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CITY OF LUCEDALE
Audited Financial Statements
And
Special Reports

September 30, 2017

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CITY OF LUCEDALE

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INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Honorable Mayor and
Members of the Board of Aldermen
City of Lucedale, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the City of Lucedale, Mississippi, as of and for the year ended September 30, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the 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 Lucedale as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule, the Schedule of the City's Contributions, the Schedule of the City's Proportionate Share of the Net Pension Liability, and corresponding notes 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 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.

Omission of Required Supplementary Information

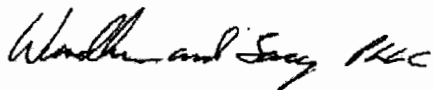
The City of Lucedale, Mississippi, has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

The Schedule of Surety Bonds for the City of Lucedale has 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 it.

Other Reporting Requirements Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2018, on our consideration of the City of Lucedale'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lucedale's internal control over financial reporting and compliance.



Windham and Lacey, PLLC
May 1, 2018

CITY OF LUCEDALE

BASIC FINANCIAL STATEMENTS

The basic financial statements included integrated sets of financial statements as required by the GASB. The sets of statements include:

Government-wide financial statements

Fund financial statements

Governmental funds

Proprietary (enterprise) fund

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

CITY OF LUCEDALE
Statement of Net Position
September 30, 2017

Exhibit 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash	\$ 3,789,788	793,709	4,583,497
Property tax receivable	321,272		321,272
Fines receivable, net	80,586		80,586
Accounts receivable, net	54,714	115,212	169,926
Grants receivable	6,228	169,336	175,564
Sales tax receivable	364,586		364,586
Total Current Assets	<u>4,617,174</u>	<u>1,078,257</u>	<u>5,695,431</u>
Noncurrent Assets:			
Restricted cash	43,166	246,374	289,540
Capital assets, net	4,655,933	3,594,462	8,250,395
Total Noncurrent Assets	<u>4,699,099</u>	<u>3,840,836</u>	<u>8,539,935</u>
 Total Assets	 <u>9,316,273</u>	 <u>4,919,093</u>	 <u>14,235,366</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	498,833	42,803	541,636
LIABILITIES			
Current Liabilities:			
Claims payable	138,121	191,087	329,208
Current portion of long-term debt		41,512	41,512
Total Current Liabilities	<u>138,121</u>	<u>232,599</u>	<u>370,720</u>
Noncurrent Liabilities:			
Net pension liability	3,459,178	328,128	3,787,306
Long-term liabilities		521,089	521,089
Customer meter deposits payable		24,450	24,450
Total Noncurrent Liabilities	<u>3,459,178</u>	<u>873,667</u>	<u>4,332,845</u>
 Total Liabilities	 <u>3,597,299</u>	 <u>1,106,266</u>	 <u>4,703,565</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax for future periods	314,650		314,650
Deferred inflows - pension	287,404	32,859	320,263
Total Deferred Inflows of Resources	<u>602,054</u>	<u>32,859</u>	<u>634,913</u>
NET POSITION			
Net investment in capital assets	4,655,933	3,031,861	7,687,794
Restricted for:			
Public safety	12,354		12,354
Unemployment compensation	8,523		8,523
Unrestricted	938,943	790,910	1,729,853
 Total Net Position	 <u>\$ 5,615,753</u>	 <u>3,822,771</u>	 <u>9,438,524</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF LUCEDALE
Statement of Activities
For the Year Ended September 30, 2017

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 653,115				(653,115)		(653,115)
Public safety	1,439,816	71,748	53,170		(1,314,898)		(1,314,898)
Public works	945,374	184,211			(761,163)		(761,163)
Health and welfare		31,854			31,854		31,854
Culture and recreation	313,928				(313,928)		(313,928)
Urban and economic development	65,152				(65,152)		(65,152)
Pension expense	519,233				(519,233)		(519,233)
Total Governmental Activities	<u>3,936,618</u>	<u>287,813</u>	<u>53,170</u>	<u>0</u>	<u>(3,595,635)</u>	<u>0</u>	<u>(3,595,635)</u>
Business-type Activities:							
Water/Sewer	774,529	684,159		249,514		159,144	159,144
Total Business-type Activities	<u>774,529</u>	<u>684,159</u>	<u>0</u>	<u>249,514</u>	<u>0</u>	<u>159,144</u>	<u>159,144</u>
Total	\$ <u>4,711,147</u>	<u>971,972</u>	<u>53,170</u>	<u>249,514</u>	<u>(3,595,635)</u>	<u>159,144</u>	<u>(3,436,491)</u>
General Revenues							
Taxes:							
Property taxes					\$ 415,214		415,214
Road & bridge privilege taxes					180,257		180,257
Sales tax					2,204,988		2,204,988
Franchise taxes					171,395		171,395
Grants and contributions not restricted to specific programs					21,974		21,974
Unrestricted investment income					30,037	7,761	37,798
Loss on disposition of assets					(13,829)		(13,829)
Miscellaneous					131,362		131,362
Total General Revenues					<u>3,141,398</u>	<u>7,761</u>	<u>3,149,159</u>
Change in net position					(454,237)	166,905	(287,332)
Net Position - Beginning					<u>6,069,990</u>	<u>3,655,866</u>	<u>9,725,856</u>
Net Position - Ending					\$ <u>5,615,753</u>	<u>3,822,771</u>	<u>9,438,524</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF LUCEDALE
Balance Sheet
Governmental Funds
September 30, 2017

Exhibit 3

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 3,813,374	19,580	3,832,954
Property tax receivable	321,272		321,272
Fines receivable	80,586		80,586
Sales tax receivable	364,586		364,586
Grants receivable		6,228	6,228
Other receivables	<u>54,714</u>		<u>54,714</u>
 Total Assets	 <u>\$ 4,634,532</u>	 <u>25,808</u>	 <u>4,660,340</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Claims payable	\$ <u>138,121</u>		<u>138,121</u>
Total Liabilities	<u>138,121</u>	<u>0</u>	<u>138,121</u>
Deferred Inflows of Resources:			
Property tax for future periods	314,650		314,650
Unavailable revenue - fines	<u>80,586</u>		<u>80,586</u>
Total Deferred Inflows of Resource	<u>395,236</u>	<u>0</u>	<u>395,236</u>
Fund Balances:			
Unassigned	4,074,047		4,074,047
Restricted: Public Safety	27,128	15,887	43,015
Restricted: Culture and Recreation		1,398	1,398
Restricted: Unemployment		<u>8,523</u>	<u>8,523</u>
Total Fund Balances	<u>4,101,175</u>	<u>25,808</u>	<u>4,126,983</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,634,532</u>	<u>25,808</u>	

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 1):

Capital assets net of depreciation as of Oct. 1, 2016	\$ 4,672,834	
Plus capital outlay expenditures made during the year	272,912	
Less depreciation expense recorded during the year	(275,984)	
Less loss on disposition of capital asset	<u>(13,829)</u>	4,655,933

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Fines receivable		80,586
------------------	--	--------

Pension Obligations:

Pension obligations are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(3,459,178)	
Deferred outflows and deferred inflows of resources related to pension obligations are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources related to pension obligations	498,833	
Deferred inflows of resources related to pension obligations	<u>(287,404)</u>	<u>(3,247,749)</u>

Net Position of Governmental Activities		<u>\$ 5,615,753</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF LUCEDALE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

Exhibit 4

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 415,214		415,214
Licenses and permits	203,249		203,249
Fines and forfeitures	120,701	11,608	132,309
Intergovernmental revenues	2,423,585	36,804	2,460,389
Charges for services	184,211		184,211
Interest income	29,903	134	30,037
Miscellaneous	131,361		131,361
Total Revenues	<u>3,508,224</u>	<u>48,546</u>	<u>3,556,770</u>
EXPENDITURES			
Current:			
General government	730,945		730,945
Public safety	1,445,347	65,191	1,510,538
Public works	956,609		956,609
Culture and recreation	359,147	622	359,769
Urban and economic development	65,152		65,152
Total Expenditures	<u>3,557,200</u>	<u>65,813</u>	<u>3,623,013</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(48,976)</u>	<u>(17,267)</u>	<u>(66,243)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in		30,661	30,661
Transfers out	(30,661)		(30,661)
Total Other Financing Sources and Uses	<u>(30,661)</u>	<u>30,661</u>	<u>0</u>
Net Change in Fund Balances	(79,637)	13,394	(66,243)
Fund Balances - Beginning	<u>4,180,812</u>	<u>12,414</u>	<u>4,193,226</u>
Fund Balances - Ending	<u>\$ 4,101,175</u>	<u>25,808</u>	<u>4,126,983</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF LUCEDALE
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, 2017

Exhibit 5

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4)	\$	(66,243)
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
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. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation (\$275,984) exceeded capital outlays (\$272,912) in the current period.		
		(3,072)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net loss of \$13,829 and the proceeds from the sale of \$0 in the current period.		
		(13,829)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Fine revenue		(60,561)
Items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:		
Recognition of pension expense for the current year	(519,233)	
Recognition of contributions made subsequent to the measurement date	49,513	
Recognition of contributions made in the fiscal year prior to the measurement date	<u>159,188</u>	<u>(310,532)</u>
Change in Net Position of Governmental Activities (Exhibit 2)	\$	<u>(454,237)</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LUCEDALE
Statement of Net Position
Proprietary Fund
September 30, 2017**

Exhibit 6

	<u>Business-type Activity Water/Sewer</u>
ASSETS	
Current Assets:	
Cash	\$ 744,881
Accounts receivable, net	115,212
Grants receivable	<u>169,336</u>
Total Current Assets	<u>1,029,429</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	295,202
Capital assets, net	<u>3,594,462</u>
Total Noncurrent Assets	<u>3,889,664</u>
 Total Assets	 <u>4,919,093</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	<u>42,803</u>
LIABILITIES	
Current Liabilities:	
Claims payable	191,087
Current portion of long-term debt	<u>41,512</u>
Total Current Liabilities	<u>232,599</u>
Noncurrent Liabilities:	
Net pension liability	328,128
Long-term liabilities	521,089
Customer meter deposits payable	<u>24,450</u>
Total Noncurrent Liabilities	<u>873,667</u>
 Total Liabilities	 <u>1,106,266</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	<u>32,859</u>
NET POSITION	
Invested in capital assets net of related debt	3,031,861
Unrestricted	<u>790,910</u>
 Total Net Position	 \$ <u><u>3,822,771</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF LUCEDALE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2017

Exhibit 7

	Business-type Activity
	<u>Water/Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 684,159
Total Operating Revenues	<u>684,159</u>
OPERATING EXPENSES	
Personal services	264,567
Contractual services	208,537
Materials and supplies	104,540
Depreciation expense	<u>178,596</u>
Total Operating Expenses	<u>756,240</u>
Operating Income (Loss)	<u>(72,081)</u>
NONOPERATING REVENUES (EXPENSES)	
Grants	249,514
Interest income	7,761
Interest expense	<u>(18,289)</u>
Total Nonoperating Revenue (Expenses)	<u>238,986</u>
Change in Net Position	166,905
Total Net Position - Beginning	<u>3,655,866</u>
Total Net Position - Ending	<u>\$ 3,822,771</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LUCEDALE
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2017

Exhibit 8

	Business-type Activity
	<u>Water/Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 700,321
Payments to suppliers	(144,938)
Payments to employees	(229,064)
Net Cash Provided (Used) by Operating Activities	<u>326,319</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(281,113)
Principal paid on long-term debt	(41,278)
Interest expense paid	(18,288)
Receipts from grants	80,178
Net Cash Provided (Used) by Capital Financing Activities	<u>(260,501)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>7,761</u>
Net Increase (Decrease) in Cash and Cash Equivalents	73,579
Cash and Cash Equivalents - Beginning of Year	<u>966,504</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,040,083</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ <u>(72,081)</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation	178,596
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	9,412
(Increase) decrease in deferred pension outflows	27,063
Increase (decrease) in claims payable	168,315
Increase (decrease) in pension liability	(24,419)
Increase (decrease) in deferred pension inflows	32,859
Increase (decrease) in customer deposits	6,750
Increase (decrease) in internal balances	(176)
Total Adjustments	<u>398,400</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 326,319</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LUCEDALE

Notes to the Financial Statements For the Year Ended September 30, 2017

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Lucedale (City) is a code-charter municipality governed by an elected mayor and five aldermen. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

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

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP.

There are no component units required to be included in these financial statements.

B. Government-wide and Fund 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Position reports all of the City's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of September 30, 2017, with the difference reported as net position.

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1. Governmental Fund Types.

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term bonded debt principal, interest and related costs.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds and Trust Funds).

2. Proprietary Fund Types.

Proprietary Funds are used to account for the City's ongoing activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following is the City's Proprietary Fund Type:

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenue and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or related services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

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

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



CITY OF LUCEDALE

Notes to the Financial Statements For the Year Ended September 30, 2017

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current year or soon enough after fiscal year-end to liquidate liabilities existing at the end of the fiscal year. The City considers revenues received within 60 days after fiscal year-end as available. Significant revenue sources that are susceptible to accrual include property taxes, state appropriations, and federal awards. Licenses, fees, permits and other miscellaneous revenues are recognized when received since they normally are measurable only at that time. Expenditures for goods and services are recognized upon receipt of said goods and services. Expenditures for debt service, compensated absences, and claims and judgments are recognized only when payment is due.

The City reports the following major governmental fund:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the water and sewer system.

The City's proprietary fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 water and sewer enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Position or Equity.

1. Deposits and Investments.

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of 14 days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

CITY OF LUCEDALE

Notes to the Financial Statements For the Year Ended September 30, 2017

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the City did not invest in any governmental securities during the fiscal year.

2. *Receivables and Payables.*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

3. *Interfund Transactions and Balances.*

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between governmental funds have been eliminated.

4. *Restricted Assets.*

Assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

CITY OF LUCEDALE

Notes to the Financial Statements
For the Year Ended September 30, 2017

5. *Capital Assets.*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. The City of Lucedale meets this criteria and has so elected. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A half year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	N/A
Infrastructure	20-50
Buildings	40
Improvements other than buildings	20
Machinery & equipment	5-10

In the fund financial statements, capital assets are recorded as expenditures in the governmental type funds upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in government-wide statements.

6. *Deferred Outflows/Inflows of Resources.*

Deferred Outflows.

In addition to assets, the Statement of Net 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the following item in this category:

Deferred outflows - pensions - This amount represents the City's proportionate share of the deferred outflows of resources reported by the pension plan in which the City participates.

CITY OF LUCEDALE

Notes to the Financial Statements
For the Year Ended September 30, 2017

Deferred Inflows.

In addition to liabilities, the Statement of Net Position and Balance Sheet - Governmental Funds 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 a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City reports the following items in this category:

Statement of Net Position:

Property tax for future periods - Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Deferred inflows - pensions - This amount represents the City's proportionate share of the deferred inflows of resources reported by the pension plan in which the City participates.

Balance Sheet - Governmental Funds:

Property tax for future periods - Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue - fines - When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such a time as the revenue becomes available.

7. *Compensated Absences.*

There is no liability for unpaid accumulated sick leave or vacation since the City does not have a policy to pay any amounts when employees separate from service with the City.

8. *Long-term Obligations.*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

9. *Pensions.*

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

CITY OF LUCEDALE

Notes to the Financial Statements
For the Year Ended September 30, 2017

10. *Equity Classifications.*

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

Net Investment in Capital Assets - 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 improvements 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 "net investment in capital assets."

Net Position Flow Assumption:

When an expense 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 expenses are incurred for purposes for which unrestricted (committed 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.

Fund Financial Statements:

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Unassigned - Includes positive fund balance with the General Fund which has not been classified within the abovementioned categories and negative fund balances in other governmental funds.

Fund Balance Flow Assumption:

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.

11. *Intergovernmental Revenues in Governmental Funds.*

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

CITY OF LUCEDALE

Notes to the Financial Statements
For the Year Ended September 30, 2017

12. *Estimates.*

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

E. Stewardship, Compliance and Accountability.

Budgets

Budgets are adopted on a basis prescribed by state law (cash basis).

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

1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing these proposed expenditures.
2. Prior to October 1, the budget is legally enacted through passage of an order.
3. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.
4. Formal budgetary integration is employed as a management control device during the year for the various funds, except for Debt Service Funds, because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
5. Budgets for the various funds are adopted on a cash basis as required by state law. It is the City's policy to prepare the budget on the cash basis for revenues and expenditures to the extent that they are paid within 30 days following year-end.

Property Tax Revenues

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Aldermen, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

Real and personal property tax revenues are recognized in the year for which they are levied in accordance with GAAP. However, because the revenues are not currently available, a deferred inflow of resources is recorded for this amount. Motor vehicle and mobile home taxes do not meet the GAAP measurability and collectibility criteria because the lien and due date cannot be established until the date of original purchase. Accordingly, no amount is accrued for these taxes in the financial statements.

George County collects the City's property taxes.

(2) Detailed Notes on All Funds.

A. Cash.

At year-end, the City's carrying amount of deposits was \$4,873,037 and the bank balance was \$4,914,518. Section 27-105-5, Miss. Code Ann. (1972), authorizes the State Treasurer to implement a statewide collateral pool program which secures all local public funds' deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

B. Receivables.

Receivables as of year-end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:			
Grants receivable	\$ 6,228	169,336	175,564
Sales tax	364,586		364,586
Property taxes	321,272		321,272
Accounts		195,546	195,546
Garbage charges	7,839		7,839
Returned checks	171		171
Franchise fees	46,704		46,704
Fines	<u>1,742,556</u>		<u>1,742,556</u>
Gross receivables	2,489,356	364,882	2,854,238
Less: allowance for uncollectibles	<u>(1,661,970)</u>	<u>(80,334)</u>	<u>(1,742,304)</u>
Net total receivables	<u>\$ 827,386</u>	<u>284,548</u>	<u>1,111,934</u>

CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

C. Capital Assets.

Capital asset activity for the year ended September 30, 2017, is as follows:

Governmental activities:

	Beginning Balance	Increases	Transfers and Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 377,419	94,000		471,419
Construction in progress		72,234	58,102	130,336
Total capital assets, not being depreciated	<u>377,419</u>	<u>166,234</u>	<u>58,102</u>	<u>601,755</u>
Capital assets, being depreciated:				
Buildings	2,832,793	50,000		2,882,793
Improvements other than buildings	1,604,622		(58,102)	1,546,520
Streets	1,916,463			1,916,463
Bridges	9,920			9,920
Machinery and equipment	<u>2,618,028</u>	<u>56,678</u>	<u>(138,298)</u>	<u>2,536,408</u>
Total capital assets being depreciated	<u>8,981,826</u>	<u>106,678</u>	<u>(196,400)</u>	<u>8,892,104</u>
Less: Accumulated depreciation for:				
Buildings	(727,237)	(84,900)		(812,137)
Improvements other than buildings	(567,884)	(61,557)		(629,441)
Streets	(1,222,723)	(17,007)		(1,239,730)
Bridges	(9,920)			(9,920)
Machinery and equipment	<u>(2,158,647)</u>	<u>(112,520)</u>	<u>124,469</u>	<u>(2,146,698)</u>
Total accumulated depreciation	<u>(4,686,411)</u>	<u>(275,984)</u>	<u>124,469</u>	<u>(4,837,926)</u>
Total capital assets, being depreciated, net	<u>4,295,415</u>	<u>(169,306)</u>	<u>(71,931)</u>	<u>4,054,178</u>
Governmental activities capital assets, net	<u>\$ 4,672,834</u>	<u>(3,072)</u>	<u>(13,829)</u>	<u>4,655,933</u>

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$	249,514		249,514
Total capital assets, not being depreciated	<u>0</u>	<u>249,514</u>	<u>0</u>	<u>249,514</u>
Capital assets, being depreciated:				
Water system	2,369,809	31,599	(23,381)	2,378,027
Sewer system	<u>4,139,658</u>			<u>4,139,658</u>
Total capital assets being depreciated	<u>6,509,467</u>	<u>31,599</u>	<u>(23,381)</u>	<u>6,517,685</u>
Less: Accumulated depreciation	<u>(3,017,522)</u>	<u>(178,596)</u>	<u>23,381</u>	<u>(3,172,737)</u>
Business-type activities capital assets, net	<u>\$ 3,491,945</u>	<u>(146,997)</u>	<u>0</u>	<u>3,594,462</u>

CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 13,542
Public safety	82,911
Public works	48,616
Culture and recreation	<u>130,915</u>
Total depreciation expense - governmental activities	\$ <u>275,984</u>
Business-type activities:	
Water and sewer	\$ <u>178,596</u>
Total depreciation expense - business-type activities	\$ <u>178,596</u>

D. Interfund Transactions.

The composition of interfund transfers as of September 30, 2017, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other governmental funds	General Fund	\$ <u>30,661</u>
Total		\$ <u>30,661</u>

The purpose of this transfer was for the City's match for public safety grants.

E. Long-term Debt.

Revenue Bonds

The City issued water and sewer revenue bonds in 2002 to provide funds for the construction of water and sewer infrastructure. These bonds will be repaid from revenues generated from operations of the water and sewer systems.

Loans Payable

The City has received a Capital Improvements Revolving (CAP) loan from the Mississippi Development Authority to finance a project for water/sewer improvements.

Revenue bonds and loans payable currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Final Maturity Date</u>
Business-type activities:			
2002 water system rural development bond	4.5%	\$ 10,840	04/2018
State of Mississippi CAP loan	2%	<u>551,761</u>	03/2033
Total		\$ <u>562,601</u>	

CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

Annual debt service requirements to maturity for revenue bonds and loans are as follows:

<u>Year Ending September 30:</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
Revenue Bonds:		
2018	\$ 10,840	169
Total	\$ 10,840	169
2018	\$ 30,672	10,750
2019	31,291	10,131
2020	31,923	9,500
2021	32,567	8,855
2022	33,224	8,198
2023-2027	176,455	30,655
2028-2033	215,629	12,232
Total	\$ 551,761	90,321

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
CAP loan	\$ 586,657		(34,896)	551,761	30,672
Bonds payable:					
Revenue bonds	17,222		(6,382)	10,840	10,840
Business-type activity long-term liabilities	\$ 603,879	0	(41,278)	562,601	41,512

(3) Other Information.

A. Contingencies.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the City with respect to the various proceedings; however, the City's legal counsel believes that any ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the City.

CITY OF LUCEDALE

Notes to the Financial Statements
For the Year Ended September 30, 2017

B. Defined Benefit Pension Plan.

General Information about the Pension Plan.

Plan Description. The City of Lucedale 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 State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 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 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. At September 30, 2017, PERS members were required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2017 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2017, 2016 and 2015 were \$232,561, \$227,715 and \$224,860, respectively, equal to the required contributions for each year.

CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

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

At September 30, 2017, the City reported a liability of \$3,787,306 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The City's proportionate share used to calculate the September 30, 2017 net pension liability was .02278300 percent, which was based on a measurement date of June 30, 2017. This was an increase of .00024800 percent from its proportionate share used to calculate the September 30, 2016 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended September 30, 2017, the City recognized pension expense of \$578,598. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 54,349	27,635
Net difference between projected and actual earnings on pension plan investments	344,271	292,628
Changes of assumptions	79,882	
Changes in proportion and differences between City contributions and proportionate share of contributions	7,960	
City contributions subsequent to the measurement date	<u>55,174</u>	
Total	\$ <u>541,636</u>	<u>320,263</u>

\$55,174 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 262,683	84,817
2019	139,008	84,817
2020	84,771	77,471
2021		<u>73,158</u>
Total	\$ <u>486,462</u>	<u>320,263</u>

CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

Actuarial Assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.0 percent
Salary increases	3.75 – 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with male rates set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Broad	27.00 %	4.60 %
International Equity	18.00	4.50
Emerging Markets Equity	4.00	4.75
Fixed Income	18.00	0.75
Global	12.00	4.75
Emerging Debt	2.00	2.25
Real Assets	10.00	3.50
Private Equity	8.00	5.10
Cash	1.00	0.00
Total	100.00 %	

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent. 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.

CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

Sensitivity to 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 percent, 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 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	\$ 4,967,307	\$ 3,787,306	\$ 2,807,652

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS Comprehensive Annual Financial Report, publicly available at www.pers.ms.gov.

C. Risk Management.

The City classifies risks of loss in the following categories: torts; theft of damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk of loss resulting from any of the above is mitigated through the purchase of commercial insurance.

D. Subsequent Events.

GAAP requires the City to evaluate events that occur subsequent to the date of the Statement of Net Position but before the financial statements are issued (subsequent events). Such events that provide additional evidence with respect to conditions that existed as of the Statement of Net Position date are recognized in the accompanying financial statements. However, subsequent events that provide evidence with respect to conditions that did not exist at the Statement of Net Position date but arose subsequently and are of such a nature that their disclosure is essential to the user's understanding of the financial statements, are required to be disclosed herein. Management of the City of Lucedale evaluated the City's activity and events that occurred through May 1, 2018 and determined that no subsequent events met the disclosure requirements.

E. Change in Accounting Standard.

The City implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 77, *Tax Abatement Disclosures* and GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*. The provisions of these standards have been incorporated into the financial statements and notes.

F. Effect of Deferred Amounts on Net Position.

The City of Lucedale's unrestricted net position amount of \$1,729,853 includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$541,636 balance of deferred outflow of resources at September 30, 2017 will be recognized as an expense and will decrease the unrestricted net position over the next three years.

The City of Lucedale's unrestricted net position amount of \$1,729,853 includes the effect of deferring the recognition of income resulting from a deferred inflow from pensions. The \$320,263 balance of deferred inflows of resources at September 30, 2017, will be recognized as income and will increase the unrestricted net position over the next four years.

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CITY OF LUCEDALE

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

G. Tax Abatements.

For the year beginning October 1, 2016, the Governmental Accounting Standards Board (GASB) implemented Statement 77, *Tax Abatement Disclosures*. This statement requires governmental entities to disclose the reduction in tax revenues resulting from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forego tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

As of September 30, 2017, the City has not entered into any tax abatement agreements.

CITY OF LUCEDALE

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Budgetary Comparison Schedule – General Fund

Schedule of the City's Proportionate Share of the Net Pension Liability

Schedule of the City's Pension Contributions

Notes to the Required Supplementary Information

CITY OF LUCEDALE
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes	\$ 363,000	415,214	415,214	
Licenses and permits	237,200	203,249	203,249	
Fines and forfeitures	135,000	120,701	120,701	
Intergovernmental revenues	2,436,775	2,431,950	2,431,950	
Charges for services	183,000	184,211	184,211	
Interest earned	14,695	29,903	29,903	
Miscellaneous revenues	35,500	131,361	131,361	
Total Revenues	<u>3,405,170</u>	<u>3,516,589</u>	<u>3,516,589</u>	<u>0</u>
EXPENDITURES				
General government	735,195	731,177	731,177	
Public safety	1,720,741	1,445,751	1,445,751	
Public works	1,162,171	958,489	958,489	
Culture and recreation	414,025	359,178	359,178	
Urban and economic development	82,000	65,152	65,152	
Total Expenditures	<u>4,114,132</u>	<u>3,559,747</u>	<u>3,559,747</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(708,962)</u>	<u>(43,158)</u>	<u>(43,158)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	0	(30,661)	(30,661)	
Total Other Financing Sources and Uses	<u>0</u>	<u>(30,661)</u>	<u>(30,661)</u>	<u>0</u>
Net Change in Fund Balance	(708,962)	(73,819)	(73,819)	0
Fund Balances - Beginning	<u>708,962</u>	<u>3,877,625</u>	<u>3,877,625</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>3,803,806</u>	<u>3,803,806</u>	<u>0</u>

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

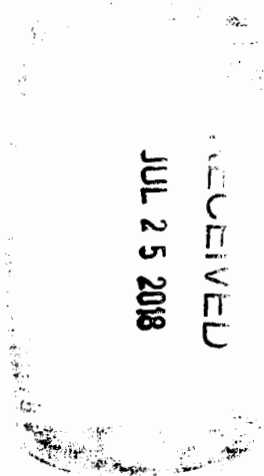
CITY OF LUCEDALE
Schedule of the City's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	\$ 3,787,306	4,025,314	3,613,314	2,637,017
City's proportionate share of the net pension liability (asset)	0.022783 %	0.022535 %	0.023375 %	0.021725 %
City's covered-employee payroll	\$ 1,461,517	1,441,606	1,460,324	1,392,622
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	259.135268	279.22428 %	247.43235 %	189.35626 %
Plan fiduciary net position as a percentage of the total pension liability	61.49 %	57.467727 %	61.703983 %	67.207687 %

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

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and until a full 10-year trend is compiled, the City has only presented information for the years in which information was available.



CITY OF LUCEDALE
Schedule of the City's Contributions
Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 232,561	227,715	224,860
Contributions in relation to the contractually required contribution	<u>232,561</u>	<u>227,715</u>	<u>224,860</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>
City covered-employee payroll	\$ 1,476,578	1,445,810	1,427,526
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented for the fiscal year ended September 30, 2015, and until a full 10-year trend is compiled, the City has only presented information for the years in which information was available.

CITY OF LUCEDALE

**Notes to the Required Supplementary Information
For the Year Ended September 30, 2017**

Note 1. Budget.

A. Budgetary Information.

Statutory requirements dictate how and when the City's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the City, using historical and anticipated fiscal data and proposed budgets submitted by the various department managers for their respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Aldermen that budgetary estimates will not be met, it may make revisions to the budget.

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.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund:

	Governmental Fund Types
	General Fund
Net Change in Fund Balance - Budget (Cash Basis)	\$ (73,819)
Increase (decrease):	
Net adjustments for revenue accruals	(8,365)
Net adjustments for expenditure accruals	2,547
Net Change in Fund Balance GAAP Basis	\$ (79,637)

CITY OF LUCEDALE

**Notes to the Required Supplementary Information
For the Year Ended September 30, 2017**

Note 2. Schedule of the City's Proportionate Share of the Net Pension Liability and Schedule of the City's Contributions.

A. Changes of Assumptions.

2015

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.

The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

2017

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual and anticipated experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

B. Changes in Benefit Provisions.

2016

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

CITY OF LUCEDALE

SCHEDULE OF SURETY BONDS

CITY OF LUCEDALE
Surety Bonds for City Officials - UNAUDITED
September 30, 2017

<u>Name</u>	<u>Covered Position</u>	<u>Company</u>	<u>Amount</u>
Darwin Nelson	Mayor	Travelers Casualty & Surety	\$ 50,000
Al Jones	Alderman	Travelers Casualty & Surety	50,000
Carrie Moulds	Alderman	Travelers Casualty & Surety	50,000
Jason Martin	Alderman	Travelers Casualty & Surety	50,000
Louis Valentine	Alderman	Travelers Casualty & Surety	50,000
James Redd	Alderman	Travelers Casualty & Surety	50,000
Kathy Johnson-Anderson	City Clerk	Travelers Casualty & Surety	50,000
Kathy Johnson-Anderson	City Clerk	FCCI Insurance	160,000
Kellum Fairley	Police Chief	Old Republic Surety	50,000
Various	Dispatchers, each	Old Republic Surety	10,000
Natasha Pipkins	Deputy Court Clerk	Old Republic Surety	50,000
Miranda Weaver	Bus Driver	Old Republic Surety	50,000
Doris Cook	Deputy Court Clerk	Old Republic Surety	50,000
Tammy Oldenquist	Deputy City Clerk	Old Republic Surety	50,000
Brandi Havard	Inventory Clerk	Old Republic Surety	50,000
Lorie Breland	Water Clerk	Old Republic Surety	50,000
Miranda Dickey	Purchase Clerk	Old Republic Surety	25,000
Annette Harvison	Deputy City Clerk	Old Republic Surety	50,000

CITY OF LUCEDALE

SPECIAL REPORTS

JUL 25 2013

Windham and Lacey, PLLC

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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 THE
BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and
Members of the Board of Aldermen
City of Lucedale, Mississippi

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the City of Lucedale, Mississippi, as of and for the year ended September 30, 2017, which collectively comprise the City of Lucedale, Mississippi's basic financial statements and have issued our report thereon dated May 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lucedale, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

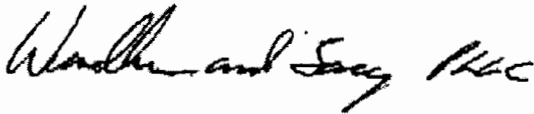
Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Windham and Lacey, PLLC". The signature is written in a cursive, flowing style.

Windham and Lacey, PLLC
May 1, 2018

Windham and Lacey, PLLC

Certified Public Accountants

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

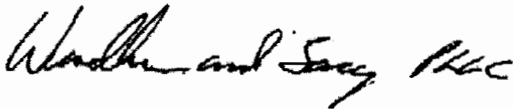
Honorable Mayor and
Members of the Board of Aldermen
City of Lucedale, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the City of Lucedale, Mississippi, as of and for the year ended September 30, 2017, and have issued our report thereon dated May 1, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

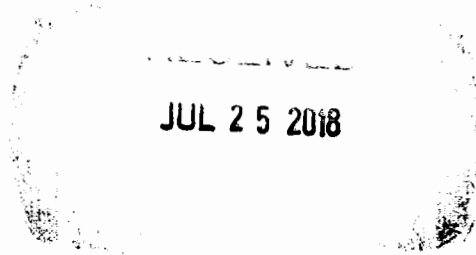
As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures and our audit of the basic financial statements disclosed no instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of management, the Board of Aldermen, and others within the City 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.



Windham and Lacey, PLLC
May 1, 2018



JUL 25 2018

CITY OF LUCEDALE

SCHEDULE OF FINDINGS AND RESPONSES

CITY OF LUCEDALE

**Schedule of Findings and Responses
For the Year Ended September 30, 2017**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of auditor's report issued on the primary government financial statements: | Unmodified |
| 2. | Internal control over financial reporting: | |
| a. | Material weaknesses identified? | No |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| 3. | Noncompliance material to the financial statements? | No |

Section 2: Financial Statement Findings

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

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