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CITY OF BAY SPRINGS, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

RECEIVED

JUL 25 2016

**CITY OF BAY SPRINGS, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	7
Statement of Activities	9
Balance Sheet – Governmental Funds	10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Net Position – Proprietary Funds	14
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	15
Statement of Cash Flows – Proprietary Funds	16
Notes to the Financial Statements	17
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) General Fund	37
Notes to the Required Supplementary Information	38
Schedule of the City's Proportionate Share Of the Net Pension Liability	40
Schedule of the City's Contributions	41
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	43
OTHER INFORMATION	
Schedule of Surety Bonds for Municipal Officials	45
SPECIAL REPORTS	
Independent Auditors' 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 <i>Government Auditing Standards</i>	47
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	49
Independent Auditors' Report on Compliance with State Laws and Regulations	51
Schedule of Findings and Questioned Costs	53

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JUL 25 2016

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
City of Bay Springs, Mississippi

Report on the Financial Statements

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 Bay Springs, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinions

In our opinion, the financial statements referred to previously 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 Bay Springs, Mississippi, as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Proportionate Share of the Net Pension Liability, the Schedule of the City's Contributions, 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 an appropriate operational, economic, or historical context. We 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 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 Bay Springs, Mississippi, has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required 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 financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City of Bay Springs, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Expenditures of Federal Awards 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 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 taken as a whole.

The Schedule of Surety Bonds for Municipal Officials 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 Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2016, on our consideration of the City of Bay Springs, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bay Springs, Mississippi's internal control over financial reporting and compliance.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
April 28, 2016

BASIC FINANCIAL STATEMENTS

City of Bay Springs, Mississippi
Statement of Net Position
September 30, 2015

EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 636,623	\$ 1,347,975	\$ 1,984,598
Restricted assets - cash	44,571	-	44,571
Property tax receivable	761,877	-	761,877
Receivables (net of uncollectibles):			
Accounts	14,372	418,545	432,917
Sales tax	54,119	-	54,119
Other	185,461	-	185,461
Due from other funds	2,893	1,492	4,385
Prepaid expenses	6,669	-	6,669
Capital assets (net of accumulated depreciation):			
Land	257,243	453,918	711,161
Construction in progress	494,097		494,097
Buildings	882,835		882,835
Improvements other than buildings	1,381,341	2,142	1,383,483
Mobile equipment	47,115	119,173	166,288
Other furniture and equipment	107,673	98,245	205,918
Infrastructure	225,027	-	225,027
Utility systems	-	5,578,009	5,578,009
Total Assets	5,101,916	8,019,499	13,121,415
Deferred Outflows of Resources			
Deferred outflows related to pension	279,318	178,580	457,898
Total Deferred Outflows of Resources	279,318	178,580	457,898
Total Assets and Deferred Outflows of Resources	\$ 5,381,234	\$ 8,198,079	\$ 13,579,313

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

City of Bay Springs, Mississippi
Statement of Net Position
September 30, 2015

Page 2
EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	\$ 215,119	\$ 308,938	\$ 524,057
Accrued payroll	31,182	18,206	49,388
Due to other funds	-	4,385	4,385
Customer deposits	-	112,198	112,198
Other accrued liabilities	14,980	-	14,980
Non-current Liabilities:			
Due within one year	19,142	57,530	76,672
Due in more than one year	98,587	630,819	729,406
Long-term compensated absences	36,532	35,403	71,935
Net pension liability	1,602,998	1,024,867	2,627,865
Total Liabilities	2,018,540	2,192,346	4,210,886
Deferred Inflows of Resources			
Unearned Revenue- property taxes	761,877	-	761,877
Total Deferred Inflows of Resources	761,877	-	761,877
Net Position			
Net investment in capital assets	3,277,602	5,563,138	8,840,740
Restricted for debt service	79,055	-	79,055
Unrestricted	(755,840)	442,595	(313,245)
Total Net Position	2,600,817	6,005,733	8,606,550
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 5,381,234	\$ 8,198,079	\$ 13,579,313

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

City of Bay Springs, Mississippi
Statement of Activities
For the Year Ended September 30, 2015

EXHIBIT 2

Function/Programs:	Program Revenues			Business-		Total
	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Type Activities	
Governmental Activities:						
General government	\$ (982,548)	\$ -	\$ -	\$ (982,548)	\$ -	\$ (982,548)
Public safety	(580,226)	2,100	-	(578,126)	-	(578,126)
Public works	(625,124)	-	907,213	411,815	-	411,815
Culture and recreation	(181,540)	-	-	(181,540)	-	(181,540)
Economic development	(128,404)	-	-	(128,404)	-	(128,404)
Interest on long-term debt	(7,135)	-	-	(7,135)	-	(7,135)
Total governmental activities	(2,504,977)	2,100	907,213	(1,465,938)	-	(1,465,938)
Business-type Activities:						
Water	-	-	-	-	(324,701)	(324,701)
Sewer	-	-	-	-	82,462	82,462
Gas	-	-	-	-	123,254	123,254
Industrial park	-	-	-	-	265,948	265,948
Total business-type activities	-	-	-	-	146,963	146,963
Total functions/programs	\$ (2,504,977)	\$ 2,100	\$ 907,213	\$ (1,465,938)	\$ 146,963	\$ (1,318,975)
General revenues:						
Property tax				\$ 699,707	\$ -	\$ 699,707
Franchise tax				134,114	-	134,114
Sales tax				660,696	-	660,696
Licenses and permits				12,828	-	12,828
Fines and forfeitures				19,967	-	19,967
Intergovernmental, not restricted to specific functions/programs				32,788	-	32,788
Other				50,704	-	50,704
Transfers in (out)				360,521	(360,521)	-
Total general revenues and transfers				1,971,325	(360,521)	1,610,804
Change in Net Position				505,387	(213,558)	291,829
Net Position- Beginning, as previously reported				3,250,823	6,957,986	10,208,809
Prior period adjustment				(1,155,393)	(738,695)	(1,894,088)
Net Position-Beginning, as restated				2,095,430	6,219,291	8,314,721
Net Position, End of year				\$ 2,600,817	\$ 6,005,733	\$ 8,606,550

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

EXHIBIT 3

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

City of Bay Springs, Mississippi
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
September 30, 2015

EXHIBIT 3.1

Fund balances - Total Governmental Funds		\$ 683,427
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Amounts reported for governmental activities in the Statement of
Net Position are different because:

Capital assets used in governmental activities are not financial resources,
and therefore, are not reported in the funds.

Governmental Capital Assets	6,140,214	
Less: Accumulated depreciation	<u>(2,744,883)</u>	3,395,331

Long-term liabilities, including bonds payable, are not due and payable
in the current period, and therefore, are not reported in the funds.

Notes payable	(117,729)	
Compensated absences	<u>(36,532)</u>	(154,261)

Deferred Outflows related to pension liability are applicable to future periods, and therefore, are not reported in the funds.	279,318
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Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(1,602,998)
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Net Position of Governmental Activities	<u>\$ 2,600,817</u>
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The notes to the financial statements are an integral part of this statement.

City of Bay Springs, Mississippi
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2015

EXHIBIT 4

	Governmental Funds			
	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 594,754	\$ 104,953	\$ -	\$ 699,707
Licenses and permits	146,942	-	-	146,942
Intergovernmental revenue	695,585	-	907,212	1,602,797
Charges for services	129,726	-	-	129,726
Fines and forfeitures	19,967	-	-	19,967
Other revenues	49,360	79	53	49,492
Total Revenues	1,636,334	105,032	907,265	2,648,631
EXPENDITURES				
Current:				
General government	569,742	-	377,064	946,806
Public safety	585,255	-	-	585,255
Public works	648,299	-	-	648,299
Culture and recreation	181,540	-	-	181,540
Economic development	59,744	-	562,757	622,501
Debt service:				
Principal retirement	46,206	18,237	-	64,443
Interest and fiscal charges	175	6,960	-	7,135
Total Expenditures	2,090,961	25,197	939,821	3,055,979
Excess (Deficiency) of Revenues Over Expenditures	(454,627)	79,835	(32,556)	(407,348)
OTHER FINANCING SOURCES AND (USES)				
Transfers in	472,206	-	2,500	474,706
Transfers out	(37,979)	(46,206)	(30,000)	(114,185)
Proceeds from sale of assets	-	-	-	-
Total Other Financing Sources and (Uses)	434,227	(46,206)	(27,500)	360,521
Net Change in Fund Balances	(20,400)	33,629	(60,056)	(46,827)
Fund Balances - Beginning	622,212	45,426	62,616	730,254
Fund Balances - Ending	\$ 601,812	\$ 79,055	\$ 2,560	\$ 683,427

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

City of Bay Springs, 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, 2015

EXHIBIT 4.1

Net Changes in Fund Balances - Total Governmental Funds	\$ (46,827)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

Expenditures for capital assets	878,512	
Less: Current year depreciation	<u>(223,060)</u>	655,452

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term debt in the Statement of Net Position.

Principal payments	<u>64,443</u>	64,443
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Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in long-term compensated absences		606
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Some items reported in the Statement of Activities relating to the Implementation of GASB 68 are not reported in the government funds. These activities include:

Recording of pension expense for the current period	(191,050)	
Recording of contributions made subsequent to measurement date	<u>22,763</u>	<u>(168,287)</u>

Change in Net Position of Governmental Activities	<u>\$ 505,387</u>
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The notes to the financial statements are an integral part of this statement.

City of Bay Springs, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2015

EXHIBIT 5

	Enterprise Funds				
	Water	Sewer	Gas	Industrial Park	Total Enterprise Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 75,809	\$ 163,577	\$ 840,263	\$ 268,326	\$ 1,347,975
Accounts receivable	87,117	70,935	260,493	-	418,545
Due from other funds	-	-	1,492	-	1,492
Total current assets	162,926	234,512	1,102,248	268,326	1,768,012
Noncurrent assets:					
Capital assets:					
Land	258	38,517	-	415,143	453,918
Improvements	18,718	-	-	15,085	33,803
Systems	3,095,344	2,704,278	579,000	2,894,392	9,273,014
Mobile equipment	105,911	36,888	212,879	61,539	417,217
Other furniture and equipment	74,769	132,621	197,480	112,321	517,191
Less accumulated depreciation	(1,290,704)	(1,341,926)	(710,170)	(1,100,856)	(4,443,656)
Total noncurrent assets	2,004,296	1,570,378	279,189	2,397,624	6,251,487
Total assets	2,167,222	1,804,890	1,381,437	2,665,950	8,019,499
Deferred Outflows of Resources:					
Deferred outflows related to pension	41,211	22,895	77,842	36,632	178,580
Total Assets and Deferred Outflows of Resources	\$ 2,208,433	\$ 1,827,785	\$ 1,459,279	\$ 2,702,582	\$ 8,198,079
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 51,414	\$ 2,167	\$ 241,791	\$ 13,566	\$ 308,938
Accrued payroll	5,504	2,818	6,030	3,854	18,206
Due to other funds	4,385	-	-	-	4,385
Customer deposits	77,229	-	34,969	-	112,198
Current portion of long-term debt	38,324	2,637	-	16,569	57,530
Total current liabilities	176,856	7,622	282,790	33,989	501,257
Noncurrent liabilities:					
Compensated absences payable	10,615	6,359	6,334	12,095	35,403
Long-term debt	348,795	136,908	-	145,116	630,819
Net pension liability	236,508	131,393	446,737	210,229	1,024,867
Total noncurrent liabilities	595,918	274,660	453,071	367,440	1,691,089
Total liabilities	772,774	282,282	735,861	401,429	2,192,346
NET POSITION					
Net investment in capital assets	1,617,177	1,430,833	279,189	2,235,939	5,563,138
Unrestricted	(181,518)	114,670	444,229	65,214	442,595
Total net position	1,435,659	1,545,503	723,418	2,301,153	6,005,733
Total liabilities and net position	\$ 2,208,433	\$ 1,827,785	\$ 1,459,279	\$ 2,702,582	\$ 8,198,079

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

City of Bay Springs, Mississippi
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2015

EXHIBIT 6

	Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Gas	Industrial Park	
Operating revenues:					
Sales	\$ 434,268	\$ 227,629	\$ 1,409,676	\$ 709,682	\$ 2,781,255
Other revenue	37,068	122,614	10,741	402	170,825
Total operating revenues	471,336	350,243	1,420,417	710,084	2,952,080
Operating expenses:					
Personnel services	166,731	99,399	308,166	123,612	697,908
Contractual services, materials, and supplies	150,725	48,933	123,008	74,350	397,016
Utilities	106,173	36,945	3,848	120,485	267,451
Other services and charges	265,569	4,176	817,963	35,237	1,122,945
Depreciation	98,422	74,133	44,178	88,016	304,749
Total operating expenses	787,620	263,586	1,297,163	441,700	2,790,069
Operating income (loss)	(316,284)	86,657	123,254	268,384	162,011
Nonoperating expense:					
Interest Expense	(8,417)	(4,195)	-	(2,436)	(15,048)
Income (loss) before transfers	(324,701)	82,462	123,254	265,948	146,963
Transfers in	204,216	14,979	-	-	219,195
Transfers out	-	-	(251,216)	(328,500)	(579,716)
Change in net position	(120,485)	97,441	(127,962)	(62,552)	(213,558)
Total net position- beginning, as previously reported	1,726,613	1,542,766	1,173,376	2,515,231	6,957,986
Prior period adjustment	(170,469)	(94,704)	(321,996)	(151,526)	(738,695)
Net position-beginning, as restated	1,556,144	1,448,062	851,380	2,363,705	6,219,291
Total net position - ending	\$ 1,435,659	\$ 1,545,503	\$ 723,418	\$ 2,301,153	\$ 6,005,733

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

City of Bay Springs, Mississippi
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2015

EXHIBIT 7

	Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Gas	Industrial Park	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers and users	\$ 469,462	\$ 344,176	\$ 1,240,603	\$ 710,084	\$2,764,325
Cash payments to suppliers	(493,730)	(92,540)	(763,137)	(160,766)	(1,510,173)
Cash payments to employees	(165,115)	(103,050)	(316,610)	(199,016)	(783,791)
Operating transfers	204,216	14,979	(251,216)	(328,500)	(360,521)
Net cash provided by (used by) operating activities	14,833	163,565	(90,360)	21,802	109,840
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchases of capital assets	(5,416)	(4,704)	(46,265)	(61,136)	(117,521)
Principal payments	(42,597)	(105,115)	-	(19,992)	(167,704)
Net cash (used by) capital and related financing activities	(48,013)	(109,819)	(46,265)	(81,128)	(285,225)
Net increase (decrease) in cash and cash equivalents	(8,352)	67,540	(89,726)	(37,255)	(67,793)
Cash and cash equivalents, beginning of year	84,161	96,037	929,989	305,581	1,415,768
Cash and cash equivalents, end of year	\$ 75,809	\$ 163,577	\$ 840,263	\$ 268,326	\$1,347,975
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:					
Change in net position	\$ (120,485)	\$ 97,441	\$ (127,962)	\$ (62,552)	\$ (213,558)
Adjustments not affecting cash:					
Depreciation expense	98,422	74,133	44,178	88,016	304,749
Changes in assets and liabilities:					
(Increase) in accounts receivable	(1,874)	(6,067)	(179,814)	-	(187,755)
(Increase) in due from other funds	-	-	(1,492)	-	(1,492)
Increase (decrease) in accounts payable	32,234	(2,486)	181,682	(5,045)	206,385
Increase in customer deposits	535	-	730	-	1,265
Increase (decrease) in payroll related liabilities	1,325	295	(2,047)	592	165
Increase (decrease) in compensated absences payable	291	249	(5,635)	791	(4,304)
Increase in due to other funds	4,385	-	-	-	4,385
Total adjustments	135,318	66,124	37,602	84,354	323,398
Net cash provided by (used by) operating activities	\$ 14,833	\$ 163,565	\$ (90,360)	\$ 21,802	\$ 109,840

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

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Bay Springs, Mississippi (the "City") was incorporated in 1904. The City operates under a Mayor-Aldermen form of government and provides the following services as authorized by its charter: public safety (police and volunteer fire protection), highways and streets, sanitation, wastewater, water, natural gas, public libraries, parks, public improvements, planning and zoning, and general administrative services.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements:

The statement of net position and the statement of activities display information concerning the City as a whole. The statements include no fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenue and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The statement of net position presents the financial condition of the governmental activities and business-type activities of the City at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the City.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Financial Statements:

The governmental and proprietary financial statements of the City 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 that constitute its assets, liabilities, fund balance, revenues and expenditures/expenses. Funds are organized into governmental and proprietary categories. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the City. Grants are recognized as revenue as soon as all eligibility requirements have been satisfied.

The City's proprietary funds apply 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.

The revenues and expenses of proprietary funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental fund financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The City reports the following major Governmental Funds:

General Fund - This fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

The other Governmental Funds of the City account for grants and other resources whose use is restricted to a particular purpose.

The City reports the following major Proprietary Funds:

Water Fund - This fund accounts for the revenues generated from the charges for distribution of water to the residential and commercial users in the City.

Sewer Fund - This fund accounts for the revenues generated from the charges for sanitary sewer services provided to the residential and commercial users in the City.

Gas Fund - This fund accounts for the revenues generated from the charges for providing natural gas service to the residential and commercial users in the City.

Industrial Park Fund - This fund accounts for the revenues generated from charges for sanitary sewer services provided to commercial entities located within the City's Industrial Park.

Capital Assets

Property and equipment purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Pursuant to GASB Statement 34, small governmental entities (less than \$10 million in annual revenue) are not required to retroactively state the values of infrastructure purchased or constructed in prior years. Therefore, infrastructure acquired prior to October 1, 2002 has not been recorded, unless the value was already included in the City's inventory of capital assets. GASB 34 requires the reporting and depreciation of new infrastructure expenditures effective with the beginning of the implementation year (October 1, 2002).

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Depreciation has been provided using the straight-line method which approximates methods used generally accepted accounting principles, over the following estimated useful lives:

Building	40 Years
Building improvements	20 Years
Improvements other than buildings	20 Years
Infrastructure	20-30 Years
Utility systems	40 Years
Equipment	3-10 Years
Library books	10 Years

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

Receivables

No allowance account is used by the City as of September 30, 2015. All accounts receivable balances reflect amounts due from customers.

Surety Bonds

Surety bond coverage meets the legal requirements for the year ended September 30, 2015.

Deferred Outflows 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 future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The city has incurred deferred outflows that are related to pension reporting.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences

The City maintains a personnel policy that permits employees to accumulate earned but unused vacation or sick pay benefits. The City records the vested portion of accumulated unused compensated absences at year-end based on each employee's accumulated unused hours and rate of pay, including the City's share of Social Security and Medicare taxes. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. Governmental funds record as an expenditure the amount accrued during the year that would normally be liquidated with available expendable resources.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The 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 that time. The deferred inflows are directly related to pension reporting.

Cash and Cash Equivalents

For purposes of cash flows, the City considers all cash and restricted cash to be cash and cash equivalents.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, and natural gas utility services. Operating expenses are necessary costs that have been incurred in order to provide the service that is the primary activity of the fund.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, construction 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 or regulation 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."

Fund Financial Statements:

The City has adopted the provisions of GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, as of October 1, 2010. These provisions require governmental fund balances to be reported in one of five classifications, replacing the previous classifications of reserved, unreserved, and designated. These five classifications are as follows:

Nonspendable Fund Balance is composed of items which are either not in spendable form or legally or contractually required to be maintained intact.

Restricted Fund Balances are reported using the same criteria used in reporting government-wide net position as noted above.

Committed Fund Balances are amounts that can only be used for specific purposes as a result of constraints imposed for formal action of the individual government's highest level of decision-making authority.

Assigned Fund Balance contains amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance is general fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund.

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. When expenditures are incurred for purposes for which unrestricted (committed, assigned or 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.

JUL 25 2016

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Change in Accounting Standards

The City of Bay Springs adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*. The City of Bay Springs provides its employees with pension benefits through the Public Employees' Retirement system of Mississippi (PERS), a multiple-employer cost-sharing defined benefit retirement program administered by PERS. GASB 68 requires employers participating in multiple-employer cost-sharing plans, such as PERS, to record their proportionate share, as defined in GASB 68, of PERS's unfunded pension liability. The City of Bay Springs has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERS. The cumulative effect of adopting GASB 68 resulted in a \$(1,894,088) restatement of net position as of July 1, 2014, which decreased previously reported net position. Information regarding PERS' current funding status can be found in their Comprehensive Annual Financial Report. Information related to beginning balances for fiscal year 2014 was not available thus the effects of GASB 68 including the related pension liability were not reported on the balance sheet or statements of revenues, expenses and changes in net position for that year.

NOTE 2 – PRIOR PERIOD ADJUSTMENT

Significant adjustments were made to beginning net position as described below:

Statement of Activities:

Implementation of GASB 68	<u>\$(1,894,088)</u>
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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 3 – CASH AND INVESTMENTS

The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with state statutes. Various restrictions on deposits are imposed by statutes.

Code Sec. 21-33-323 Miss Code Ann. (1972) allows municipalities to invest their surplus funds. The City may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts. All investments of the City throughout the year and at year-end were interest bearing time certificates of deposit which are recorded at cost plus interest earned at September 30, 2015. The market value equals the carrying amount of these investments.

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

The City's deposits, which include all cash accounts and certificates of deposits, with a carrying value of \$2,029,169 and a bank balance of \$2,063,803 at September 30, 2015, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the year ended September 30, 2015:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<i><u>Capital assets not being depreciated:</u></i>				
Land	\$ 257,243	\$ -	\$ -	\$ 257,243
Construction in progress	-	494,097	-	494,097
	<u>257,243</u>	<u>494,097</u>	<u>-</u>	<u>751,340</u>
<i><u>Capital assets being depreciated:</u></i>				
Buildings	1,438,671	-	-	1,438,671
Improvements other than buildings	1,819,171	354,621	-	2,173,792
Mobile equipment	962,365	-	-	962,365
Other furniture and equipment	441,432	29,794	-	471,226
Infrastructure	342,820	-	-	342,820
Total capital assets being depreciated	<u>\$ 5,004,459</u>	<u>\$ 384,415</u>	<u>\$ -</u>	<u>\$ 5,388,874</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i><u>Less accumulated depreciation for:</u></i>				
Buildings	\$ 519,869	\$ 35,967	\$ -	\$ 555,836
Improvements other than buildings	699,285	93,166	-	792,451
Mobile equipment	863,015	52,235	-	915,250
Other furniture and equipment	334,185	29,368	-	363,553
Infrastructure	105,469	12,324	-	117,793
Total accumulated depreciation	<u>2,521,823</u>	<u>223,060</u>	<u>-</u>	<u>2,744,883</u>
Total capital assets being depreciated, net	<u>2,482,636</u>	<u>161,355</u>	<u>-</u>	<u>2,643,991</u>
Governmental activities capital assets, net	<u><u>\$ 2,739,879</u></u>	<u><u>\$ 655,452</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,395,331</u></u>

Depreciation expense was charged to the following functions as follows:

Governmental Activities:	
General government	\$ 223,060
Total Depreciation Expense	<u><u>\$ 223,060</u></u>

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 4 - CAPITAL ASSETS – Continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 453,918	\$ -	\$ -	\$ 453,918
Total capital assets not being depreciated	453,918	-	-	453,918
<i>Capital assets being depreciated:</i>				
Utility systems	9,269,188	15,461	-	9,284,649
Improvements other than buildings	22,168	-	-	22,168
Machinery and equipment	360,293	56,924	-	417,217
Other furniture and equipment	472,055	45,136	-	517,191
Total capital assets being depreciated	\$ 10,123,704	\$ 117,521	\$ -	\$ 10,241,225
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Less accumulated depreciation for:</i>				
Utility systems	\$ 3,462,195	\$ 244,445	\$ -	\$ 3,706,640
Improvements other than buildings	18,917	1,109	-	20,026
Machinery and equipment	268,180	29,864	-	298,044
Other furniture and equipment	389,615	29,331	-	418,946
Total accumulated depreciation	4,138,907	304,749	-	4,443,656
Total capital assets being depreciated, net	5,984,797	(187,228)	-	5,797,569
Business-type activities capital assets, net	<u>\$ 6,438,715</u>	<u>\$ (187,228)</u>	<u>\$ -</u>	<u>\$ 6,251,487</u>

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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 5 - LONG-TERM DEBT

Loans payable at September 30, 2015 are comprised of the following issues:

Cap Loans

Purpose	Issue Amount	Maturity Date	Interest Rate	Year-end Balances
Maintenance and storage facility	\$ 260,000	2021	4.80%	\$ 117,729
Water improvements	87,207	2017	3.00%	12,232
Water improvements	94,980	2017	2.00%	28,035
Water well repair	75,000	2016	3.00%	1,036
Water tank	498,100	2028	2.00%	345,816
Water tank	200,000	2027	2.00%	156,499
Water pollution control	249,098	2034	1.75%	139,545
Total				<u>\$ 800,892</u>

Capital Leases

Purpose	Issue Amount	Maturity Date	Interest Rate	Year-end Balances
Purchase 2013 Chevy Silverado	\$ 20,309	2016	2.00%	\$ 5,186
Total				<u>\$ 5,186</u>

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 5 - LONG-TERM DEBT – Continued

The following is a summary of changes in long-term debt for the year ended September 30, 2015:

DEFINITION AND PURPOSE	Balance	Transactions		Balance	Due
	Outstanding Oct 1, 2014	Issued	Redeemed	Outstanding Sept 30, 2015	Within One Year
<u>Governmental Activities:</u>					
CAP Loan - Maintenance and storage facility	\$ 135,966	\$ -	\$ (18,237)	\$ 117,729	\$ 19,142
Capital Lease - Police cars	46,206	-	(46,206)	-	-
Total governmental activities	<u>\$ 182,172</u>	<u>\$ -</u>	<u>\$ (64,443)</u>	<u>\$ 117,729</u>	<u>\$ 19,142</u>
DEFINITION AND PURPOSE	Balance	Transactions		Balance	Due
	Outstanding Oct 1, 2014	Issued	Redeemed	Outstanding Sept 30, 2015	Within One Year
<u>Business-type Activities:</u>					
CAP loan - Water pollution control	\$ 244,660	\$ -	\$ (105,115)	\$ 139,545	\$ 2,637
CAP loan - Water well repairs	7,075	-	(6,039)	1,036	1,036
CAP loan - Water improvements	18,979	-	(6,747)	12,232	6,953
CAP loan - Water improvements	34,700	-	(6,665)	28,035	6,800
CAP loan - Water tank	368,962	-	(23,146)	345,816	23,535
CAP loan - Water tank	169,685	-	(13,186)	156,499	11,383
Capital Lease - 2013 Chevy Silverado	11,992	-	(6,806)	5,186	5,186
Total business-type activities	<u>856,053</u>	<u>-</u>	<u>(167,704)</u>	<u>688,349</u>	<u>57,530</u>
Total government-wide long-term debt	<u>\$ 1,038,225</u>	<u>\$ -</u>	<u>\$ (232,147)</u>	<u>\$ 806,078</u>	<u>\$ 76,672</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15 percent of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20 percent whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2015, the amount of outstanding debt was equal to 2.23 percent of the latest property assessments.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 6 - LONG-TERM DEBT – Continued

Annual debt service requirements to maturity for the following debt reported in the statement of net position are as follows:

<u>Year</u>	<u>Governmental</u>		<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 19,142	\$ 5,288	\$ 57,530	\$ 11,787
2017	20,091	4,339	69,279	12,088
2018	21,087	3,342	43,611	10,514
2019	22,133	2,297	44,477	9,650
2020	23,231	1,199	45,358	8,768
2021-2025	12,045	170	240,642	29,988
2026-2030	-	-	146,412	8,323
2031-2035	-	-	40,337	1,882
2036	-	-	703	-
Total	<u>\$ 117,729</u>	<u>\$ 16,635</u>	<u>\$ 688,349</u>	<u>\$ 93,000</u>

NOTE 7 – RISK MANAGEMENT

The City has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenditures/expenses. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 8 – PENSION PLAN OBLIGATIONS

General Information about the Pension plan

Plan Description

The City of Bay Springs is a member of the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple employer defined benefit pension plan as defined in GASB Statement Number 68, Accounting and Financial Reporting for Pensions. Membership in PERS is a condition of employment and is granted upon hiring for qualifying employees of the City. Code Section 25-11-15, Mississippi Code Ann. (1972) grants the authority for general administration and proper operation of PERS to the PERS Board of Trustees (PERS Board). PERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.pers.ms.gov.

Benefits Provided

For the cost-sharing plan, 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 annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age 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. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. Benefits are established by Section 25-11-1 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature.

A Cost of Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.00% 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 3.00% compounded for each fiscal year thereafter.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 8 – PENSION PLAN OBLIGATIONS (continued)

Contributions

Per Chapter 11 of Title 25, Mississippi Code Ann. (1972), contribution requirements of plan members and their employers are established and may be amended only by the PERS Board. The adequacy of the rates is assessed annually by actuarial valuation. For the year ended September 30, 2015, member employees were required to contribute 9.00 percent of their annual pay, while the City's required contribution rate was 15.75 percent of annual covered payroll. The City's employer contributions to PERS for the year ended September 30, 2015, 2014, and 2013 were \$165,989, \$160,138, and \$140,285 (employer share). The contributions for the year met the required contributions.

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

At September 30, 2015, the City of Bay Springs reported a liability of \$2,627,865 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates, the City of Bay Springs's proportion of the net pension liability was based on employer contributions to PERS for the plan's fiscal year ended June 30, 2015, relative to the total employer contributions of participating employers to PERS. At June 30, 2015, the City of Bay Springs's proportion was .017% which was .001 % more than its proportion measured as of June 30, 2014. Information related to beginning balances for fiscal year 2013 was not available thus the effects of GASB 68 including the related pension liability were not reported on the balance sheet or statements of revenues, expenses and changes in net position for that year.

For the year ended September 30, 2015, the City of Bay Springs, recognized pension expense of \$313,196. At September 30, 2015, the City of Bay Springs reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 40,441	\$ -
Net difference between projected and actual earnings on pension plan investments	153,758	-
Changes in assumptions	226,382	-
Contributions subsequent to the measurement date	37,317	-
	<u>\$ 457,898</u>	<u>\$ -</u>

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 8 – PENSION PLAN OBLIGATIONS (continued)

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

At September 30, 2015, the City of Bay Springs reported \$37,317 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. 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 Ending September 30</u>	<u>Amount</u>
2016	\$ 136,536
2017	136,536
2018	109,069
2019	<u>38,440</u>
	<u>\$ 420,581</u>

Actuarial Assumptions

The total pension liability in the September 30, 2014, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.00%
Salary increases	3.75%-19.00%, average, including inflation
Investment rate of return	7.75%, net of position 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 2016, set forward one year for males.

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

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 8 – PENSION PLAN OBLIGATIONS (continued)

Actuarial Assumptions (continued)

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 allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Long-term Expected Real Rate of Return</u>
U. S. Broad	34.00 %	5.20 %
International equity	19.00	5.00
Emerging markets equity	8.00	5.45
Fixed income	20.00	.25
Real assets	10.00	4.00
Private equity	8.00	6.15
Cash	1.00	(.50)
	<u>100.00 %</u>	

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 employee contributions will be made at the current contribution rate (9.00%) and that participating 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.

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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 8 – PENSION PLAN OBLIGATIONS (continued)

Sensitivity of the City of Bay Springs's Proportionate share of the Net Pension Liability to changes in the Discount Rate

The City of Bay Springs's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the City of Bay Springs's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase 8.75%
Proportionate share of the net pension liability	\$ 3,463,766	\$ 2,627,865	\$ 1,934,223

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report which can be obtained at www.pers.ms.gov.

Payable to the Pension Plan

At September 30, 2015, the City of Bay Springs has no amounts payable for outstanding contributions to the pension plan required for the year ended September 30, 2015.

NOTE 9 – PROPERTY TAXES

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied before September 26, and are due before February 1. The City's property taxes are billed and collected by Jasper County and remitted to the City monthly. Jasper County also remits to the City automobile taxes and a pro-rata share of road and bridge taxes collected by them.

NOTE 10 – INTERFUND TRANSFERS

Funds are frequently transferred from the utility funds to the General Fund to finance the operations of the General Fund. Transfers of this nature were \$472,206 for the year.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2015

NOTE 11 – JOINT VENTURE

In November 1996 the City and Jasper County, Mississippi entered into a joint venture to purchase and improve the Livestock Exhibition Building with each party holding one-half interest in the building. To date, all major renovations and improvements to the building have been completed. All repairs and expenditures related to this property are shared equally by the two parties.

NOTE 12 – DEFICIT FUND BALANCE OF INDIVIDUAL FUNDS

The following funds reported deficits in fund balance at September 30, 2015:

<u>Fund</u>	<u>Deficit Amount</u>
CDBG Fund	<u>\$ (22,990)</u>

NOTE 13 – SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are 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 Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Bay Springs, Mississippi evaluated the activity of the City through April 28, 2016, (the date the financial statements were available to be issued) and determined that no subsequent events require disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Bay Springs, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2015

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual (Budgetary Basis)	
REVENUES				
Property taxes	\$ 639,295	\$ 639,295	\$ 594,754	\$ (44,541)
Licenses and permits	148,200	149,400	146,872	(2,528)
Intergovernmental revenues	628,300	634,600	679,779	45,179
Charges for services	133,000	133,000	129,619	(3,381)
Fines and forfeitures	20,300	20,900	19,467	(1,433)
Other revenue	68,655	49,920	50,575	655
Total Revenues	<u>1,637,750</u>	<u>1,627,115</u>	<u>1,621,066</u>	<u>(6,049)</u>
EXPENDITURES				
Current:				
General government	496,753	589,181	563,448	25,733
Public safety	615,010	598,126	579,077	19,049
Public works	694,684	886,344	636,325	250,019
Culture and recreation	181,151	199,477	176,856	22,621
Economic development	58,300	59,744	59,744	-
Total expenditures	<u>2,045,898</u>	<u>2,332,872</u>	<u>2,015,450</u>	<u>317,422</u>
(Deficiency) of revenues over Expenditures	<u>(408,148)</u>	<u>(705,757)</u>	<u>(394,384)</u>	<u>311,373</u>
OTHER FINANCING SOURCES				
Transfers in	404,748	404,748	403,000	(1,748)
Total Other Financing Sources	<u>404,748</u>	<u>404,748</u>	<u>403,000</u>	<u>(1,748)</u>
Net Change in Fund Balance	(3,400)	(301,009)	8,616	309,625
Fund Balances - beginning	450,770	450,770	491,161	40,391
Fund Balances - ending	<u>\$ 447,370</u>	<u>\$ 149,761</u>	<u>\$ 499,777</u>	<u>\$ 350,016</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

City of Bay Springs, Mississippi
Notes to Required Supplementary Information
For the Year Ended September 30, 2015

Budgetary Information

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

Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted at the City Hall to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance. All budget amendments are approved by the board and are in compliance with the municipal law as determined by the Mississippi Code.

The Board of Aldermen has not taken any official action to authorize anyone to transfer budgeted amounts between departments within any fund. Formal budgetary integration is employed as a management control device during the year for all funds. Mississippi law requires that municipalities budget governmental funds on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principle.

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 and each major special revenue fund.

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).

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City of Bay Springs, Mississippi
Notes to Required Supplementary Information
For the Year Ended September 30, 2015

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major special revenue fund:

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	
Budget (Cash Basis)	\$	8,616
Increase (Decrease)		
Net adjustments for revenue accruals		1,002
Net adjustments for expenditures accruals		(30,018)
GAAP Basis	\$	<u>(20,400)</u>

THE CITY OF BAY SPRINGS
Schedule of the City's Proportionate Share
of the Net Pension Liability
For the Years Ended September 30, 2015 and 2014

	2015	2014
Employer's proportion of the net pension liability (asset)	.017%	.016%
Employer's proportionate share of the net pension liability (asset)	\$ 2,627,865	\$ 1,942,107
Employer's covered-employee payroll	1,053,897	1,016,752
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	249.35%	191.01%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

Information above is presented as of the measurement date of June 30 of the fiscal year presented.

Information is not currently available for prior years; additional years will be displayed as they become available.

THE CITY OF BAY SPRINGS
Schedule of the City's Contributions
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 165,989	\$ 160,138
Contributions in relation to the contractually required	<u>165,989</u>	<u>160,138</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	1,053,897	1,016,752
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

Information above is presented as of the Employer's fiscal year.

Information is not currently available for prior years; additional years will be displayed as they become available.

SUPPLEMENTARY INFORMATION

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**CITY OF BAYS SPRINGS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through the Mississippi Development Authority Community development block grants/state's program*	14.228	1130-13-113-PF-01	<u>\$ 380,966</u>
Total U.S. Department of Housing and Urban Development			<u>380,966</u>
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration Airport Improvement Program*	20.106	3-28-004-007-2013	<u>337,108</u>
Total U.S. Department of Transportation			<u>337,108</u>
<u>Environmental Protection Agency</u>			
Passed-through the Mississippi Department of Environmental Quality Capitalization Grants for Clean Water State Revolving Funds	66.458	SRF-C280844-02	<u>125,094</u>
Total Environmental Protection Agency			<u>125,094</u>
Total Expenditures of Federal Awards			<u>\$ 843,168</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

* Denotes major federal award program.

OTHER INFORMATION

City of Bay Springs, Mississippi
Schedule of Surety Bonds for Municipal Officials
September 30, 2015

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
J. E. Smith	Mayor	RLI Surety	\$ 50,000
Steve Breland	Alderman	RLI Surety	50,000
Mike Lucas	Alderman	RLI Surety	50,000
James L. Nix	Alderman	RLI Surety	50,000
Ronald Keyes	Alderman	RLI Surety	50,000
Bob Cook	Alderman	RLI Surety	50,000
Raymond Delk	Police Chief	RLI Surety	50,000
Cindy Hendry	City Clerk	RLI Surety	50,000
Rhonda Dyess	Deputy Clerk	RLI Surety	50,000
Additional Deputy Clerks (2)	Deputy Clerk	RLI Surety	50,000 each
All Police Officers (7)	Police Officer	RLI Surety	50,000 each

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SPECIAL REPORTS

HERZOG CPA COMPANY, PLLC

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

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
City of Bay Springs, 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, each major fund and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 28, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 15-001 to be a material weakness.

JUL 25 2016

Compliance and Other Matters

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

City of Bay Springs, Mississippi's response to findings

The City of Bay Springs, Mississippi's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely for the information and use of management, the Board of Aldermen, federal awarding agencies, and pass through entities 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.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
April 28, 2016

HERZOG CPA COMPANY, PLLC

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
City of Bay Springs, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the City of Bay Springs, Mississippi's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of Auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Bay Springs, 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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'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 on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Bay Springs, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2015.

Report on Internal Control Over Compliance

The management of the City of Bay Springs, 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's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for 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'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 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 the 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 OMB Circular A-133. Accordingly this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
April 28, 2016

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor, Members of the
Board of Aldermen and City Clerk
City of Bay Springs, Mississippi

We have audited the basic financial statements of City of Bay Springs, Mississippi for the year ended September 30, 2015 and have issued our report dated April 28, 2016. 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 general purpose financial statements disclosed no material instances of noncompliance with state laws and regulations.

This report is intended solely 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.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
April 28, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Bay Springs, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015

Section 1: Summary of Auditors' Results

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of Auditors' report issued on the primary government financial statements: | |
| | Governmental Activities | Unmodified |
| | General Fund | Unmodified |
| | Debt Service Fund | Unmodified |
| | Water Fund | Unmodified |
| | Sewer Fund | Unmodified |
| | Gas Fund | Unmodified |
| | Industrial Park Fund | Unmodified |
| | Aggregate remaining fund information | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness identified? | Yes |
| | b. A significant deficiency identified that is not considered to be a material weakness? | None reported |
| 3. | Noncompliance material to the primary government financial statements? | No |

Federal Awards:

- | | | |
|-----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified that is not considered to be a material weakness? | None reported |
| 5. | Type of Auditors' report issued on compliance for major federal programs: | Unmodified |
| 6. | Any audit finding reported as required by Section .510(a) Of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | Airport Improvement Program | CFDA# 20.106 |
| | Community Development Block Grant/State's Program | CFDA# 14.228 |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section .315(b) of OMB Circular A-133? | No |

**City of Bay Springs, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015**

Section 2: Financial Statement Findings

15-001. Finding

Significant Deficiency- Material Weakness.

As reported in the prior year, the City had a deficit fund balance in the CDBG fund.

Recommendation: The city should transfer monies to the funds, so that a deficit balance does not occur.

Response: The City will comply in the future.

Section 3: Federal Award Findings and Questioned Costs

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