29, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 City of Pascagoula, 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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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*

Page 2

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.

Walke, McLaughlin & Co., P.C.

Pascagoula, Mississippi
June 29, 2017



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

The Honorable Mayor and Members of the City Council
City of Pascagoula, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the City of Pascagoula, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Pascagoula, Mississippi's major federal programs for the year ended September 30, 2016. City of Pascagoula, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Pascagoula, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance
Page 2

Report on Internal Control over Compliance

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

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

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

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

Walfe, McDuff + Co

Pascagoula, Mississippi
June 29, 2017



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

The Honorable Mayor and Members of the City Council
City of Pascagoula, Mississippi

We have audited the accompanying financial statements of the City of Pascagoula, Mississippi as of and for the year ended September 30, 2016, and have issued our report dated June 29, 2017. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures and our audit of the basic financial statements disclosed no material instances of noncompliance with state laws and regulations.

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

Wolfe, McDuff & Oppie

Pascagoula, Mississippi

June 29, 2017

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

Section I: Summary of Auditor's Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal controls over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | No |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | |
|---|--------------------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | No |
| 5. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 7. Identification of major programs: | |
| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number</u> |
| Natural Resource Damage Assessment, Restoration and Implementation | 15.658 |
| Assistance to Firefighters Grant | 97.044 |
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. Auditee qualified as low-risk auditee? | No |

Section II: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under *Government Auditing Standards*.

Section III: Federal Award Findings and Questioned Costs

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

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HARRY J. BLEVINS
MAYOR

JOSEPH R. HUFFMAN
CITY MANAGER

EDDIE C. WILLIAMS
CITY ATTORNEY



CITY COUNCIL

MARVIN PICKETT, SR.	Councilman, Ward 1
FREDDY JACKSON	Councilman, Ward 2
DAVID TADLOCK	Councilman, Ward 3
BURT HILL	Councilman, Ward 4
SCOTT TIPTON	Councilman, Ward 5
BRENDA H. SIMKINS	Councilwoman at Large

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2015

The following is an update of the prior audit finding and is prepared in accordance with the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2015-001

Finding

Auditor noted several instances of material misstatement in account balances that required material adjustments.

The City had not established procedures to ensure that its external financial statements are free from material errors. As a result, it was necessary for the auditor to identify account balances where material adjustments were required in order for the information to be presented in accordance with generally accepted accounting principles.

Status

Corrected

Auditee's Response

The City, strengthened by the addition of another position in the Finance Department, has instituted new and improved reporting controls including review measures, as well as transition procedures to convert account balances to the accrual basis of accounting.

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CERTIFIED PUBLIC ACCOUNTANTS
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June 29, 2017

To the Honorable Mayor and Members of the City Council
City of Pascagoula, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Pascagoula, Mississippi for the year ended September 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 27, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Pascagoula, Mississippi are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by City of Pascagoula, Mississippi during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the allowance for uncollectible accounts is based on historical bad debt experience related to the nature of each receivable balance. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciable lives and methods is based on the City's concepts and reasonable assumptions of future events. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable to the financial statements taken as a whole.

Management's estimate of net pension liability is based on the City's proportionate share of the Public Employees Retirement System (PERS) of Mississippi's net pension liability. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Membership in:

American Institute of Certified Public Accountants • Mississippi Society of Certified Public Accountants
AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 29, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to Budgetary Comparison Schedule and the Pension Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

This information is intended solely for the information and use of Mayor, City Council, and management of City of Pascagoula, Mississippi and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Wolfe, McDuff & Oppie

Wolfe, McDuff & Oppie, P.A.

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