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P.O. Box 1800
Ocean Springs, MS
39566-1800

1018 Porter Avenue
Ocean Springs, MS 39564

PH 228.875.4236
FX 228.875.7249

Connie Moran
Mayor

Bobby Cox
Alderman at Large

John Gill
Alderman Ward 1

Matt McDonnell
Alderman Ward 2

Chic Cody
Alderman Ward 3

Greg Denyer
Alderman Ward 4

Jerry Dalgo
Alderman Ward 5

Michael (Mike) Impey, II
Alderman Ward 6

City Clerk
228.875.4236

Police Chief
228.875.2211

Fire Chief
228.872.4407

Public Works
228.875.3955

Community
Development and
Planning
228.875.4415

Human Resources
and Risk Management
228.872.3338

Parks and
Leisure Services
228.875.8665



City of Ocean Springs

Sept. 1, 2016

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

Re: Annual Municipal Audit

Dear Sir or Madam:

Enclosed is the City of Ocean Springs Annual Audit Report for Fiscal Year Ended September 30, 2015. A separate management letter was not written to the city.

If you have any questions, please feel free to contact me at (228) 875-4236 or sferguson@oceansprings-ms.gov.

Sincerely,

Shelly Ferguson,
City Clerk

RECEIVED

SEP 12 2016

Audited Financial Report

**City of Ocean Springs
Ocean Springs, Mississippi**

Fiscal Year Ended September 30, 2015

RECEIVED

SEP 12 2016

City of Ocean Springs, Mississippi
Audited Financial Report
Fiscal Year Ended September 30, 2015
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Audited Financial Report
Fiscal Year Ended September 30, 2015
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Introductory Section

City of Ocean Springs, Mississippi

Listing of City Officials

September 30, 2015

Elected Officials

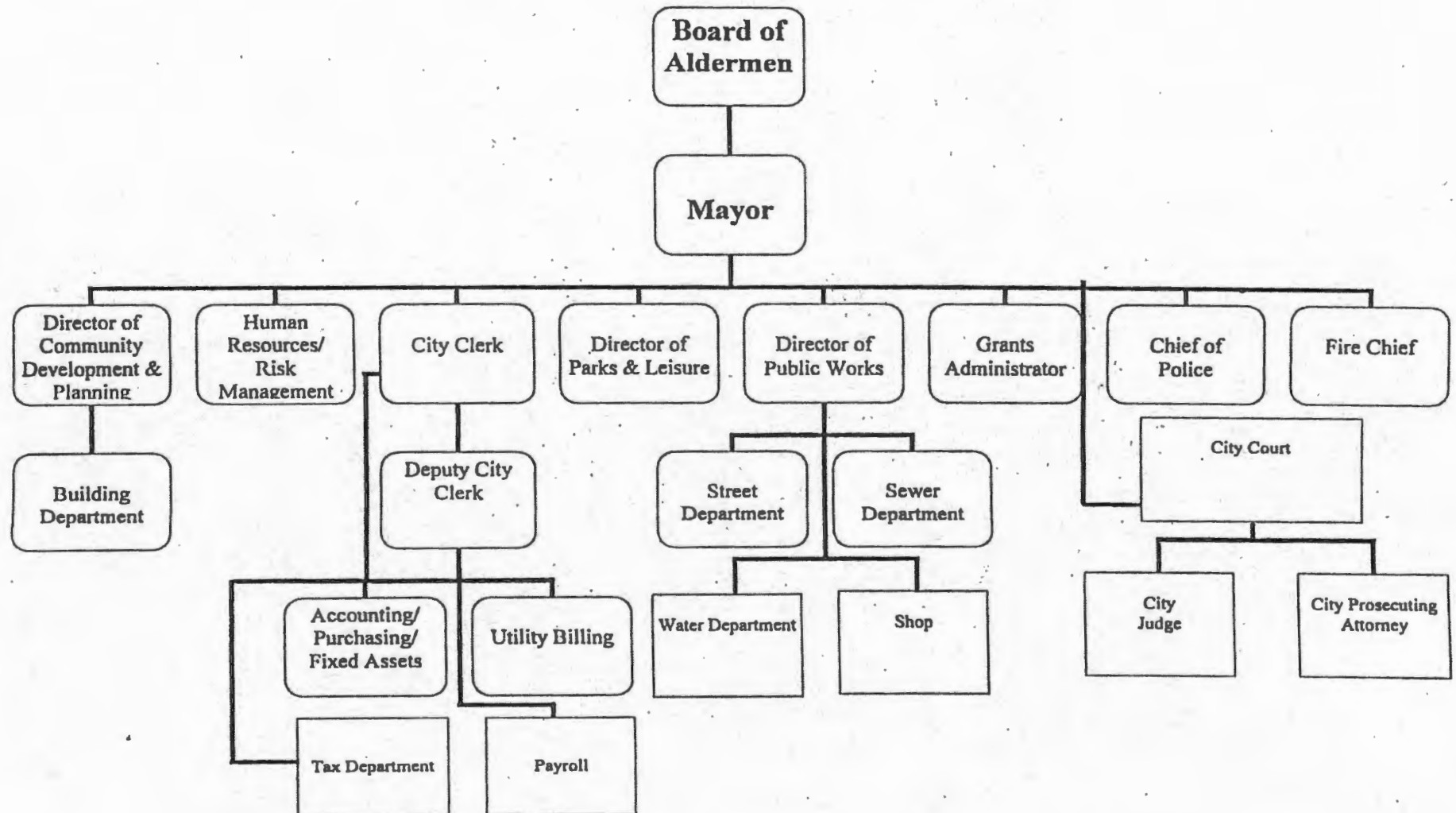
Mayor.....	Connie Moran
Alderman at Large	Robert Cox
Alderman Ward 1.....	John Gill
Alderman Ward 2.....	Matt McDonnell
Alderman Ward 3.....	Frederick Cody, Jr.
Alderman Ward 4.....	Greg Denyer
Alderman Ward 5.....	Jerry Dalgo
Alderman Ward 6.....	Michael Impey

Appointed Department Heads

City Clerk.....	Shelly Ferguson
City Attorney	John Edwards
Police Department.....	Mark Dunston
Fire Department	Jeffrey Ponson
Public Works.....	Johnny Groue
Community Development.....	Vacant
Parks and Recreation.....	Geri Straight
Human Resources	Mindy McDowell

Organizational Chart

City of Ocean Springs, MS



Financial Section

INDEPENDENT AUDITOR'S REPORT

To the Board of Aldermen
City of Ocean Springs
Ocean 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 Ocean Springs, Mississippi ("City"), as of and for the year ended September 30, 2015, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2015, 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 management's discussion and analysis on pages 8 through 14, the schedule of budgetary comparison information on pages 51 through 53 and the schedules of the City's proportionate share of the net pension liability and PERS contributions on pages 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining nonmajor fund financial statements, the schedule of long-term debt, surety bonds, and statistical schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are also not a required part of the financial statements.

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

The introductory section, the schedule of long-term debt, surety bonds, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2016, on our consideration of the City'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* and should be considered in assessing the results of our audit.

Culumber, Harvey & Associates, P.A.

Culumber, Harvey and Associates, PA
Certified Public Accountants

Gulfport, Mississippi
July 25, 2016

Management's Discussion and Analysis

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Introduction

The following Management's Discussion and Analysis of the City of Ocean Springs's ("the City") activities and financial performance provides an introduction to the financial statements of the City for the fiscal year ended September 30, 2015. The information contained in this Management's Discussion and Analysis has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The components of the annual financial report include:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Required Supplemental Information (RSI)

The MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. This MD&A provides comparisons with the previous year.

Financial and Economical Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows at September 30, 2015 by \$37,478,302 and by \$50,496,443 at September 30, 2014, with the large decrease mainly attributable to the implementation of GASB 68 on net pension obligation.
- The total net position increased by \$1,141,613 for 2015, and increased by \$2,937,787 for 2014; and of these amounts, governmental activities increased by \$748,423, while business type activities increased by \$393,190 during 2015, even after transferring \$500,000 to the General fund. During 2014, governmental activities net position increased \$2,778,925, and business type activities net position increased \$158,862.
- The City's governmental funds reported a combined ending fund balance of \$4,742,451 for 2015, and \$2,966,736 for 2014, an increase of \$1,775,715.
- Unassigned fund balance for the general fund was \$2,813,505 for 2015 or 21.2% of total general fund expenditures, compared to \$1,261,087 for 2014 or 9.5% of total general fund expenditures, as a result of conservative fiscal management.
- The City was voted Best Place to Live in Mississippi, Best Town for Weekend Visit, and Best Downtown Area in Mississippi Magazine for 2016.
- Smithsonian Magazine named Ocean Springs as one of the top 20 Small Towns to visit in the nation, and Coastal Magazine named the City the top five in the Happiest Seaside Town in 2015.
- The City recently received designation from Mississippi Department of Transportation as a Scenic Byway.
- In 2013 Ocean Springs was one of three Great American Main Street award winners in the United States.
- The City hosts the annual Peter Anderson Arts and Crafts Festival in November and it is known as the largest fine arts festival in the state with over 400 artists, crafters and food vendors along with over 100,000 visitors in attendance.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Overview of the Financial Statements

The City's basic financial statements comprise the following elements:

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health & welfare, economic development, and culture and recreation. The major business-type activities of the City include providing water and sewer services to the residents of the City of Ocean Springs.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting not only to ensure and demonstrate compliance with finance-related legal requirements but also to help control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes, grants, and other money. All of the funds of the City can be divided into two categories:

- **Governmental funds**

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

The City maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the statement of revenues, expenditures, and changes in fund balances for the general fund, and the food and beverage tax fund, which are determined to be major funds, and the other governmental funds for the purpose of consistency. The general obligation debt service fund was also selected by the City to be reported as a major fund due to its importance to readers.

- **Proprietary Fund**

The City maintains for enterprise funds, which is only one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net position and the statement of revenues, expenses, and changes in net position, along with a statement of cash flow.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. Refer to Note 1 for more detailed information on the elements of the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplemental information. The budget comparison for the general fund is presented immediately after the basic financial statements as required supplemental information.

Government-wide Financial Analysis

The table below presents the City's condensed statement of net position as of September 30, 2015 and 2014.

Government Wide Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and other assets	\$ 5,652,961	\$ 3,955,174	\$ 2,697,683	\$ 2,260,572	\$ 8,350,644	\$ 6,215,746
Capital assets, net	46,238,066	46,810,639	21,323,663	21,247,649	67,561,729	68,058,288
Total assets	51,891,027	50,765,813	24,021,346	23,508,221	75,912,373	74,274,034
 Deferred Outflows of Resources	 2,778,341	 213,603	 390,872	 -	 3,169,213	 213,603
Liabilities:						
Current and other liabilities	1,944,041	1,944,086	1,710,506	1,306,469	3,654,547	3,250,555
Long-term liabilities	29,417,176	15,271,548	7,233,287	5,469,091	36,650,463	20,740,639
Total liabilities	31,361,217	17,215,634	8,943,793	6,775,560	40,305,010	23,991,194
 Deferred Inflows of Resources	 1,127,230	 -	 171,043	 -	 1,298,273	 -
Net position:						
Invested in capital assets, net of related debt	31,353,665	31,382,569	15,951,146	15,422,319	47,304,811	46,804,888
Restricted	1,540,872	1,473,011	-	-	1,540,872	1,473,011
Unrestricted	(10,713,616)	908,202	(653,765)	1,310,342	(11,367,381)	2,218,544
Total net position	\$ 22,180,921	\$ 33,763,782	\$ 15,297,381	\$ 16,732,661	\$ 37,478,302	\$ 50,496,443

Analysis of Government Wide Statement of Net Position:

The City's assets exceeded liabilities by \$37,478,302 for 2015 and by \$50,496,443 for 2014. By far, the largest portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire or construct those assets. In 2015 that amount increased by \$499,923 from \$46,804,888 in 2014 to \$47,304,811 in 2015, while the Capital assets, net of depreciation also decreased from \$68,058,288 in 2014 to \$67,561,729 in 2015. There remains \$2,165,058 of construction in progress on the fixed asset books at the end of 2015. The restricted net assets of \$1,540,872 are comprised of \$23,563 for capital improvements, \$253,047 for public safety, \$57,778 for culture, \$469,293 for economic development, and \$737,191 for future debt service.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

The table below presents the City's condensed statement of activities as of September 30, 2015 and 2014:

Government Wide Statement of Activities						
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ 1,702,350	\$ 1,737,794	\$ 6,383,979	\$ 6,111,417	\$ 8,086,329	\$ 7,849,211
Operating grants	634,624	477,929	-	-	634,624	477,929
Capital grants	983,403	400,069	248,928	75,319	1,232,331	475,388
Total program	3,320,377	2,615,792	6,632,907	6,186,736	9,953,284	8,802,528
General revenues						
Property taxes	3,754,437	3,875,168	-	-	3,754,437	3,875,168
Franchise taxes	884,084	869,502	-	-	884,084	869,502
Sales, restaurant, and hotel taxes	6,179,410	5,413,560	-	-	6,179,410	5,413,560
Intergovernmental	1,414,281	1,373,897	-	-	1,414,281	1,373,897
BP settlement	615,089	-	-	-	615,089	-
Interest earnings	4,729	4,475	-	-	4,729	4,475
Other	186,244	202,718	-	(2,066)	186,244	200,652
Total general	13,038,274	11,739,320	-	(2,066)	13,038,274	11,737,254
Total revenues	16,358,651	14,355,112	6,632,907	6,184,670	22,991,558	20,539,782
Expenses						
General government	1,985,235	2,042,967	-	-	1,985,235	2,042,967
Public safety	7,337,130	6,436,312	-	-	7,337,130	6,436,312
Public works	2,401,806	2,984,549	-	-	2,401,806	2,984,549
Health & welfare	369,378	226,549	-	-	369,378	226,549
Economic development	864,805	471,703	-	-	864,805	471,703
Culture and recreation	2,454,485	2,325,676	-	-	2,454,485	2,325,676
Interest	697,389	695,554	-	-	697,389	695,554
Water	-	-	1,633,638	1,561,283	1,633,638	1,561,283
Sewer	-	-	2,816,964	2,744,509	2,816,964	2,744,509
Garbage	-	-	1,289,115	1,120,016	1,289,115	1,120,016
Total expenses	16,110,228	15,183,310	5,739,717	5,425,808	21,849,945	20,609,118
Operating income (loss)	248,423	(828,198)	893,190	758,862	1,141,613	(69,336)
Forgiveness of debt	-	3,007,123	-	-	-	3,007,123
Unallowable FEMA costs	-	-	-	-	-	-
Operating Transfers	500,000	600,000	(500,000)	(600,000)	-	-
Change in net position	748,423	2,778,925	393,190	158,862	1,141,613	2,937,787
Beginning net position	33,763,782	31,172,186	16,732,661	16,821,325	50,496,443	47,993,511
Prior period adjustments	(12,331,284)	(187,329)	(1,828,470)	(247,526)	(14,159,754)	(434,855)
Restated beginning net	21,432,498	30,984,857	14,904,191	16,573,799	36,336,689	47,558,656
Ending net position	\$22,180,921	\$33,763,782	\$15,297,381	\$16,732,661	\$37,478,302	\$50,496,443

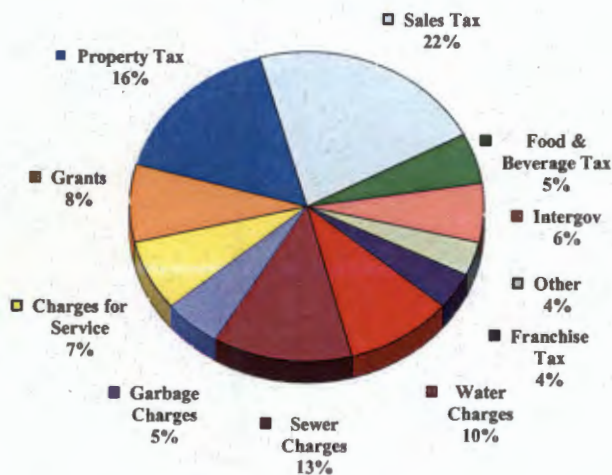
**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Analysis of Government Wide Statement of Activities:

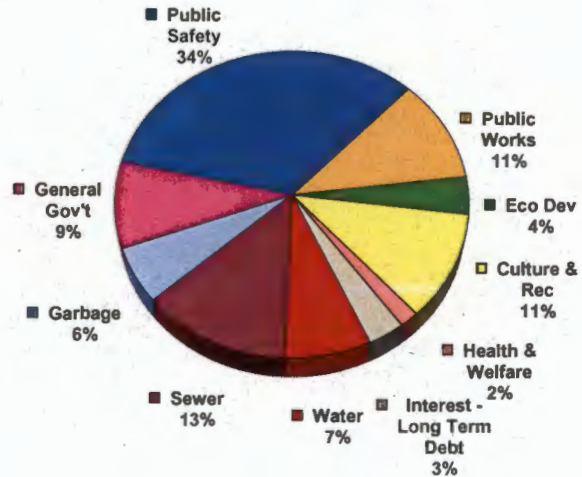
Revenues

Total revenues for 2015 increased by \$2.5 million from \$20,539,782 in 2014 to \$22,991,558 in 2015. With the near completion of hurricane recovery, federal grants are returning to pre-hurricane levels. The following graphs reflect the revenues and expenses of the City and the percentage of total for each type.

Where does the Money Come From?



How is the Money Used?



Property Tax – Property tax accounts for \$3.8 million or 17% of the City's total revenues and is usually considered one of the most stable revenue sources for the City. The City's property tax revenue decreased by \$120,731 as compared to the previous year. The entire Gulf South Region is experiencing significant insurance cost increases, increased cost of construction due to new elevation requirements, and overall insurability issues.

Sales, Restaurant, and Hotel Tax – The most significant source of revenue for the City is sales taxes accounting for \$4.9 million or 22% of the City's total revenues. Sales tax increased as compared to the prior year by \$643,331, while Food & Beverage tax increased by \$122,519 from 2014.

Expenses

Total program expenses increased by \$1,240,827 from \$20,609,118 in 2014 to \$21,849,945 in 2015. The Chart below represents the cost of each of the City's major governmental activities functional areas for 2015:

Governmental Activities:	Total Cost of Service	Net Cost of Service
General Government	\$ 1,985,235	\$ 1,928,804
Public Safety	7,337,130	6,137,306
Public Works	2,401,806	1,384,002
Health and Welfare	369,378	369,378
Economic Development	864,805	583,084
Culture and Recreation	2,454,485	1,689,888
Interest on long term debt	697,389	697,389
Total Governmental activities	\$ 16,110,228	\$ 12,789,851

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Governmental Funds Analysis

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$4,742,451, an increase of \$1.8 million from the previous fiscal year. Of that balance \$23,563 is restricted for capital improvements, \$469,293 for economic development, \$253,047 for public safety, \$57,778 for library support, and \$918,884 for future debt service payments, with the remainder unrestricted in the general fund.

- **General Fund**
 1. Fund balance totaled \$3,019,886, an increase of \$1.5 million from the previous year.
 2. Revenues increased \$1.3 million, while expenditures increased by only \$7,478.
 3. Received \$500,000 transfer from Water & Sewer funds.
 4. Received \$250,000 loan proceeds for Mary C. O'Keefe building roof repair.
- **General Obligation Fund (Debt Service)**
 1. Paid out \$498,484 in debt service, and received \$301,819 in property tax revenues.
 2. Fund Balance totaled \$181,384, a decrease of \$196,665 from the previous year.
- **Food and Beverage Tax Fund**
 1. Received \$1,204,356 in tax revenues.
 2. Paid out \$998,316 in costs, including \$896,293 of debt service.
 3. Fund balance totaled \$1,200,335, an increase of \$258,021 from the previous year.

Enterprise Funds Analysis

Total operating income decreased \$52,519 from previous year, and the net change in position was \$393,190 after transferring \$500,000 to the General fund, resulting in unrestricted net position of \$(653,765) at the end of 2015.

	2015	2014
Operating Revenues	\$ 6,383,979	\$ 6,111,417
Operating Expenses	5,608,325	5,283,244
Operating Income	775,654	828,173
Non-Operating Items:		
Interest Expense	(131,392)	(142,564)
Grant Revenue	248,928	75,319
Transfers Out	(500,000)	(600,000)
Other	-	(2,066)
	(382,464)	(669,311)
Change in Net Position	\$ 393,190	\$ 158,862

Budget Variances in the General and Food and Beverage Tax Funds

Amendments to the General Fund original budget increased total appropriations and revenues by \$1.7 million each. Refer to the budgetary comparison schedule for the General Fund and the Food and Beverage Tax Fund on page 51-53 in the RSI section of the annual report.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2015, the City reported \$46,238,066 in net capital assets for governmental activities and \$21,323,655 for business-type activities for a total of \$67,561,721 net of depreciation, compared to \$68,058,288 for 2014. Construction in progress increased from \$1,295,709 in 2014 to \$2,165,058 in 2015.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land and artwork	\$ 9,365,447	\$ 9,365,447	\$ 29,413	\$ 29,413	\$ 9,394,860	\$ 9,394,860
Buildings & improvements	10,956,960	11,163,936	3,191	3,191	10,960,151	11,167,127
Machinery & equipment	309,403	387,691	282,768	326,015	592,171	713,706
Infrastructure & systems	9,144,403	9,316,667	20,372,403	20,762,693	29,516,806	30,079,360
Other improvements	13,745,959	14,101,359	-	-	13,745,959	14,101,359
Vehicles	1,085,179	1,179,830	101,537	126,337	1,186,716	1,306,167
Construction in progress	1,630,715	1,295,709	534,343	-	2,165,058	1,295,709
Total	<u>\$ 46,238,066</u>	<u>\$ 46,810,639</u>	<u>\$ 21,323,655</u>	<u>\$ 21,247,649</u>	<u>\$ 67,561,721</u>	<u>\$ 68,058,288</u>

Additional information on the City's capital assets can be found in Note F on pages 37-38 of this report.

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$20,256,918 in outstanding debt. During the year the City issued \$250,000 of general obligation notes for the Mary C. O'Keefe building roof repair. Additional information on the City's long-term debt can be found in Note H: Long-Term Debt on pages 40-42 and the Schedule of Long-Term Debt on page 61 of the supplemental information section of this report.

General Obligation, Revenue Bonds and Other Loans

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Special obligation bonds	\$ 9,015,000	\$ 9,325,000	\$ -	\$ -	\$ 9,015,000	\$ 9,325,000
General obligation bonds	3,815,000	3,985,000	-	-	3,815,000	3,985,000
Notes payable	771,904	689,977	5,372,517	5,825,330	6,144,421	6,515,307
Capital leases payable	1,282,497	1,428,093	-	-	1,282,497	1,428,093
Total	<u>\$14,884,401</u>	<u>\$15,428,070</u>	<u>\$ 5,372,517</u>	<u>\$ 5,825,330</u>	<u>\$20,256,918</u>	<u>\$21,253,400</u>

Contact the City's Financial Management

Questions about this report or requests for additional financial information may be addressed to:

Shelly Ferguson, City Clerk
City of Ocean Springs, Mississippi
1018 Porter Avenue
Ocean Springs, MS 39564

Basic Financial Statements

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,778,859	\$ 1,508,144	\$ 4,287,003
Restricted assets:			
Cash - customers deposits	-	485,431	485,431
Investments - bond reserve	737,500	-	737,500
Receivables:			
Taxes	1,013,043	-	1,013,043
Customer accounts, net	-	692,692	692,692
Grants	893,715	-	893,715
Other	34,879	-	34,879
Internal balances	(11,416)	11,416	-
Prepaid insurance	206,381	-	206,381
Capital assets:			
Land, artwork and construction in progress	10,996,162	29,413	11,025,575
Other (net of accumulated depreciation)	35,241,904	21,294,250	56,536,154
Total assets	51,891,027	24,021,346	75,912,373
Deferred Outflows of Resources			
Deferred bond issuance charges	202,361	-	202,361
Deferred pension amounts	2,575,980	390,872	2,966,852
Total deferred outflows of resources	2,778,341	390,872	3,169,213
Liabilities			
Accounts payable	444,660	718,412	1,163,072
Retainage payable	51,324	-	51,324
Accrued payroll	374,341	59,317	433,658
Accrued interest payable	181,693	-	181,693
Developer deposits payable	40,185	467,389	507,574
Due within one year:			
Bonds and notes	851,838	465,388	1,317,226
Due beyond one year:			
Bonds and notes	14,032,563	4,907,129	18,939,692
Net pension liability	14,763,636	2,240,195	17,003,831
Compensated absences	620,977	85,963	706,940
Total liabilities	31,361,217	8,943,793	40,305,010
Deferred Inflows of Resources			
Deferred pension amounts	1,127,230	171,043	1,298,273
Net position			
Net Investment in capital assets	31,353,665	15,951,146	47,304,811
Restricted for:			
Debt service	737,191	-	737,191
Specific grant programs	780,118	-	780,118
Capital improvements	23,563	-	23,563
Unrestricted	(10,713,616)	(653,765)	(11,367,381)
Total net position	\$ 22,180,921	\$ 15,297,381	\$ 37,478,302

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The Accompanying Notes are an Integral Part of the Financial Statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Primary Government		
		Services	Grants and	Grants and	Governmental	Business-Type	Total
			Contributions	Contributions	Activities	Activities	
Governmental Activities:							
General Government	\$ 1,985,235	\$ 56,431	\$ -	\$ -	\$ (1,928,804)	\$ -	\$ (1,928,804)
Public Safety	7,337,130	889,961	309,863	-	(6,137,306)	-	(6,137,306)
Public Works	2,401,806	-	227,041	790,763	(1,384,002)	-	(1,384,002)
Health and Welfare	369,378	-	-	-	(369,378)	-	(369,378)
Economic Development	864,805	281,721	-	-	(583,084)	-	(583,084)
Culture and Recreation	2,454,485	474,237	97,720	192,640	(1,689,888)	-	(1,689,888)
Interest and Other, Long-Term Debt	697,389	-	-	-	(697,389)	-	(697,389)
Total Governmental Activities	16,110,228	1,702,350	634,624	983,403	(12,789,851)	-	(12,789,851)
Business-Type Activities:							
Water	1,633,638	2,256,803	-	-	-	623,165	623,165
Sewer	2,816,964	2,926,054	-	248,928	-	358,018	358,018
Garbage	1,289,115	1,201,122	-	-	-	(87,993)	(87,993)
Total Business-Type Activities	5,739,717	6,383,979	-	248,928	-	893,190	893,190
Total Primary Government	\$ 21,849,945	\$ 8,086,329	\$ 634,624	\$ 1,232,331	(12,789,851)	893,190	(11,896,661)
General revenues:							
Property taxes					3,754,437	-	3,754,437
Sales, restaurant, and hotel taxes					6,179,410	-	6,179,410
Franchise and utility taxes					884,084	-	884,084
Intergovernmental					1,414,281	-	1,414,281
BP settlement					615,089	-	615,089
Gain on disposal of assets					858	-	858
Interest earnings					4,729	-	4,729
Miscellaneous					185,386	-	185,386
Operating transfers					500,000	(500,000)	-
Total general revenues and transfers					13,538,274	(500,000)	13,038,274
Change in net position					748,423	393,190	1,141,613
Net Position - beginning of period					33,763,782	16,732,661	50,496,443
Prior period adjustment					(12,331,284)	(1,828,470)	(14,159,754)
Net Position - beginning restated					21,432,498	14,904,191	36,336,689
Net Position - end of period					\$ 22,180,921	\$ 15,297,381	\$ 37,478,302

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Balance Sheet
Governmental Funds
September 30, 2015

	General	Food and Beverage Tax	General Obligation	Other Non-Major Governmental	Total Governmental
Assets					
Cash and cash equivalents	\$ 2,223,213	\$ 289,843	\$ 172,965	\$ 92,838	\$ 2,778,859
Restricted assets:					
Investments - bond reserve	-	737,500	-	-	737,500
Receivables:					
Taxes	810,858	185,679	8,419	8,087	1,013,043
Grants	416,561	-	-	477,154	893,715
Other	34,879	-	-	-	34,879
Due from other funds	210,653	-	-	2,395	213,048
Prepays	206,381	-	-	-	206,381
Total assets	<u>3,902,545</u>	<u>1,213,022</u>	<u>181,384</u>	<u>580,474</u>	<u>5,877,425</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	425,822	687	-	18,151	444,660
Retainage payable	28,500	12,000	-	10,824	51,324
Accrued payroll	374,341	-	-	-	374,341
Developer deposits	40,185	-	-	-	40,185
Due to other funds	13,811	-	-	210,653	224,464
Total liabilities	<u>882,659</u>	<u>12,687</u>	<u>-</u>	<u>239,628</u>	<u>1,134,974</u>
Fund Balances:					
Nonspendable for prepaids	206,381	-	-	-	206,381
Restricted for:					
Economic development	-	462,835	-	6,458	469,293
Library support	-	-	-	57,778	57,778
Public safety	-	-	-	253,047	253,047
Debt service	-	737,500	181,384	-	918,884
Capital improvements	-	-	-	23,563	23,563
Unassigned	<u>2,813,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,813,505</u>
Total fund balances	<u>3,019,886</u>	<u>1,200,335</u>	<u>181,384</u>	<u>340,846</u>	<u>4,742,451</u>
Total liabilities and fund balances	<u>\$ 3,902,545</u>	<u>\$ 1,213,022</u>	<u>\$ 181,384</u>	<u>\$ 580,474</u>	<u>\$ 5,877,425</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
as of September 30, 2015

Total fund balances of governmental funds in the balance sheet, page 18		\$ 4,742,451
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	61,435,832	
Less: accumulated depreciation	<u>(15,197,766)</u>	46,238,066
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Net pension liability		(14,763,636)
Deferred outflows and inflows of resources related to pensions are to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources related to pensions	2,575,980	
Deferred inflows of resources related to pensions	<u>(1,127,230)</u>	1,448,750
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds. Also governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Deferred charges on bond discounts	202,361	
Accrued interest payable	(181,693)	
Governmental bonds and notes payable	(14,884,401)	
Compensated absences payable	<u>(620,977)</u>	(15,484,710)
Net position of governmental activities, page 16		<u>\$ 22,180,921</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

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

	General	Food and Beverage Tax	General Obligation	Other Nonmajor Governmental	Total Governmental
Revenues					
Ad valorem taxes	\$ 3,281,125	\$ -	\$ 301,819	\$ 171,493	\$ 3,754,437
Franchise fees	884,084	-	-	-	884,084
Licenses and permits	281,721	-	-	-	281,721
Intergovernmental	6,257,555	1,204,356	-	131,779	7,593,690
Charges for services	530,668	-	-	-	530,668
Grants	1,124,908	-	-	491,019	1,615,927
Fines and forfeitures	873,455	-	-	18,606	892,061
Interest income	4,729	-	-	-	4,729
Other	153,524	2,000	-	-	155,524
Total revenues	13,391,769	1,206,356	301,819	812,897	15,712,841
Expenditures					
Current:					
General government	1,831,556	-	-	-	1,831,556
Public safety	6,343,645	10,067	-	9,878	6,363,590
Public works	2,080,161	-	-	9,199	2,089,360
Health and welfare	369,378	-	-	-	369,378
Economic development	399,273	73,425	-	35,791	508,489
Culture and recreation	1,499,641	18,531	-	177,773	1,695,945
Capital Outlay:					
Public safety	-	-	-	32,980	32,980
Public works	345,105	-	-	-	345,105
Economic development	210,114	-	-	-	210,114
Culture and recreation	192,640	-	-	235,547	428,187
Debt service:					
Principal retirement	-	391,938	338,072	63,659	793,669
Interest and agent fees	-	504,355	160,412	6,282	671,049
Total expenditures	13,271,513	998,316	498,484	571,109	15,339,422
Excess (deficiency) of revenues over expenditures	120,256	208,040	(196,665)	241,788	373,419
Other financing sources (uses)					
Insurance proceeds	29,862	-	-	-	29,862
Proceeds of loans	250,000	-	-	-	250,000
Sale of capital assets	7,345	-	-	-	7,345
BP Settlement	615,089	-	-	-	615,089
Transfers in	508,942	49,981	-	5,333	564,256
Transfers out	(5,333)	-	-	(58,923)	(64,256)
Total other financing sources (uses)	1,405,905	49,981	-	(53,590)	1,402,296
Net change in fund balance	1,526,161	258,021	(196,665)	188,198	1,775,715
Fund balance, beginning	1,493,725	942,314	378,049	152,648	2,966,736
Fund balances, end of year	\$ 3,019,886	\$ 1,200,335	\$ 181,384	\$ 340,846	\$ 4,742,451

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
for the Fiscal Year Ended September 30, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances of governmental funds, page 20		\$ 1,775,715
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.		
Expenditures for capital assets	1,016,386	
Less: current year depreciation	<u>(1,301,420)</u>	(285,034)
When assets are sold or retired in the fund statements the entire amount is shown in the fund statements, however, only the difference in book value and income received is shown as income in the government wide statements.		
Loss on disposal of assets		(6,486)
Repayment of borrowed principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		
Proceeds of loan	(250,000)	
Principal debt repayments	<u>793,669</u>	543,669
The statement of Activities reports an expense equal to the City's proportionate share of the net pension expense for the cost sharing pension plan, however, in governmental funds, the cost sharing expenses are measured by the current amount of contributions made to the plan		
Pension expense	(1,477,762)	
Deferred outflow of current year pension contributions subsequent to measurement date	<u>213,107</u>	(1,264,655)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Accrued interest expense	(15,098)	
Amortization of bond discounts	(11,242)	
Change in long-term compensated absences	<u>11,554</u>	(14,786)
Change in net position of governmental activities, page 17		<u>\$ 748,423</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

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

	Business-Type Activities-Enterprise Funds				
	Major Funds				Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Collection Fund	Non-Major Fund	
Assets					
Current assets:					
Cash	\$ 880,615	\$ 460,109	\$ 167,420	\$ -	\$ 1,508,144
Restricted cash	-	-	-	485,431	485,431
Receivables:					
Customer accounts, net	266,443	312,014	114,235	-	692,692
Due from other funds	8,598	2,818	-	-	11,416
Total current assets	1,155,656	774,941	281,655	485,431	2,697,683
Noncurrent assets:					
Capital assets:					
Land and construction in progress	24,059	5,354	-	-	29,413
Other (net of accumulated depreciation)	9,233,432	12,060,818	-	-	21,294,250
Total noncurrent assets	9,257,491	12,066,172	-	-	21,323,663
Total assets	10,413,147	12,841,113	281,655	485,431	24,021,346
Deferred Outflow of Resources					
Deferred pension amount	134,225	157,245	99,402	-	390,872
Liabilities					
Current liabilities:					
Accounts payable	77,900	564,032	76,480	-	718,412
Accrued payroll	25,345	19,362	14,610	-	59,317
Customer deposits payable from restricted assets	-	-	-	467,389	467,389
Current portion of bond and notes	329,301	136,087	-	-	465,388
Total current liabilities	432,546	719,481	91,090	467,389	1,710,506
Non-current liabilities:					
Compensated absences	27,190	34,791	23,982	-	85,963
Net pension obligation	769,280	901,215	569,700	-	2,240,195
Notes payable, non-current	3,884,511	1,022,618	-	-	4,907,129
Total non-current liabilities	4,680,981	1,958,624	593,682	-	7,233,287
Total liabilities	5,113,527	2,678,105	684,772	467,389	8,943,793
Deferred Inflow of Resources					
Deferred pension amount	58,736	68,810	43,498	-	171,044
Net position					
Net investment in capital assets	5,043,679	10,907,467	-	-	15,951,146
Unrestricted	331,430	(656,024)	(347,213)	18,042	(653,765)
Total net position	\$ 5,375,109	\$ 10,251,443	\$ (347,213)	\$ 18,042	\$ 15,297,381

The Accompanying Notes are an Integral Part of the Financial Statements.

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

	Business-Type Activities-Enterprise Funds				
	Major Funds				
	Water Fund	Sewer Fund	Garbage Collection Fund	Non-Major Fund	Total Enterprise Funds
Operating Revenues					
Charges for services:					
Water, sewer, and garbage, net of penalties & installations	\$ 2,256,803	\$ 2,926,054	\$ 1,201,122	\$ -	\$ 6,383,979
Operating expenses					
Personal services	501,927	587,521	377,381	-	1,466,829
Supplies	180,941	161,341	15,255	-	357,537
Contracted services	82,068	1,605,190	883,703	-	2,570,961
Other services and charges	389,168	227,509	12,776	-	629,453
Depreciation	398,971	184,574	-	-	583,545
Total operating expenses	1,553,075	2,766,135	1,289,115	-	5,608,325
Operating income (loss)	703,728	159,919	(87,993)	-	775,654
Non-operating revenues (expenses):					
Grants	-	248,928	-	-	248,928
Interest expense	(80,563)	(50,829)	-	-	(131,392)
Transfers out	(250,000)	(250,000)	-	-	(500,000)
Net non-operating revenues over (under) expenses	(330,563)	(51,901)	-	-	(382,464)
Change in net position	373,165	108,018	(87,993)	-	393,190
Net position, beginning of year	5,629,838	10,879,006	205,775	18,042	16,732,661
Prior Period Adjustment	(627,894)	(735,581)	(464,995)	-	(1,828,470)
Net position, beginning restated	5,001,944	10,143,425	(259,220)	18,042	14,904,191
Net position, end of year	\$ 5,375,109	\$ 10,251,443	\$ (347,213)	\$ 18,042	\$ 15,297,381

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Statement of Cash Flow
Proprietary Funds
For the Fiscal Year Ended September 30, 2015

	Business-Type Activities-Enterprise Funds				
	Major Funds				Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Collection Fund	Non-Major Fund	
Cash flows from operating activities					
Receipts from customers	\$ 2,222,937	\$ 2,920,581	\$ 1,176,572	\$ 2,213	\$ 6,322,303
Payments to suppliers	(629,608)	(1,640,316)	(908,449)	-	(3,178,373)
Payments for services of employees	(428,291)	(518,978)	(328,603)	-	(1,275,872)
Net cash provided by (used in) operating activities	1,165,038	761,287	(60,480)	2,213	1,868,058
Cash flows from non-capital financing activities					
Receipt of grants	-	248,928	-	-	248,928
Transfers (to) from other funds	(250,000)	(250,000)	-	-	(500,000)
Net cash provided by (used in) non-capital financing activities	(250,000)	(1,072)	-	-	(251,072)
Cash flows from capital and related financing activities					
Acquisition of capital assets	(85,866)	(573,693)	-	-	(659,559)
Retirement of debt	(321,127)	(131,686)	-	-	(452,813)
Interest paid on debt	(80,563)	(50,829)	-	-	(131,392)
Net cash provided by (used in) capital and related financing activities	(487,556)	(756,208)	-	-	(1,243,764)
Cash flows from investing activities					
Temporary loan repayments	50,589	-	(50,589)	-	-
Net cash provided by (used in) investing activities	50,589	-	(50,589)	-	-
Net increase (decrease) in cash and cash equivalents	478,071	4,007	(111,069)	2,213	373,222
Cash and cash equivalents, beginning	402,544	456,102	278,489	483,218	1,620,353
Cash and cash equivalents, ending	\$ 880,615	\$ 460,109	\$ 167,420	\$ 485,431	\$ 1,993,575
Classified as:					
Current assets	\$ 880,615	\$ 460,109	\$ 167,420	\$ -	\$ 1,508,144
Restricted assets	-	-	-	485,431	485,431
Totals	\$ 880,615	\$ 460,109	\$ 167,420	\$ 485,431	\$ 1,993,575
			Current Assets	Restricted Assets	Total
Cash and cash equivalents - October 1			\$ 1,182,135	\$ 438,218	\$ 1,620,353
Net increase (decrease)			326,009	47,213	373,222
Cash and cash equivalents - September 30			\$ 1,508,144	\$ 485,431	\$ 1,993,575

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City of Ocean Springs, Mississippi
Statement of Cash Flow
Proprietary Funds
For the Fiscal Year Ended September 30, 2015
(Continued)

	Business-Type Activities-Enterprise Funds				
	Major Fund				Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Collection Fund	Non-Major Fund	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income	\$ 703,728	\$ 159,919	\$ (87,993)	\$ -	\$ 775,654
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	398,971	184,574	-	-	583,545
Changes in assets and liabilities:					
Accounts receivable	(33,866)	(5,473)	(24,550)	-	(63,889)
Accounts payable	22,569	353,724	3,285	-	379,578
Accrued payroll and comp absence	7,739	(8,656)	(23)	-	(940)
Accrued pension expense	65,897	77,199	48,801	-	191,897
Customer deposits	-	-	-	2,213	2,213
Net cash provided by (used in) operating activities	\$ 1,165,038	\$ 761,287	\$ (60,480)	\$ 2,213	\$ 1,868,058

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Statement of Assets and Liabilities
Agency Funds
September 30, 2015

Assets	Tax Sale & Redemption	Payroll Clearing	Flexible Medical Spending	Total
Cash	<u>\$ 5,727</u>	<u>\$ 242,510</u>	<u>\$ 12,157</u>	<u>\$ 260,394</u>
Total assets	<u>5,727</u>	<u>242,510</u>	<u>12,157</u>	<u>260,394</u>
Liabilities				
Accounts payable	<u>5,727</u>	<u>242,510</u>	<u>12,157</u>	<u>260,394</u>
Total liabilities	<u>\$ 5,727</u>	<u>\$ 242,510</u>	<u>\$ 12,157</u>	<u>\$ 260,394</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

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

I. Summary of Significant Accounting Policies

The financial statements of the City of Ocean Springs, Mississippi (the City) have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) applicable to governmental units. The following is a summary of the more significant accounting policies of the City:

(A) Reporting Entity

The City of Ocean Springs, Mississippi was incorporated on September 10, 1892 under the laws of the State of Mississippi. The City operates under a Mayor-Alderman form of government and provides the following services: public safety, (police, fire, and civil defense), public works (highways, streets, and sanitation), health and social services, culture-recreation, community development, planning and zoning, and general administrative services.

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As required by GAAP, these financial statements present the City of Ocean Springs (the primary government) and its components.

(B) Component Unit Disclosure

The criteria for including component units consists of identification of legally separate organizations for which the elected officials of the City are financially accountable. This criteria also includes identification of organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government's operations, therefore data from these units is combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. The City has no component units.

(C) Related Organizations

The Ocean Springs Municipal Separate School District has been excluded from the reporting entity, because it is an "other stand-alone government". The school district is a related organization of, but not a component unit of the City of Ocean Springs. Although the governing authorities of the City select a majority of the school district's board, they do not have ongoing financial accountability for the school district.

(D) Joint Ventures and Jointly Governed Organizations

Additionally, during its evaluation of potential component units, management identified one joint venture (Mississippi Gulf Coast Regional Wastewater Authority), and one jointly governed organization (the Jackson-George Regional Library System).

A joint venture is a legal entity or other organization that results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients.

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

A jointly governed organization is similar in nature to a joint venture in that they provide goods and services to the citizenry of two or more governments. However, they do not meet the definition of a joint venture because there is no ongoing significant financial interest or responsibility by the participating governments.

(E) Basic Financial Statements- GASB Statement 34

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), the new financial reporting model focuses on either the City as a whole, or on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements, including the *statement of net position* and the *statement of activities*, report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from the statements. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely extensively on fees and charges for support. In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

(F) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary 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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, i.e., measurable and available to pay liabilities of the current period.

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

Available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recognized when the related fund liability is incurred, if measurable, except for interest on long-term debt and the long-term portion of accumulated compensated absences, which are recognized when due.

Year-end accruals of ad valorem taxes, sales taxes, and franchise fees are based upon actual collections of amounts remitted to the City within 60 days of year end. Anticipated refunds of taxes are recorded as liabilities and reductions of revenue when they are measurable. Other licenses and permits, charges for services, fines and penalties, and miscellaneous revenues are recorded as revenues when they are received, as they are generally not measurable until actually received; however, charges for services which are measurable are recorded as revenue in the period earned.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33 the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

The financial transactions of the City are recorded in the individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures / expenses. The various funds are reported by generic classification within the financial statements.

GASB Statement No. 34 sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal operations. The principal operating revenues of the Water, Sewer and Garbage Collection funds are charges to customers for sales and services. Operating expenses for the 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.

The preparation of the basic financial statements in conformity with GAAP requires management to make use of estimates that affect reported amounts in the basic financial statements. Actual results could differ from estimates.

(G) Fund Types and Major Funds

Governmental Funds

Governmental funds are those funds through which the City finances most of its municipal services and are accounted for on the basis of a spending measurement focus. The focus on governmental funds is on the determination of changes in financial position rather than upon net income determination. The City's major governmental funds are as follows:

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

General Fund is the City's primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in a separate fund. This fund is always classified as a major fund by definition.

General Obligation Fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs. Revenues are received primarily from a separate property tax levy. This fund was selected to be classified as a major fund due to the type of expenditures.

Food and Beverage Tax Special Revenue Fund is used to account for a special 2% sales tax on local food and beverage sales. This money will be used for economic development projects and will repay the debt on a recent \$10.7 million bond issue. This fund was deemed to be a major fund by the requirements set forth in GASB 34 issued by the Governmental Accounting Standards.

Other Non-Major Governmental Funds is a summarization of all non-major governmental funds including:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in fund net position, financial position, and cash flows, which is similar to businesses. The following is a description of the Proprietary Funds of the City:

Enterprise Funds

The Water Fund and the Sewer Fund account for the activities of the City's water and sewer systems, the Garbage Collection Fund accounts for the activities of the City's solid waste collection system.

Non-Major Proprietary Fund accounts for the City's utility deposits.

Non-Current Governmental Assets / Liabilities

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Position.

(H) Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents

The City considers cash on hand, demand deposits, certificates of deposit, and bank repurchase agreements as cash and cash equivalents. In addition, each fund's equity in the City's investment pool has been treated as a cash equivalent since cash may be deposited or withdrawn from the pool at any time without prior notice or penalty.

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

Accounts Receivable

Accounts receivable are recorded in the Governmental and Business-type Funds. Where appropriate, an associated allowance for doubtful accounts has been established in the related fund.

Inventories

Governmental and Proprietary Fund inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are consumed.

Capital Assets

Capital assets, including land, buildings, improvements other than buildings, infrastructure (i.e., roads, bridges, street lighting, and other similar items), and equipment are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. The City's capitalization levels are as follows: purchased assets costing more than \$5,000 are capitalized; building renovations are capitalized when their cost exceeds 25% of the building's previously capitalized cost and if the repair extends the building's estimated useful life; contributed capital assets are capitalized and recorded at the estimated market value at the time of the contribution. Salvage values range from 10% to 30% of cost. Assets acquired using capital lease obligations are treated in the same manner as purchased capital assets. Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40-50 years
Improvements	40-50 years
Infrastructure	20-60 years
Equipment	3-15 years

Compensated Absences

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. Employees are paid for up to 30 days of unused vacation and all unused comp time upon retirement or termination, while excess vacation and all accumulated sick leave remaining are counted as creditable service toward retirement.

Post Employment Health Care Benefits

The City has no known costs associated with post-employment benefits for retired employees.

Interfund Transactions

Disbursements made by one fund which are properly chargeable to another fund result in the creation of interfund receivables and payables. This type of transaction is normally settled by a cash payment between the funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government financial statements as "internal balances". All other interfund transactions are accounted for as either an operating transfer or a capital transfer. A capital transfer results when a governmental fund permanently transfers funds to a proprietary fund as a capital infusion for the construction of fixed assets, for example. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government wide columnar presentation.

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

Advances to Other Funds

Various funds have made short-term advances to other funds. These advances, shown as "Due From Other Funds", are temporary in nature, bear no interest, and are considered "available spendable resources". Long-term advances, if any, are those for which the timing of repayment is uncertain; thus, an allocable portion of fund balance would be reserved in governmental funds.

Bond Discounts, Bond Premiums, and Issuance Costs

In governmental funds, bond discounts, bond premiums, and issuance costs are treated as period costs in the year of issue and are shown as "Other Financing Sources (Uses)".

In proprietary funds (and for governmental activities, in government-wide statements) bond discounts, and bond premiums, are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. Bond issuance costs are expensed when incurred.

Restrictions of Fund Equity

The City does not have a formal minimum fund balance policy; however, the Mississippi State Code does not allow deficit fund balances. There were no individual funds reported with deficit fund balances.

Note III (I) discusses in more detail the fund balance classification determinations for the governmental funds.

II. Stewardship, Compliance and Accountability:

A. Budgetary Data

The procedures used by the City in establishing the budgetary data reflected in the combined financial statements are as follows:

1. Prior to October 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Not later than September 15, the budget is legally enacted through passage of a resolution.
4. The budgetary comparisons present budget figures at the legal level of control. The City legally adopts annual budgets for all funds. The Board of Aldermen formally adopts the annual budget for the general fund with revenues segregated by source (ad valorem tax, licenses and permits, intergovernmental, etc.). The general fund expenditure budget is set at the character level (current, capital outlay, debt service) for each department (function) with current expenditures further detailed at the object level (personal services, supplies, other services and charges, and contractual services).

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

5. The budget for capital project funds is adopted at total fund type level with the revenue budget set at the source level and expenditures set at the total expenditure level. Proprietary fund budgets are adopted for the Water and Sewer Funds with revenues delineated at the source level (total intergovernmental revenue and total charges for services) and expenditure budgets delineated by character (current, capital outlay, debt service).
6. State statutes authorize the State Auditor to regulate the municipal budget process. Expenditures must be defined to the minimum level prescribed by the State Auditor. The State Auditor has set this level at the purpose level. Municipalities are prohibited from spending in excess of the lowest level adopted in the budget except for the capital outlay, election expense, and emergency warrants.
7. Formal budgetary integration at the "account level" is employed by management for expenditure control purposes. Management may transfer budget items between expenditure accounts within each character grouping of the expenditure accounts for each department.
8. The City's budgets are adopted in accordance with state statutes and regulations of the State Auditor and not on a basis consistent with Generally Accepted Governmental Accounting Principles. The budgets for revenues are on a cash basis – revenue is recognized if actually received within the year. Budgeted expenditures are on the cash basis with allowance for encumbrances for goods and services actually received prior to year-end and liquidated (paid) within thirty days after year-end. Accounting principles applied in preparation of the budget comparison statements differ from the generally accepted accounting principles used in preparation of the fund financial statements. These differences in the principles used results in timing differences in the recognition of revenues and expenditures. Below is a reconciliation of the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual – Budget Basis to the General Fund column of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds:

	General Fund	Food and Beverage Tax Fund
Excess (deficiency) of revenues over expenditures, budgetary basis	\$ (219,770)	\$ 185,543
Adjustments		
To convert receivables	344,395	(1,492)
To convert liabilities	(4,369)	23,989
Totals, GAAP basis	<u>\$ 120,256</u>	<u>\$ 208,040</u>

B. Excess Expenditures over Appropriations

There were no funds with excess expenditures over appropriations and available resources in individual funds for the current year.

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

III. Detail Notes - All Funds

A. Property Tax Revenues

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Jackson County Tax Assessor. The taxes on real and personal property attach as an enforceable lien on the property as of January 1 of each year. Taxes on real and personal property are levied by the Board of Aldermen at the first regular meeting in September. Through an inter-local agreement, all of the property taxes of the City of Ocean Springs are collected by the Jackson County Tax Collector and remitted as tax settlements (less an appropriate collection fee) to the City on a monthly basis. Taxes for the Ocean Springs Municipal Separate School District are also billed and collected by the county and remitted to the schools through the City.

In accordance with the Mississippi Code of 1972, as amended, the Board of Aldermen may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for any one year may not exceed one hundred and ten percent (110%) of the taxes collected for the prior assessment year. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation. In addition, the Board of Aldermen may levy additional taxes for specific purposes, such as culture and recreation, as authorized by law.

The tax levies approved by the Board to be collected during the fiscal years indicated below are as follows:

	<u>2015-2016</u> <u>Millage</u>	<u>2014-2015</u> <u>Millage</u>	<u>2013-2014</u> <u>Millage</u>
City Funds			
General	19.05	19.05	19.05
Library maintenance	2.77	1.01	1.01
Debt service	<u>1.77</u>	<u>1.77</u>	<u>1.77</u>
Total City administered funds	<u>22.83</u>	<u>21.83</u>	<u>21.83</u>
School Funds			
District maintenance	55.75	55.00	55.00
School debt	<u>13.90</u>	<u>14.61</u>	<u>14.63</u>
Total School administered funds	<u>69.65</u>	<u>69.61</u>	<u>69.61</u>
 Total levy	 <u>92.48</u>	 <u>91.44</u>	 <u>91.46</u>

B. Deposits and Investments

Deposits

The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with state statutes. Furthermore, the City invests excess funds in various investment instruments that are allowed by statutes. Various restrictions on deposits and investments are imposed by statutes. Deposits and investments are summarized below.

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

Deposits consist of cash amounts in demand accounts and certificates of deposit. 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 entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2014 fall into the credit risk category of "*Insured or collateralized with securities held by the entity or by its agent in the entity's name*".

The City awarded Hancock Bank the designated depository for calendar year 2014-2015, who then allocates resulting balances of cash to other City approved depositories as follows:

	<u>Allocation</u>
Hancock Bank	60.00%
Peoples Bank	10.00%
BancorpSouth Bank	30.00%
Total	<u>100.00%</u>

Custodial Credit Risk. Deposits. Custodial credit risk is the risk that in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions' trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the City. Deposits at September 30, 2015 (including restricted deposits) are as follows:

	<u>Bank Balances</u>	<u>Carrying Value</u>
Pooled deposits:		
Cash and cash equivalents	\$ 4,817,976	\$ 4,772,434
Non-pooled deposits:		
Cash and cash equivalents	210,670	260,394
Total	<u>\$ 5,028,646</u>	<u>\$ 5,032,828</u>

**Reconciliation to Government-wide Statement
of Net Position:**

Government activities:	
Unrestricted cash	\$ 2,778,859
Business-type activities:	
Unrestricted cash	1,508,144
Restricted (Utility deposits)	485,431
Total	<u>4,772,434</u>
Agency fund cash (not included in government-wide statements)	260,394
Total	<u>\$ 5,032,828</u>

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

Investments

The debt service reserve of \$737,500 is invested in the Hancock Horizon Government Mutual fund, which is uninsured and unregistered and is not backed by the full faith and credit of the federal government, however is exclusively made up of short-term U.S. Government Securities.

C. Receivables

The Statement of Net Position of the City of Ocean Springs includes the following receivables at September 30, 2015:

Taxes receivable:	
Franchise taxes	\$ 238,910
Sales, restaurant, and hotel taxes	684,465
Ad valorem taxes	89,668
Total taxes receivable	<u>\$ 1,013,043</u>
Customer accounts receivable:	
Garbage fees	\$ 248,763
Water and sewer utility charges (billed)	1,016,291
Less allowance for doubtful accounts	(748,256)
Customer accounts receivable earned but not billed	175,894
Total customer accounts receivable, net	<u>\$ 692,692</u>
Grants receivable:	
Federal, state, and local grants	<u>\$ 893,715</u>

D. Prepaid Insurance

Prepaid Insurance at September 30, 2015 consists of the following:	
Governmental Funds (Building & Liability)	<u>\$ 206,381</u>

E. Interfund Transactions

Almost all funds are pooled into one bank account, therefore limiting the need for interfund loans, except for grant funds that have been expended but not yet reimbursed by year end. Interfund loans are reported on the government wide statements as internal balances. The following is a recap of interfund loans as of September 30, 2015:

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ 210,653
Other governmental funds	General Fund	2,395
Water Fund	General Fund	8,598
Sewer Fund	General Fund	2,818
Total		<u>\$ 224,464</u>

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

E. Interfund Transactions (Continued)

Interfund transfers for the year ended September 30, 2015 are as follows:

Transfers Out	Transfers In	Amount
General Funds	Other governmental funds	\$ 5,333
Other governmental funds	Food and Beverage Tax Fund	49,981
	General Fund	8,942
Water Fund	General Fund	250,000
Sewer Fund	General Fund	250,000
Total		<u>\$ 564,256</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Capital Assets

Capital asset activity for the year ended September 30, 2015 is as follows:

	Balance 10/1/2014	Additions	Deletions/ Adjustments	Balance 9/30/2015
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 3,648,304	\$ -	\$ -	\$ 3,648,304
Donated artwork	5,717,143	-	-	5,717,143
Construction in progress	1,295,709	616,059	(281,053)	1,630,715
Total capital assets, not being depreciated	10,661,156	616,059	(281,053)	10,996,162
Capital assets being depreciated:				
Buildings and improvements	13,877,944	-	-	13,877,944
Machinery and equipment	1,040,737	-	(18,956)	1,021,781
Other improvements	15,189,675	22,242	-	15,211,917
Infrastructure	15,387,619	345,105	-	15,732,724
Vehicles	4,625,289	32,980	(62,965)	4,595,304
Total capital assets, being depreciated	50,121,264	400,327	(81,921)	50,439,670
Less: Accumulated depreciation				
Buildings	(2,714,008)	(206,976)	-	(2,920,984)
Machinery and equipment	(653,046)	(78,098)	18,766	(712,378)
Other improvements	(1,088,316)	(377,642)	-	(1,465,958)
Infrastructure	(6,070,952)	(517,369)	-	(6,588,321)
Vehicles	(3,445,459)	(121,335)	56,669	(3,510,125)
Total accumulated depreciation	(13,971,781)	(1,301,420)	75,435	(15,197,766)
Total capital assets being depreciated, net	36,149,483	(901,093)	(6,486)	35,241,904
Governmental activities capital assets, net	<u>\$ 46,810,639</u>	<u>\$ (285,034)</u>	<u>\$ (287,539)</u>	<u>\$ 46,238,066</u>

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

F. Capital Assets (Continued)

	Balance 10/1/2014	Additions	Deletions/ Adjustments	Balance 9/30/2015
Business - type activities:				
Capital assets, not being depreciated				
Land	\$ 29,413	\$ -	\$ -	\$ 29,413
Construction in progress	-	534,343	-	534,343
Total capital assets, not being depreciated	<u>29,413</u>	<u>534,343</u>	<u>-</u>	<u>563,756</u>
Capital assets being depreciated:				
Buildings	35,390	-	-	35,390
Machinery and equipment	724,943	-	14,570	739,513
Other Improvements	39,244,395	123,114	-	39,367,509
Vehicles	820,867	-	6,117	826,984
Total capital assets, being depreciated	<u>40,825,595</u>	<u>123,114</u>	<u>20,687</u>	<u>40,969,396</u>
Less: Accumulated depreciation				
Buildings	(32,199)	-	-	(32,199)
Machinery and equipment	(398,928)	(57,817)	-	(456,745)
Other Improvements	(18,481,702)	(513,404)	-	(18,995,106)
Vehicles	(694,530)	(12,324)	(18,593)	(725,447)
Total accumulated depreciation	<u>(19,607,359)</u>	<u>(583,545)</u>	<u>(18,593)</u>	<u>(20,209,497)</u>
Total capital assets being depreciated, net	<u>21,218,236</u>	<u>(460,431)</u>	<u>2,094</u>	<u>20,759,899</u>
Business activities capital assets, net	<u>\$ 21,247,649</u>	<u>\$ 73,912</u>	<u>\$ 2,094</u>	<u>\$ 21,323,655</u>
Primary Government				
Total capital assets, net	<u>\$ 68,058,288</u>	<u>\$ (211,122)</u>	<u>\$ (285,445)</u>	<u>\$ 67,561,721</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 23,956
Public safety	238,167
Public works	534,418
Community development	110,007
Culture and recreation	394,872
Total	<u>1,301,420</u>
Business-type activities:	
Water system	398,971
Sewer system	184,574
Total	<u>583,545</u>
Total All Depreciation	<u>\$ 1,884,965</u>

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

G. Capital Leases

The City has entered into several capital leases to finance the purchase of equipment and vehicles. The purchases were financed at a fixed, simple interest rate. Title to the assets is held in the name of the City and the banks as lien holder. The City insures the assets and accounts for the leases as financing arrangements. The City will make the following future payments of principal and interest on all leases:

	Principal	Interest	Total
2016	\$ 125,580	\$ 79,053	\$ 204,633
2017	125,247	71,687	196,934
2018	133,017	63,918	196,935
2019	141,275	55,659	196,934
2020	150,053	46,882	196,935
2021-2025	607,325	102,891	710,216
	<u>\$ 1,282,497</u>	<u>\$ 420,090</u>	<u>\$ 1,702,587</u>

	Governmental Activities
Assets Acquired thru Capital Lease:	
Fire Trucks	\$ 842,829
Hwy 57 Sportsplex Lighting	1,489,000
Total Cost	2,331,829
Less: Accumulated Depreciation	(483,346)
Net Total Capital Lease Assets	<u>\$ 1,848,483</u>

Future minimum lease payments and the net present value of the lease payments are:

	Governmental Activities
Year Ended September 30:	
2016	\$ 204,633
2017	196,934
2018	196,935
2019	196,934
2020	196,935
2021-2025	710,216
Total minimum lease payments	1,702,587
Less: amount representing interest	(420,090)
Present value of minimum lease payments	<u>\$ 1,282,497</u>

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

H. Long-Term Debt

The following is a summary of bond and other long-term debt transactions of the City for the year ended September 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds and Notes	\$ 13,999,977	\$ 250,000	\$ 648,073	\$ 13,601,904	\$ 726,258
Capital leases	1,428,093	-	145,596	1,282,497	125,580
Compensated absences	632,531	32,215	43,769	620,977	-
Total governmental activities	<u>\$ 16,060,601</u>	<u>\$ 282,215</u>	<u>\$ 837,438</u>	<u>\$ 15,505,378</u>	<u>\$ 851,838</u>
Business-type activities:					
Water & Sewer, pollution control notes & bonds	\$ 5,825,330	\$ -	\$ 452,813	\$ 5,372,517	\$ 465,388
Compensated absences	96,480	930	11,447	85,963	-
Total business-type activities	<u>\$ 5,921,810</u>	<u>\$ 930</u>	<u>\$ 464,260</u>	<u>\$ 5,458,480</u>	<u>\$ 465,388</u>

Bonds, notes, and other long-term debt payable at September 30, 2015 are comprised of the following individual issues:

Governmental Type Activities	Original Issue	Interest Rates	Amount Outstanding
General and Special Obligation Bonds and Notes:			
Mississippi Development Bank special obligation bonds, semi-annual payments through July 2034	\$ 10,710,000	5.125%	\$ 9,015,000
General Obligation Bonds series 2009, semi annual payments through December 2029	4,600,000	various	3,815,000
Bancorp South general obligation note, annual payments of \$50,000 through November 2018	250,000	2.11%	200,000
Mississippi Development Bank promissory note, due monthly installments of \$2,773 through May 2023	500,000	3.00%	227,492
Hancock Bank general obligation note, annual payments of \$43,087 through December 2015	200,000	2.53%	42,023
Community Bank general obligation note, annual payments of \$50,000 through February 2020	250,000	1.80%	250,000
Hancock Bank general obligation note, annual payments of \$53,642 through December 2015	250,000	2.39%	52,389
Total General & Special Obligation Bonds and Notes			<u>13,601,904</u>

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

H. Long-Term Debt (Continued)

	<u>Original Issue</u>	<u>Interest Rates</u>	<u>Amount Outstanding</u>
Capital Leases:			
Hancock Bank, monthly payments of \$5,521 Maturing December 2015	\$ 535,438	4.35%	\$ 7,645
First Security Leasing, semi-annual payments of \$78,913 maturing December 2024	1,489,000	6.50%	1,105,717
Oshkosh Capital, annual payments of \$39,109 Maturing April 2020	306,954	5.04%	<u>169,135</u>
Total Capital Leases			1,282,497
Compensated absences			<u>620,977</u>
Total Governmental Type Debt			15,505,378
Less: Current Portion			<u>(851,838)</u>
Total Governmental Type Long-Term Debt			<u>\$ 14,653,540</u>

Business Type Activities

Water and Sewer Debt:

State of MS Drinking Water Improvement Notes, monthly installments, maturing Nov 2029	\$ 5,453,946	Various	\$ 3,702,788
MS Development Capital Loan, monthly payments of \$1,872, maturing Dec 2027	500,000	4.95%	243,543
Capital Improvement Revolving Loan, monthly payments of \$1,515, maturing Sept 2021	273,115	3.00%	99,746
MS Development Capital Loan, monthly payments of \$2,773, maturing March 2021	500,000	3.00%	167,736
State Revolving Loan, monthly payments of \$8,077 maturing January 2018	1,100,100	4.50%	214,307
State Revolving Loan, monthly payments of \$8,077 maturing January 2018	1,059,133	1.75%	<u>944,398</u>
Total Water and Sewer Debt			5,372,517
Compensated absences			<u>85,963</u>
Total Business Type Debt			5,458,480
Less: Current Portion			<u>(465,388)</u>
Total Business Type Long-Term Debt			<u>\$ 4,993,092</u>

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

H. Long-Term Debt (Continued)

The annual requirements to pay principal and interest on the bonds, notes and loans outstanding at September 30, 2015 are as follows:

Year Ending	Governmental Type Activities			Business Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	726,258	566,050	1,292,308	465,388	118,815	584,203
2017	647,662	544,431	1,192,093	478,459	105,742	584,201
2018	668,504	524,647	1,193,151	427,523	92,892	520,415
2019	689,371	503,426	1,192,797	404,295	82,981	487,276
2020	665,264	480,602	1,145,866	414,002	73,276	487,278
2021-2025	3,424,845	2,015,193	5,440,038	1,871,780	231,148	2,102,928
2026-2030	4,180,000	1,221,138	5,401,138	1,171,146	56,955	1,228,101
2031-2034	2,600,000	341,582	2,941,582	139,924	2,874	142,798
	<u>\$ 13,601,904</u>	<u>\$ 6,197,069</u>	<u>\$ 19,798,973</u>	<u>\$ 5,372,517</u>	<u>\$ 764,683</u>	<u>\$ 6,137,200</u>

The City's legal debt limit for general obligation debt is as follows:

Assessed valuations 2015 (inside the City):

Real property	\$ 138,328,422
Personal property	10,280,654
Public utility	10,259,417
Autos, estimated	<u>20,527,098</u>
Total assessed valuations	<u>\$ 179,395,591</u>
Fifteen percent (15%) of total assessed valuation	\$ 26,909,339
Less: outstanding general obligation debt at 9/30/15	<u>(3,815,000)</u>
Remaining	<u>\$ 23,094,339</u>

The Board of Aldermen annually adopts a resolution providing for the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City. The City's debt service millage rate for the year ended September 30, 2015, again remained at 1.77 mills or \$1.77 per \$1,000 of assessed value.

I. Fund Balance Disclosures

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

Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The City currently only has prepaid insurance reported as non-spendable fund balance.

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

I. Fund Balance Disclosures (continued)

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.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year end. The City has no committed fund balances at this time.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board or by an official or body to which the Board delegates authority. The City has no assigned fund balances reported at this time.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Board of Alderman establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as special incentives). Assigned fund balance is established by the Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

J. Retirement Plans

PERS' Defined Benefit Pension Plan

All full-time City employees hired after June 30, 1987, participate in the Public Employees' Retirement System of Mississippi (PERS). Other City employees hired prior to July 1, 1987 may elect to participate in the retirement system under an option offered by PERS.

Plan Description: The City of Ocean Springs contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444 PERS.

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

J. Retirement Plans (Continued)

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: PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate for the fiscal year ended September 30, 2015 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 to PERS for the fiscal years ending September 30, 2015, 2014, and 2013 were \$1,078,020, \$1,115,367, and \$1,044,765, respectively, which equaled the required contributions for each year.

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

At September 30, 2015, the City reported a liability of \$17,003,831 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 that date. The City's portion 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. At September 30, 2015, the City's proportionate share was .11% percent.

For the year ended September 30, 2015, the City recognized pension expense of \$1,701,994. At September 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

J. Retirement Plans (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Experience	\$ 261,680	\$ -
Net difference between projected and actual earnings on pension plan investments	994,906	1,298,273
Changes in proportion and differences between City contributions and proportionate share of contributions	1,464,822	-
City contributions subsequent to the measurement date	245,444	-
Total	\$ <u>2,966,852</u>	\$ <u>1,298,273</u>

\$245,444 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, 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:

Year ended September 30:	
2016	\$ 558,902
2017	558,902
2018	381,174
2019	(75,842)

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.75 – 19.00 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-2000 Combined Mortality 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 to June 30, 2014. The experience report is dated May 4, 2015.

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

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

J. Retirement Plans (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34%	5.20%
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	<u>100%</u>	

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 and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. 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. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8 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 (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability	\$ 22,412,607	\$ 17,003,831	\$ 12,515,558

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

Deferred Compensation Plan

The City also offers employees voluntary participation in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, Group Flexible Fund Retirement Contracts, administered by Nationwide Retirement Solutions, Inc., permits employees to defer a portion of their salary until future years. All plan assets are held in trust by Nationwide for the exclusive benefit of the participants and their beneficiaries and not subject to the claims of the City's general creditors.

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

K. Community Development Block Grant Program

Status of Grants

The City of Ocean Springs was awarded a grant by the Department of Housing and Urban Development Community Block Grant Program for the purpose of providing sidewalks on front beach as detailed below:

	<u>Awarded</u>	<u>Current Expended</u>	<u>Cumulative Expended</u>
Round III Community Revitalization			
Front Beach Sidewalks	\$ 2,247,388	\$ -	\$ 1,955,608

L. Related Party Commitments

Joint Venture

The City of Ocean Springs is a member of the Jackson County Utility Authority (Authority) which was established by an act of the Mississippi Legislature and operates under MS Code 49-17-701 to provide for adequate wastewater treatment and solid waste disposal services to the citizens of Jackson County, Mississippi.

The governing board is comprised of one member from each of the cities and two members from each of the counties who are members of the Authority. Through a fifty-year contract, the City of Ocean Springs is obligated to pay monthly, its pro-rata share of all operating, administrative, and capital costs of the Authority. Additionally, the City is jointly and severally liable for all of the liabilities of the Authority. The Authority is classified as a joint venture between the City of Ocean Springs and the other members. The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2015, a complete copy of which is on file at the administrative offices of the Authority.

Jackson County Utility Authority
Statement of Net Position

Assets	
Current assets	\$ 2,380,509
Restricted assets	3,023,861
Noncurrent assets	142,277,431
Total assets	<u>147,681,801</u>
Deferred Outflows	<u>2,072,713</u>
Liabilities	
Current liabilities	9,801,739
Noncurrent liabilities	20,869,572
Total liabilities	<u>30,671,311</u>
Deferred Inflows	<u>269,758</u>
Net position	
Invested in capital assets,	
net of related debt	123,734,390
Restricted	3,023,861
Unrestricted	(7,944,806)
Total Net Position	<u>\$ 118,813,445</u>

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

L. Related Party Commitments (Continued)

**Statement of Revenues, Expenditures and
Changes in Net Position**

Operating revenues	\$ 12,223,572
Operating expenses	(17,857,177)
Non-operating revenues, net	<u>5,316,732</u>
Change in net position	<u>\$ (316,873)</u>

The following financial information concerning transactions with the Authority has been included in the City of Ocean Springs's financial statements under the following captions:

Sewer Enterprise Fund Group

Statement of revenues, expenses and changes in fund balance:

Contractual Services (wastewater treatment) \$ 1,542,698

M. Jointly Governed Organizations

Jackson George Regional Library System – On November 2, 1970, the City entered into an agreement with the Cities of Moss Point, Pascagoula, Gautier, and Lucedale, and the Board of Supervisors of Jackson and George Counties, to mutually cooperate in securing a more economical public library system through combined resources, interests, materials and facilities to be known as the Jackson George Regional Library System. There are no specific monetary terms in the agreement and the City of Ocean Springs has no equity interest in the organization.

The City of Ocean Springs contributed \$177,769 for the year ended September 30, 2015 through proceeds of a specific tax levy authorized by MS Code 39-3-13. The amount budgeted for the City of Ocean Springs for the fiscal year ended September 30, 2016 is \$179,670, which includes \$135,000 of appropriations and \$44,670 of building insurance and repairs. This agreement is cancelable upon 90 days written notice prior to the end of the fiscal year and therefore, the City of Ocean Springs does not have an ongoing financial responsibility.

N. Other Commitments

In connection with the Capital Projects, the City budgeted certain commitments for engineering services, construction and other capital project costs. The projects are to be funded, in part, with State and Federal grants. The remainder of the required funds will be generated by local sources. The following is a summary of the budgeted commitment for future capital projects:

	Contract Amount	Expended to Date	Remaining Contract
Ocean Springs Harbor	\$ 736,320	\$ 264,707	\$ 471,613
Government Street Signal	528,644	489,214	39,430
Street Scape Phase III	480,744	140,326	340,418
Hawk Pedestrian Gov't St.	1,122,592	37,363	1,085,229
CIAP Harbor Stormwater	1,100,000	149,865	950,135
CDBG Front Beach	748,199	378,841	369,358
Sewer Rehab Phase II	681,500	534,343	147,157

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

O. Prior Period Adjustments

The prior period adjustments reported on the Statement of Activities (page 17) and the Statement of Revenues and Expenses and Changes in Net Position (page 23) and they are the result of corrections as follows:

Governmental Activities:

1. Implementation of GASB 68 and 71:		
Net pension liability (measurement date)	\$ (12,265,824)	
Deferred outflows - contributions made during fiscal year 2014	<u>215,593</u>	
Total prior period adjustment related to GASB 68 and 71		(12,050,231)
2. Abandonment of gay-lemon shelter project		<u>(281,053)</u>
Total		<u>(12,331,284)</u>

Business Type Activities:

1. Implementation of GASB 68 and 71:		
Net pension liability (measurement date)	(1,861,184)	
Deferred outflows - contributions made during fiscal year 2014	<u>32,714</u>	
Total prior period adjustment related to GASB 68 and 71		<u>(1,828,470)</u>
Total Prior Period Adjustments		<u>\$ (14,159,754)</u>

P. 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. Management of the City of Ocean Springs evaluated the activity of the City through July 25, 2016, and determined there were no reportable subsequent events that require disclosure in the notes to the financial statements.

Required Supplemental Information

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City of Ocean Springs, Mississippi
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended September 30, 2015

	Budgeted Amounts		Original to Final	Budget Basis	Final Budget to Actual
	Original	Final	Variance	Actual	Variance
Revenues					
Ad valorem taxes	\$ 3,339,928	\$ 3,381,635	\$ 41,707	\$ 3,264,577	\$ (117,058)
Licenses and permits	278,000	212,000	(66,000)	281,721	69,721
Franchise fees	870,000	890,000	20,000	889,643	(357)
Intergovernmental	5,689,000	6,485,442	796,442	6,218,442	(267,000)
Federal & state grants	247,850	1,281,131	1,033,281	848,410	(432,721)
Charges for services	634,000	572,800	(61,200)	539,055	(33,745)
Fines and forfeitures	880,000	865,000	(15,000)	873,455	8,455
Other	145,000	145,000	-	132,071	(12,929)
Total revenues	12,083,778	13,833,008	1,749,230	13,047,374	(785,634)
Expenditures					
General Government					
Executive - Mayor					
Personnel services	150,781	155,108	4,327	154,714	394
Supplies	4,700	3,430	(1,270)	2,338	1,092
Other services and charges	177,050	206,485	29,435	204,467	2,018
Capital outlay	-	2,197	2,197	2,197	-
Total	332,531	367,220	34,689	363,716	3,504
Legislative - Board of Aldermen					
Personnel services	202,034	203,595	1,561	202,735	860
Supplies	-	1,312	1,312	1,381	(69)
Other services and charges	10,433	453,849	443,416	454,233	(384)
Capital outlay	-	1,231	1,231	345	886
Total	212,467	659,987	447,520	658,694	1,293
Finance					
Personnel services	371,601	381,671	10,070	377,387	4,284
Supplies	7,800	8,732	932	5,719	3,013
Other services and charges	181,500	253,400	71,900	251,110	2,290
Capital outlay	-	33,000	33,000	32,993	7
Total	560,901	676,803	115,902	667,209	9,594
Human Resources					
Personnel services	110,366	112,678	2,312	111,781	897
Supplies	1,150	1,150	-	565	585
Other services and charges	551,014	512,582	(38,432)	507,551	5,031
Capital outlay	-	-	-	-	-
Total	662,530	626,410	(36,120)	619,897	6,513
Total General Government	1,768,429	2,330,420	561,991	2,309,516	20,904

(Continued)

City of Ocean Springs, Mississippi
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended September 30, 2015

Expenditures (Continued)	Budgeted Amounts		Original to Final Variance	Budget Basis Actual	Final Budget to Actual Variance
	Original	Final			
Planning and Community Develop					
Personnel services	351,910	343,377	(8,533)	334,075	9,302
Supplies	25,650	26,981	1,331	34,547	(7,566)
Other services and charges	167,200	154,015	(13,185)	194,545	(40,530)
Capital outlay	-	1,042,524	1,042,524	360,898	681,626
Total	544,760	1,566,897	1,022,137	924,065	642,832
Public Safety					
Personnel services	5,187,002	5,231,591	44,589	5,224,621	6,970
Supplies	333,650	286,482	(47,168)	270,725	15,757
Other services and charges	321,190	395,608	74,418	391,620	3,988
Capital outlay	750	-	(750)	734	(734)
Total	5,842,592	5,913,681	71,089	5,887,700	25,981
Public Works					
Personnel services	1,203,764	1,223,758	19,994	1,217,093	6,665
Supplies	343,250	325,296	(17,954)	262,247	63,049
Other services and charges	682,550	675,281	(7,269)	653,233	22,048
Capital outlay	420,000	342,753	(77,247)	305,773	36,980
Total	2,649,564	2,567,088	(82,476)	2,438,346	128,742
Culture and Recreation					
Personnel services	978,422	962,827	(15,595)	961,790	1,037
Supplies	222,400	230,188	7,788	178,928	51,260
Other services and charges	436,525	433,794	(2,731)	514,940	(81,146)
Capital outlay	10,000	172,522	162,522	51,859	120,663
Total	1,647,347	1,799,331	151,984	1,707,517	91,814
Total expenditures	12,452,692	14,177,417	1,724,725	13,267,144	910,273
Excess (deficiency) of revenues over expenditures	(368,914)	(344,409)	24,505	(219,770)	124,639
Other financing sources (uses):					
Interest earned	5,000	5,000	-	4,726	(274)
Loan proceeds	-	250,000	250,000	250,000	-
BP settlement	-	615,089	615,089	615,089	-
Insurance proceeds	20,000	29,000	9,000	29,862	862
Sale of assets	5,000	5,000	-	7,345	2,345
Transfers in	500,000	500,000	-	550,000	50,000
Transfers (out)	-	(824,067)	(824,067)	(6,333)	817,734
Total other financing sources (uses)	530,000	580,022	50,022	1,450,689	870,667
Net change in fund balances	161,086	235,613	74,527	1,230,919	995,306
Fund balances, beginning of year	191,786	941,357		941,357	
Fund balances, end of year	\$ 352,872	\$ 1,176,970		\$ 2,172,276	

(See Note IIA.)

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budget Basis
Food and Beverage Tax Fund
For the Fiscal Year Ended September 30, 2015

	Budgeted Amounts		Original to Final	Budget Basis	Final Budget to Actual
	Original	Final	Variance	Actual	Variance
Revenues					
Intergovernmental	\$ 1,050,000	\$ 1,050,000	\$ -	\$ 1,207,848	\$ 157,848
Total revenues	1,050,000	1,050,000	-	1,207,848	157,848
Expenditures					
Public Safety					
Capital outlay	-	-	-	32,093	(32,093)
Economic Development					
Capital outlay	71,000	71,000	-	73,425	(2,425)
Culture and Recreation					
Capital outlay	85,103	85,103	-	20,494	64,609
Debt Service					
Principal	391,939	391,939	-	390,628	1,311
Interest	501,958	501,958	-	505,665	(3,707)
Total	1,050,000	1,050,000	-	1,022,305	27,695
Total expenditures	1,050,000	1,050,000	-	1,022,305	27,695
Excess (deficiency) of revenues over expenditures	-	-	-	185,543	130,153
Other financing sources (uses):					
Transfers in	-	-	-	49,981	49,981
Transfers (out)	-	-	-	-	-
Total other financing sources (uses)	-	-	-	49,981	49,981
Net change in fund balances	-	-	-	235,524	180,134
Fund balances, beginning of year	-	-		54,318	
Fund balances, end of year	\$ -	\$ -		\$ 289,842	

(See Note IIA.)

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
PERS
Last 10 Fiscal Years*

	<u>2015</u>
City's proportion of the net pension liability (asset)	0.11%
City's proportionate share of the net pension liability (asset)	\$ 17,003,831
City's covered-employee payroll	\$ 6,862,749
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	247.77%
Plan fiduciary net position as a percentage of the total pension liability	61.700%

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30/15

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Required Supplementary Information
Schedule of District Contributions
PERS
Last 10 Fiscal Years*

	<u>2015</u>
Actuarially calculated required contribution	\$ 1,078,020
Actual contributions in relation to the contractually required contribution	1,078,020
Contribution deficiency (excess)	\$ <u>-</u>
City's covered-employee payroll	6,844,571
Contributions as a percentage of covered-employee payroll	15.75%

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

The Accompanying Notes are an Integral Part of the Financial Statements.

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Supplemental Information

City of Ocean Springs, Mississippi
Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2015

	Special Revenue Funds					Total
	Tourism	Library	Special Paid Fines and Forfeitures	Fire Protection	EMG Disaster Issac	
Assets						
Cash	\$ 40	\$ 53,950	\$ 1,350	\$ 19,268	\$ -	\$ 74,608
Receivables:						
Taxes	4,063	4,024	-	-	-	8,087
Grants	-	-	238,039	-	57,877	295,916
Due from other funds	2,395	-	-	-	-	2,395
Total assets	6,498	57,974	239,389	19,268	57,877	381,006
Liabilities & Fund Balance						
Liabilities:						
Accounts payable	40	196	3,600	2,010	-	5,846
Retainage payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	57,877	57,877
Total liabilities	40	196	3,600	2,010	57,877	63,723
Fund balance						
Restricted for:						
Economic development	6,458	-	-	-	-	6,458
Library support	-	57,778	-	-	-	57,778
Public safety	-	-	235,789	17,258	-	253,047
Capital projects	-	-	-	-	-	-
Total fund balances	6,458	57,778	235,789	17,258	-	317,283
Total liabilities and fund balance	\$ 6,498	\$ 57,974	\$ 239,389	\$ 19,268	\$ 57,877	\$ 381,006

Continued

City of Ocean Springs, Mississippi
Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2015

	Capital Projects Funds					Total	Non-Major Total All
	CDBG Mary O'Keefe	CDBG Front Beach	CIAP Harbor Improvements	STP Government Street - Phase II	Downtown Revitalization Construction		
Assets							
Cash	\$ 10,000	\$ -	\$ -	\$ 8,230	\$ -	\$ 18,230	\$ 92,838
Receivables:							
Taxes	-	-	-	-	-	-	8,087
Grants	-	107,610	64,756	-	8,872	181,238	715,193
Due from other funds	-	-	-	-	-	-	2,395
Total assets	10,000	107,610	64,756	8,230	8,872	199,468	580,474
Liabilities & Fund Balance							
Liabilities:							
Accounts payable	-	-	12,305	-	-	12,305	18,151
Retainage payable	-	-	10,824	-	-	10,824	10,824
Due to other funds	-	102,277	41,627	-	8,872	152,776	210,653
Total liabilities	-	102,277	64,756	-	8,872	175,905	239,628
Fund balance:							
Restricted for:							
Economic development	-	-	-	-	-	-	6,458
Library support	-	-	-	-	-	-	57,778
Public safety	-	-	-	-	-	-	253,047
Capital projects	10,000	5,333	-	8,230	-	23,563	23,563
Total fund balances	10,000	5,333	-	8,230	-	23,563	340,846
Total liabilities and fund balance	\$ 10,000	\$ 107,610	\$ 64,756	\$ 8,230	\$ 8,872	\$ 199,468	\$ 580,474

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended September 30, 2015

	Special Revenue Funds					
	Tourism	Library	Special Paid Fines and Forfeitures	EMG Disaster Issac	Fire Protection	Total
Revenues						
Ad valorem taxes	\$ -	\$ 171,493	\$ -	\$ -	\$ -	\$ 171,493
Fines and forfeitures	-	-	18,606	-	-	18,606
Intergovernmental	36,874	-	-	-	94,905	131,779
Grants	-	-	238,039	9,199	-	247,238
Total revenues	36,874	171,493	256,645	9,199	94,905	569,116
Expenditures						
Current:						
Public safety	-	-	500	-	9,378	9,878
Public works	-	-	-	9,199	-	9,199
Economic development	35,791	-	-	-	-	35,791
Culture and recreation	-	177,769	-	-	-	177,769
Capital outlay:						
Public safety	-	-	32,980	-	-	32,980
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	63,659	63,659
Interest	-	-	-	-	6,282	6,282
Total expenditures	35,791	177,769	33,480	9,199	79,319	335,558
Excess of revenues over (under) expenditures	1,083	(6,276)	223,165	-	15,586	233,558
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,083	(6,276)	223,165	-	15,586	233,558
Fund balance, beginning	5,375	64,054	12,624	-	1,672	83,725
Fund balance, end of year	\$ 6,458	\$ 57,778	\$ 235,789	\$ -	\$ 17,258	\$ 317,283

Continued

City of Ocean Springs, Mississippi
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended September 30, 2015

	Capital Projects Funds								
	CDBG Mary O'Keefe	STP Government Street - Phase II	MEMA Hazard Mitigation	CDBG Front Beach	CDBG Fire Station Relocation	CIAP Harbor Improvements	Downtown Revitalization Construction	Total	Non- Major Total All
Revenues									
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 171,493
Fines and forfeitures	-	-	-	-	-	-	-	-	18,606
Intergovernmental	-	-	-	-	-	-	-	-	131,779
Grants	-	8,230	-	-	-	235,547	4	243,781	491,019
Total revenues	-	8,230	-	-	-	235,547	4	243,781	812,897
Expenditures									
Current:									
Public safety	-	-	-	-	-	-	-	-	9,878
Public works	-	-	-	-	-	-	-	-	9,199
Economic development	-	-	-	-	-	-	-	-	35,791
Culture and recreation	-	-	-	-	-	-	4	4	177,773
Capital outlay:									
Public safety	-	-	-	-	-	-	-	-	32,980
Economic development	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	235,547	-	235,547	235,547
Debt service:									
Principal	-	-	-	-	-	-	-	-	63,659
Interest	-	-	-	-	-	-	-	-	6,282
Total expenditures	-	-	-	-	-	235,547	4	235,551	571,109
Excess of revenues over (under) expenditures	-	8,230	-	-	-	-	-	8,230	241,788
Other financing sources (uses):									
Transfers in	-	-	-	5,333	-	-	-	5,333	5,333
Transfers out	-	-	(8,942)	-	(49,981)	-	-	(58,923)	(58,923)
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	8,230	(8,942)	5,333	(49,981)	-	-	(45,360)	188,198
Fund balance, beginning	10,000	-	8,942	-	49,981	-	-	68,923	152,648
Fund balance, end of year	\$ 10,000	\$ 8,230	\$ -	\$ 5,333	\$ -	\$ -	\$ -	\$ 23,563	\$ 340,846

The Accompanying Notes are an Integral Part of the Financial Statements.

City of Ocean Springs, Mississippi
Schedule of Long-Term Debt
September 30, 2015

	Date Issued	Original Issue	Balance October 1, 2014	New Issues	Retirements	Balance September 30, 2015	Requirements Year Ended September 30, 2016	
							Principal	Interest
General Obligation Bonds and Notes								
General Obligation Note, Series 2011	04/20/11	\$ 200,000	\$ 83,010	\$ -	\$ 40,987	\$ 42,023	\$ 42,023	\$ 1,063
General Obligation Note, Series 2010	12/21/10	250,000	103,556	-	51,167	52,389	52,389	1,252
MS Dev. Bank Spec. Obligation Bonds, Series 2009	05/06/09	10,710,000	9,325,000	-	310,000	9,015,000	320,000	414,296
MS Develop Authority-386 Mary C. O'Keefe Centu	06/01/03	500,000	253,411	-	25,919	227,492	26,846	6,430
General Obligation Bonds, Series 2009-Peoples Banl	12/01/09	4,600,000	3,985,000	-	170,000	3,815,000	185,000	134,125
General Obligation Note-Bancorp South	11/01/13	250,000	250,000	-	50,000	200,000	50,000	3,706
General Obligation Note-Coast Community Bank	02/18/15	250,000	-	250,000	-	250,000	50,000	5,178
Total General Obligation Bonds and Notes			13,999,977	250,000	648,073	13,601,904	726,258	566,050
Capital Leases								
Oshkosh Capital - Fire Truck	05/03/10	306,954	203,803	-	34,668	169,135	30,585	8,524
Hancock Bank - Fire Truck	12/06/05	535,875	36,635	-	28,990	7,645	7,645	55
First Security Leasing - Musco Lighting	10/02/10	1,489,000	1,187,655	-	81,938	1,105,717	87,350	70,474
Total Capital Leases			1,428,093	-	145,596	1,282,497	125,580	79,053
Total General Long-Term Debt			15,428,070	250,000	793,669	14,884,401	851,838	645,103
Proprietary Funds Debt								
Civic Center - Halstead Water Tanks - MS Develop	10/01/01	273,115	114,637	-	14,891	99,746	15,358	2,818
MS Develop Cap Loan 9-282-CP-01	04/01/01	500,000	195,443	-	27,707	167,736	28,698	4,577
State Revolving Loan - Sewer SRF-C280752-01-2	06/14/98	1,100,100	299,496	-	85,189	214,307	88,770	8,154
Drinking Water Improve DWI-H280035-01-3	06/15/01	634,072	316,433	-	33,555	282,878	34,575	8,014
Drinking Water Improve DWI-H280035-02-3	08/10/02	1,054,818	704,361	-	50,200	654,161	51,986	22,067
Drinking Water Improve DWI-H280035-03-0	11/10/06	1,943,294	1,561,933	-	89,384	1,472,549	91,143	27,903
Drinking Water Improve DWI-H280035-04-2	11/18/08	1,029,345	765,355	-	48,346	717,009	49,297	13,543
Drinking Water Improve DWI-H280035-05-2	09/03/08	835,711	615,908	-	39,718	576,190	40,499	10,875
MS Develop Cap Loan 4-282-CP-01	12/20/04	328,752	260,869	-	17,326	243,543	17,745	4,715
MS Dept Environmental-SRF-C280752-02-2	09/01/10	1,059,133	990,895	-	46,497	944,398	47,317	16,149
Total Proprietary Funds Debt			5,825,330	-	452,813	5,372,517	465,388	118,815
Total All			\$ 21,253,400	\$ 250,000	\$ 1,246,482	\$ 20,256,918	\$ 1,317,226	\$ 763,918

See Independent Auditors' Report.

City of Ocean Springs, Mississippi
Schedule of Surety Bonds for Municipal Officials
And Other Municipal Employees

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Connie M. Moran	Mayor	McGuire Ins.	\$ 100,000
Robert Cox	Alderman-at-Large	McGuire Ins.	100,000
John Gill	Alderman	McGuire Ins.	100,000
Matt McDonnell	Alderman	McGuire Ins.	100,000
Frederick Cody, Jr.	Alderman	McGuire Ins.	100,000
Greg Denyer	Alderman	McGuire Ins.	100,000
Jerry Dalgo	Alderman	McGuire Ins.	100,000
Michael Impey	Alderman	McGuire Ins.	100,000
Shelly Ferguson	City Clerk	Scott Ins.	100,000
Mark Dunston	Chief of Police	Scott Ins.	50,000
Jennifer Simmons	Accountant	Beacon Ins.	50,000
Jennie Heines	Court Clerk	Scott Ins.	50,000
Karen Kennedy	Deputy City Clerk	Scott Ins.	50,000
Patty Gaston	Deputy City Clerk	Scott Ins.	50,000
Geri Straight	Parks and Leisure Director	Lemon Mohler	50,000

See Independent Auditors' Report.

City of Ocean Springs
Net Position by Component
Last Eight Fiscal Years

	Fiscal Year							
	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities								
Net investment in capital assets	\$ 31,353,665	\$ 31,382,569	\$ 31,215,299	\$ 30,591,229	\$ 27,334,794	\$ 28,047,509	\$ 22,838,073	\$ 24,286,294
Restricted	1,540,872	1,473,011	1,591,039	2,472,307	2,406,098	7,726,863	10,182,864	906,837
Unrestricted	(10,713,616)	908,202	(1,634,152)	(1,671,143)	879,835	1,953,557	1,249,784	6,712,466
Total governmental activities net position	<u>\$ 22,180,921</u>	<u>\$ 33,763,782</u>	<u>\$ 31,172,186</u>	<u>\$ 31,392,393</u>	<u>\$ 30,620,727</u>	<u>\$ 37,727,929</u>	<u>\$ 34,270,721</u>	<u>\$ 31,905,597</u>
Business-type activities								
Net investment in capital assets	\$ 15,951,146	\$ 15,422,319	\$ 15,220,344	\$ 15,054,415	\$ 12,215,993	\$ 11,949,059	\$ 9,734,419	\$ 6,817,627
Restricted	-	-	-	-	115,732	115,457	-	-
Unrestricted	(653,765)	1,310,342	1,600,981	1,565,779	1,830,329	1,858,947	2,369,216	3,247,157
Total business-type activities net position	<u>\$ 15,297,381</u>	<u>\$ 16,732,661</u>	<u>\$ 16,821,325</u>	<u>\$ 16,619,894</u>	<u>\$ 14,162,054</u>	<u>\$ 13,923,463</u>	<u>\$ 12,103,635</u>	<u>\$ 10,064,784</u>
Primary government								
Net investment in capital assets	\$ 47,304,811	\$ 46,804,888	\$ 46,435,643	\$ 45,645,344	\$ 39,550,787	\$ 39,996,568	\$ 32,572,492	\$ 31,103,921
Restricted	1,540,872	1,473,011	1,591,039	2,472,307	2,521,830	7,842,320	10,182,864	906,837
Unrestricted	(11,367,381)	2,218,544	(33,171)	(105,364)	2,710,164	3,812,504	3,619,000	9,959,623
Total primary government net position	<u>\$ 37,478,302</u>	<u>\$ 50,496,443</u>	<u>\$ 47,993,511</u>	<u>\$ 48,012,287</u>	<u>\$ 44,782,781</u>	<u>\$ 51,651,392</u>	<u>\$ 46,374,356</u>	<u>\$ 41,970,381</u>

See Independent Auditors' Report.

City of Ocean Springs
Changes in Net Position
Last Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2015	2014	2013	2012	2011	2010	2009	2008
Expenses								
Governmental activities:								
General government	\$ 1,985,235	\$ 2,042,967	\$ 2,003,419	\$ 2,049,162	\$ 1,508,639	\$ 3,548,837	\$ 3,876,915	\$ 3,908,281
Public safety	7,337,130	6,436,312	5,960,704	6,569,544	6,101,302	8,165,947	7,842,149	6,574,017
Public works	2,401,806	2,984,549	3,408,672	3,483,247	3,185,301	4,528,670	3,017,789	4,498,365
Health and welfare	369,378	226,549	235,011	589,719	1,167,991	1,071,237	-	-
Economic development	864,805	471,703	601,739	1,045,054	1,010,119	1,339,111	1,348,123	1,385,885
Culture and recreation	2,454,485	2,325,676	2,213,640	1,183,697	855,548	786,804	2,185,328	2,055,649
Interest on long-term debt	697,389	695,554	800,754	765,498	958,981	836,516	410,199	128,508
Total governmental activities expense	16,110,228	15,183,310	15,223,939	15,685,921	14,787,881	20,277,122	18,680,503	18,550,705
Business-type activities								
Water	1,633,638	1,561,283	1,822,438	1,552,498	1,533,991	1,417,619	1,516,152	1,662,809
Sewer	2,816,964	2,744,509	2,487,903	2,428,229	2,344,619	2,381,526	2,656,454	2,809,056
Garbage	1,289,115	1,120,016	1,109,150	1,360,666	1,345,174	1,355,022	1,380,072	-
Total business-type activities expense	5,739,717	5,425,808	5,419,491	5,341,393	5,223,784	5,154,167	5,552,678	4,471,865
Total primary government expenses	\$ 21,849,945	\$ 20,609,118	\$ 20,643,430	\$ 21,027,314	\$ 20,011,665	\$ 25,431,289	\$ 24,233,181	\$ 23,022,570
Program Revenue								
Governmental activities:								
Charges for services:								
General government	\$ 56,431	\$ 76,969	\$ 476,349	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Public safety	889,961	880,585	770,608	892,431	691,662	720,148	905,061	700,041
Economic development	281,721	-	-	-	-	-	-	-
Culture and recreation	474,237	513,294	504,879	477,215	418,209	462,246	424,052	1,549,523
Operating grants and contributions	634,624	477,929	359,196	619,199	561,808	3,184,488	2,175,376	1,893,903
Capital grants and contributions	983,403	400,069	776,208	2,616,957	3,691,403	5,881,692	4,005,423	138,017
Total governmental activities revenues	3,320,377	2,348,846	2,887,240	4,625,802	5,383,082	10,268,574	7,529,912	4,301,484
Business-type activities:								
Charges for services:								
Water	2,256,803	2,144,576	2,181,566	2,065,583	2,193,325	2,039,150	2,128,887	1,966,474
Sewer	2,926,054	2,873,575	2,728,627	2,714,609	2,756,391	2,538,901	2,486,083	2,570,194
Garbage	1,201,122	1,093,266	1,097,612	1,353,846	1,359,412	1,360,004	1,222,282	-
Capital grants and contributions	248,928	75,319	225,191	2,264,285	282,515	1,797,513	2,058,208	391,526
Total business-type activities revenues	6,632,907	6,186,736	6,232,996	8,398,323	6,591,643	7,735,568	7,895,460	4,928,194
Total primary government revenues	\$ 9,953,284	\$ 8,535,582	\$ 9,120,236	\$ 13,024,125	\$ 11,974,725	\$ 18,004,142	\$ 15,425,372	\$ 9,229,678

(Continued)

City of Ocean Springs
Changes in Net Position
Last Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2015	2014	2013	2012	2011	2010	2009	2008
Net (Expense)/Revenue								
Governmental activities	\$ (12,789,851)	\$ (12,834,464)	\$ (12,336,699)	\$ (11,060,119)	\$ (9,404,799)	\$ (10,008,548)	\$ (11,150,591)	\$ (14,249,221)
Business-type activities	893,190	760,928	813,505	3,056,930	1,367,859	2,581,401	-2,342,782	456,329
Total primary government net expense	\$ (11,896,661)	\$ (12,073,536)	\$ (11,523,194)	\$ (8,003,189)	\$ (8,036,940)	\$ (7,427,147)	\$ (8,807,809)	\$ (13,792,892)
General revenues and other changes in net position								
Governmental activities:								
Taxes:								
Property taxes	\$ 3,754,437	\$ 3,875,168	\$ 3,848,295	\$ 3,762,291	\$ 3,863,354	\$ 3,996,731	\$ 4,156,976	\$ 3,751,701
Sales, restaurant, and hotel taxes	6,179,410	5,413,560	5,551,490	5,479,966	5,400,907	5,393,867	5,449,842	5,358,395
Franchise taxes	884,084	869,502	810,308	797,594	848,966	882,162	835,514	850,232
Licenses and permits	-	266,946	251,193	173,232	252,962	159,163	236,765	194,522
Intergovernmental	1,414,281	1,373,897	1,374,500	1,019,172	1,435,420	1,159,807	2,138,779	1,235,178
BP settlement	615,089	-	-	-	-	-	-	-
Community disaster loan forgiveness	-	3,007,123	-	-	328,431	-	-	-
Unallowable FEMA closeout costs	-	-	(515,666)	-	-	-	-	-
Investment earnings and misc	190,973	207,193	184,298	134,787	424,204	394,313	329,268	375,248
Transfers	500,000	600,000	612,074	600,000	300,000	800,000	368,571	450,000
Total governmental activities	13,538,274	15,613,389	12,116,492	11,967,042	12,854,244	12,786,043	13,515,715	12,215,276
Business-type activities								
Investment earnings and misc	-	(2,066)	-	910	5,773	38,427	64,640	49,229
Transfers	(500,000)	(600,000)	(612,074)	(600,000)	(300,000)	(800,000)	(368,571)	(450,000)
Total business-type activities	(500,000)	(602,066)	(612,074)	(599,090)	(294,227)	(761,573)	(303,931)	(400,771)
Total primary government	\$ 13,038,274	\$ 15,011,323	\$ 11,504,418	\$ 11,367,952	\$ 12,560,017	\$ 12,024,470	\$ 13,211,784	\$ 11,814,505
Change in net position								
Governmental activities	\$ 748,423	\$ 2,778,925	\$ (220,207)	\$ 906,923	\$ 3,449,445	\$ 2,777,495	\$ 2,365,124	\$ (2,033,945)
Business-type activities	393,190	158,862	201,431	2,457,840	1,073,632	1,819,828	2,038,851	55,558
Total primary government	\$ 1,141,613	\$ 2,937,787	\$ (18,776)	\$ 3,364,763	\$ 4,523,077	\$ 4,597,323	\$ 4,403,975	\$ (1,978,387)

See Independent Auditors' Report.

City of Ocean Springs
Fund Balances, Governmental Funds
Last Eight Fiscal Years

	Fiscal Year							
	2015	2014	2013	2012	2011	2010	2009	2008
General fund								
Nonspendable for prepaids	\$ 206,381	\$ 232,638	\$ 316,332	\$ 258,476	\$ 187,734	\$ 187,734	\$ 187,734	\$ 187,734
Assigned for:								
Subsequent year appropriations	-	-	-	-	669,647	724,090	1,292,860	-
Unassigned	2,813,505	1,261,087	1,441,139	1,364,977	822,898	2,494,834	1,864,373	5,313,814
Total general fund	3,019,886	1,493,725	1,757,471	1,623,453	1,680,279	3,406,658	3,344,967	5,501,548
Other governmental funds								
Restricted for:								
Library support	57,778	64,054	64,116	70,632	80,206	83,402	45,892	29,827
Debt service	918,884	1,115,549	1,216,507	1,350,049	1,682,368	1,934,171	702,139	644,165
Economic development	469,293	210,189	139,239	71,742	2,490,656	2,538,467	9,461,187	492,989
Capital projects	23,563	68,923	92,755	758,789	723,730	5,794,692	1,629,869	1,973,596
Public safety	253,047	14,296	78,422	221,095	256,524	190,537	259,669	156,183
Total all other governmental funds	1,722,565	1,473,011	1,591,039	2,472,307	5,233,484	10,541,269	12,098,756	3,296,760
Total governmental funds	\$ 4,742,451	\$ 2,966,736	\$ 3,348,510	\$ 4,095,760	\$ 6,913,763	\$ 13,947,927	\$ 15,443,723	\$ 8,798,308

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City of Ocean Springs
Changes in Fund Balances, Governmental Funds
Last Eight Fiscal Years

	Fiscal Year							
	2015	2014	2013	2012	2011	2010	2009	2008
Revenues								
Taxes								
Property	\$ 3,754,437	\$ 3,875,168	\$ 3,848,295	\$ 3,762,291	\$ 3,863,354	\$ 3,996,731	\$ 4,156,976	\$ 3,751,701
Sales, restaurant & hotel	6,294,314	5,413,560	5,551,490	5,479,966	5,130,911	5,393,867	5,449,842	5,358,395
Franchise	884,084	869,502	810,308	797,594	848,966	882,162	835,514	850,232
Licenses and permits	281,721	266,946	251,193	173,232	252,962	159,163	236,765	194,522
Intergovernmental	1,299,376	1,373,897	1,374,500	1,019,172	1,705,416	1,159,807	2,138,779	1,235,178
Grants	1,615,927	877,998	1,135,404	3,236,156	4,253,211	9,066,180	6,180,799	2,031,920
Charges for service	530,668	590,263	981,228	497,215	438,209	482,246	444,052	1,569,523
Fines and forfeits	892,061	880,585	770,608	892,431	691,662	720,148	905,061	700,041
Miscellaneous	160,253	171,005	59,273	44,603	216,756	283,735	223,826	323,495
Total revenues	15,712,841	14,318,924	14,782,299	15,902,660	17,401,447	22,144,039	20,571,614	16,015,007
Expenditures								
General government	1,831,556	1,999,380	1,987,041	2,042,570	1,478,459	2,311,907	2,626,926	2,834,718
Public safety	6,363,590	6,141,786	5,909,982	6,376,293	5,796,404	7,829,679	7,665,662	6,349,701
Public works	2,089,360	2,435,682	2,673,807	2,934,660	2,689,716	4,441,925	4,221,372	4,687,049
Health and welfare	369,378	226,549	239,610	589,719	1,160,155	1,071,237	-	-
Economic development	508,489	346,546	437,957	962,929	981,749	1,193,852	1,251,395	1,234,439
Culture and recreation	1,695,945	1,923,128	1,803,769	925,385	727,714	778,933	2,527,162	1,415,048
Capital outlay	1,016,386	1,079,716	1,241,449	3,916,899	11,411,835	11,298,371	6,103,359	2,606,790
Debt service								
Principal	793,669	736,292	739,246	725,188	614,309	1,835,378	122,107	361,164
Interest	671,049	697,807	718,121	742,951	837,672	651,075	311,476	123,593
Total expenditures	15,339,422	15,586,886	15,750,982	19,216,594	25,698,013	31,412,357	24,829,459	19,612,502
Excess of revenues over (under) expenditures	373,419	(1,267,962)	(968,683)	(3,313,934)	(8,296,566)	(9,268,318)	(4,257,845)	(3,597,495)
Other financing sources (uses)								
Proceeds of debt	250,000	250,000	-	-	756,954	6,180,231	10,428,946	705,061
Insurance proceeds	29,862	34,157	109,500	30,721	176,707	65,882	95,155	42,213
Sale of capital assets	7,345	2,030	15,525	59,463	30,741	44,697	10,587	9,540
BP settlement	615,089	-	-	-	-	-	-	-
Unallowable FEMA Costs	-	-	(515,666)	-	-	-	-	-
Transfers in	564,256	608,873	1,317,009	660,905	410,628	1,221,386	1,837,862	1,799,051
Transfers out	(64,256)	(8,873)	(704,935)	(60,905)	(110,628)	(421,386)	(1,469,291)	(1,349,051)
Total other financing sources and (uses)	1,402,296	886,187	221,433	690,184	1,264,402	7,090,810	10,903,259	1,206,814
Net change in fund balance	\$ 1,775,715	\$ (381,775)	\$ (747,250)	\$ (2,623,750)	\$ (7,032,164)	\$ (2,177,508)	\$ 6,645,414	\$ (2,390,681)
Debt service as a percentage of noncapital expenditures	11.39%	10.97%	11.17%	10.61%	11.31%	14.11%	2.37%	2.93%

See Independent Auditors' Report.

City of Ocean Springs
Assessed Value and Actual Value of Taxable Property
Last Eight Fiscal Years
(amounts expressed in thousands)

Fiscal Year	Real Property (1)		Personal Property		Utilities		Automobiles		Total		Assessed to Actual
	Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value	
2015	138,329	1,011,177	10,280	68,533	10,260	68,400	20,527	68,423	179,396	1,216,534	14.75%
2014	139,646	1,020,804	10,206	68,040	10,211	68,073	18,591	61,970	178,654	1,218,887	14.66%
2013	139,370	1,018,787	10,191	67,940	9,090	60,600	18,183	60,610	176,834	1,207,937	14.64%
2012	138,120	1,009,649	9,842	65,613	8,888	59,253	16,098	53,660	172,948	1,188,176	14.56%
2011	136,567	998,297	9,910	66,067	9,119	60,793	15,804	52,680	171,400	1,177,837	14.55%
2010	145,007	1,059,993	9,428	62,853	8,982	59,880	17,814	59,380	181,231	1,242,106	14.59%
2009	138,661	1,013,604	9,328	62,187	11,669	77,793	19,299	64,330	178,957	1,217,914	14.69%
2008	106,568	779,006	10,108	67,387	8,854	59,027	30,058	100,193	155,588	1,005,613	15.47%
2007	102,062	746,067	8,086	53,907	8,260	55,067	29,954	99,847	148,362	954,887	15.54%

(1) Class 1 - residential, owner occupied is assessed at 10% of true value

Class 2 - commercial is assessed at 15% of true value

Above schedule uses estimated combined assessment ratio of 13.68% for real property

See Independent Auditors' Report.

City of Ocean Springs, Mississippi
Original Budget Recaps
General Fund Only
For the Last Eight Fiscal Years

	Fiscal Years Ending September 30							
	2015	2014	2013	2012	2011	2010	2009	2008
Revenues								
Ad valorem taxes	\$ 3,339,928	\$ 3,343,639	\$ 3,278,225	\$ 3,144,617	\$ 3,154,198	\$ 3,421,085	\$ 3,476,723	\$ 3,362,708
Licenses and permits	278,000	239,000	195,000	203,000	261,000	220,000	209,000	440,000
Franchise fees	870,000	820,000	920,000	920,000	920,000	905,000	905,000	757,000
Intergovernmental	5,689,000	5,689,000	5,672,500	5,310,627	5,724,627	5,902,336	5,942,705	6,157,000
Federal & state grants	247,850	247,850	184,000	1,901,006	2,207,571	2,456,868	3,810,946	3,665,364
Charges for services	634,000	634,000	733,500	607,000	472,500	467,500	1,838,750	1,610,600
Fines & forfeitures	880,000	880,000	790,000	665,000	730,000	695,000	650,000	487,000
Other	145,000	120,000	100,000	70,000	180,000	94,650	316,000	507,900
Total revenues	12,083,778	11,973,489	11,873,225	12,821,250	13,649,896	14,162,439	17,149,124	16,987,572
Expenditures								
General Government								
Executive - Mayor	332,531	340,765	452,084	585,620	572,843	636,211	652,602	599,798
Legislative -Board of Aldermen	212,467	206,697	203,360	306,941	270,254	469,029	541,910	482,324
Finance	560,901	555,820	559,931	570,050	572,982	599,480	575,984	625,531
Human Resources	662,530	654,971	747,334	781,583	715,364	727,065	716,536	881,268
Total General Government	1,768,429	1,758,253	1,962,709	2,244,194	2,131,443	2,431,785	2,487,032	2,588,921
Planning & Community Develop	544,760	484,552	412,258	679,869	1,144,948	1,574,630	1,758,776	2,345,685
Public Safety	5,842,592	5,734,902	5,815,358	5,988,174	6,062,093	7,095,588	7,225,502	6,083,712
Public Works	2,649,564	2,810,954	2,876,538	3,033,659	3,913,030	4,721,996	6,200,044	5,922,856
Culture & Recreation	1,647,347	1,596,479	1,629,444	1,598,692	1,510,472	1,982,898	2,055,463	2,688,638
Debt Service	-	-	-	-	-	-	25,523	25,523
Total expenditures	12,452,692	12,385,140	12,696,307	13,544,588	14,761,986	17,806,897	19,752,340	19,655,335
Excess (deficiency) of revenues over expenditures	(368,914)	(411,651)	(823,082)	(723,338)	(1,112,090)	(3,644,458)	(2,603,216)	(2,667,763)
Other financing sources (uses):								
Issuance of Debt	-	-	-	-	-	1,000,000	-	-
Other	30,000	68,033	65,000	76,000	85,000	80,000	-	-
Transfers in (out)	500,000	526,000	600,000	207,500	300,000	524,017	1,200,000	1,675,000
Total other financing sources	530,000	594,033	665,000	283,500	385,000	1,604,017	1,200,000	1,675,000
Net change in fund balances	161,086	182,382	(158,082)	(439,838)	(727,090)	(2,040,441)	(1,403,216)	(992,763)
Fund balances, beginning of year	191,786	-	580,573	1,282,109	1,661,556	3,385,842	5,092,922	5,831,002
Fund balances, end of year	\$ 352,872	\$ 182,382	\$ 422,491	\$ 842,271	\$ 934,466	\$ 1,345,401	\$ 3,689,706	\$ 4,838,239

See Independent Auditors' Report.

City of Ocean Springs
Legal Debt Margin Information
Last Eight Fiscal Years
(amounts expressed in thousands)

	Fiscal Year							
	2015	2014	2013	2012	2011	2010	2009	2008
Debt Limit (15%)	\$ 26,909	\$ 26,798	\$ 26,525	\$ 25,942	\$ 25,710	\$ 27,185	\$ 26,844	\$ 23,338
Total net GO debt applicable to limit	3,634	3,607	3,621	3,692	3,510	3,497	-	-
Legal debt margin	<u>\$ 23,275</u>	<u>\$ 23,191</u>	<u>\$ 22,904</u>	<u>\$ 22,250</u>	<u>\$ 22,200</u>	<u>\$ 23,688</u>	<u>\$ 26,844</u>	<u>\$ 23,338</u>
Total net debt applicable to the limit as a percentage of the debt limit	13.50%	13.46%	13.65%	14.23%	13.65%	12.86%	0.00%	0.00%

**Legal Debt Margin Calculated
for Fiscal Year 2013**

Assessed Value	\$ 179,396	
Debt limit (15% of assessed value)		26,909
Debt applicable to limit:		
General obligation bonds		(3,815)
Debt service funds available		<u>181</u>
Legal debt margin		<u>\$ 23,275</u>

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Compliance Section

City of Ocean Springs, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
Passed Through Mississippi Department of Public Safety:			
Alcohol Open Container Requirements - DUI Enforcement	20.607	13-TA-316-1	\$ 20,759
Total U.S. Department of Transportation			<u>20,759</u>
U.S. Department of Housing and Urban Development			
Passed Through Mississippi Development Authority:			
Community Development Block Grant - Community Revitalization	14.228	R103-282-01-KCR	4
Total U.S. Department of Housing and Urban Development			<u>4</u>
Office of National Drug Control Policy			
Passed through Mississippi Bureau of Narcotics			
High Intensity Drug Trafficking Areas Program	95.001	15PGCP5722	8,250
Total Office of National Drug Control Policy			<u>8,250</u>
U.S. Department of Homeland Security			
Passed Through Mississippi Emergency Management Agency:			
Assistance to Firefighters Grant	97.044	EMW-2010-FH-005	89
Total U.S. Department of Homeland Security			<u>89</u>
Department of the Interior			
Passed Through Mississippi Department of Marine Resources			
Coastal Impact Assistance Program-Stormwater Outfall-Front Beach	15.668	MS 30-705	95,465
Coastal Impact Assistance Program-Harbor Stormwater Management and Wetlands Restoration	15.668	MS 30-706	139,633
Total passed through Mississippi Dept of Marine Resources			<u>235,098</u>
Passed through National Oceanic and Atmospheric Administration			
Department of Commerce-Sea Grant-Adapting Infrastructure	11.417	USM-GR03925-R/	47,900
Department of Commerce-Sea Grant	11.417	MG/CCCAI-30	-
Total passed through National Oceanic and Atmospheric Administration		MG/CCCAI-30	<u>47,900</u>
Total Department of the Interior			<u>282,998</u>
U.S. Department of Defense			
Passed Through U.S. Army Corp of Engineers			
Mississippi Environmental Infrastructure Section 592-ARRA	12.124		554,935
Total U.S. Department of the Army			<u>554,935</u>
Total Expenditures of Federal Awards			<u>\$ 867,035</u>

See Independent Auditors' report

City of Ocean Springs, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ocean Springs and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

NOTE 2. LOAN AGREEMENTS OUTSTANDING

Proceeds of various State Revolving Funds were obtained and expended in prior years for sewer rehabilitation, capital improvements and drinking water system improvements. The State Revolving Funds are financed, at least in part, by the U.S. Environmental Protection Agency. The Community Disaster Loan is financed by the U.S Department of Homeland Security. The principal balance outstanding on these loans as of September 30, 2015 was:

	<u>Current Year Federal Expenditures</u>	<u>Federal Loan Balance</u>	<u>Total Loan Balance</u>
State Revolving Loan # SRF-C280752-01-3	\$ -	\$ 173,589	\$ 214,307
State Revolving Loan # SRF-C280752-02-2	-	273,875	944,398
Drinking Water Systems Improvement:			
Loan # DWI-H280035-01	-	229,131	282,878
Loan # DWI-H280035-02	-	536,412	654,161
Loan # DWI-H280035-03	-	1,192,765	1,472,549
Loan # DWI-H280035-04	-	580,777	717,009
Loan # DWI-H280035-05	-	466,714	576,190

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

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

To the Board of Aldermen
City of Ocean Springs, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the financial statements of *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 Ocean Springs, Mississippi ("City"), 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 July 25, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

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

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates
Certified Public Accountants

Gulfport, Mississippi
July 25, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Aldermen
City of Ocean Springs, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the City of Ocean Springs, Mississippi's (City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of the auditor's 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 each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City'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 Ocean 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 each of its major federal programs for the year ended September 30, 2015.

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Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the type 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of 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.

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P.A.
Certified Public Accountants

Gulfport, Mississippi
July 25, 2016

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

To the Board of Aldermen
City of Ocean Springs, Mississippi

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi as of and for the year ended September 30, 2015, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 25, 2016. 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.

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 all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the City of Ocean Springs, Mississippi's aldermen and management, federal awarding agencies, the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P.A.
Certified Public Accountants

Gulfport, Mississippi
July 25, 2016

City of Ocean 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 auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major programs? | Unmodified |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Identification of major programs: | |

CFDA Numbers

Name of Federal Program or Cluster

12.124

U.S. Department of Defense
MS Environmental Infrastructure Section 592

15.668

U.S. Department of Interior
Coastal Impact Assistance Program

- | | | |
|----|---|-----------|
| 8. | Dollar threshold used to distinguish between type A and type B programs | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

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

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*:

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

