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City of Bay Springs

J. E. Smith
Mayor

Randy James
City Clerk

Joseph Sims
Attorney

Cynthia Johnson
Deputy Clerk/Court Clerk

Rhonda Dyess
Utility Clerk

Aldermen

Steve Breland, Ward 1
Mike Lucas, Ward 2
James Knotts, Ward 3
Ronald Keyes, Ward 4
Bob Cook, Ward 5

September 6, 2017

Dear Sir or Madame:

Enclosed, please find the City of Bay Springs, Mississippi's Audited Financial Statements for the Year Ended September 30, 2016, as provided by Herzog CPA Company, PLLC.

Should you have any questions regarding the enclosed data, please contact me on 601.764.4112.

Sincerely,

Randy James
Municipal Clerk

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CITY OF BAY SPRINGS, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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**CITY OF BAY SPRINGS, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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HERZOG CPA COMPANY, PLLC

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Proportionate Share of the Net Pension Liability, the Schedule of the City's Contributions, and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omission of Required Supplementary Information

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

Supplementary and Other Information

The Schedule of Surety Bonds for Municipal Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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BASIC FINANCIAL STATEMENTS

City of Bay Springs, Mississippi
Statement of Net Position
September 30, 2016

EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 611,040	\$ 1,581,736	\$ 2,192,776
Restricted assets - cash	143,738	-	143,738
Property tax receivable	714,640	-	714,640
Receivables (net of uncollectibles):			
Accounts	14,170	298,280	312,450
Sales tax	55,897	-	55,897
Other	31,054	-	31,054
Due from other funds	65,419	1,877	67,296
Prepaid expenses	6,669	-	6,669
Capital assets (net of accumulated depreciation):			
Land	257,243	453,918	711,161
Buildings	846,868		846,868
Improvements other than buildings	1,315,729	1,853	1,317,582
Mobile equipment	98,060	177,143	275,203
Other furniture and equipment	78,397	80,255	158,652
Infrastructure	959,391	-	959,391
Utility systems	-	5,964,086	5,964,086
Total Assets	5,198,315	8,559,148	13,757,463
Deferred Outflows of Resources			
Deferred outflows related to pension	240,190	152,544	392,734
Total Deferred Outflows of Resources	240,190	152,544	392,734
Total Assets and Deferred Outflows of Resources	\$ 5,438,505	\$ 8,711,692	\$ 14,150,197

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

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City of Bay Springs, Mississippi
Statement of Net Position
September 30, 2016

Page 2
EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	\$ 35,984	\$ 153,673	\$ 189,657
Accrued payroll	6,379	4,580	10,959
Due to other funds	67,195	101	67,296
Customer deposits	-	113,863	113,863
Other accrued liabilities	17,718	-	17,718
Non-current Liabilities:			
Due within one year	44,425	80,446	124,871
Due in more than one year	151,714	773,275	924,989
Long-term compensated absences	37,427	24,528	61,955
Net pension liability	1,966,395	1,248,854	3,215,249
Total Liabilities	2,327,237	2,399,320	4,726,557
Deferred Inflows of Resources			
Deferred inflows related to pension	3,724	2,366	6,090
Unearned Revenue- property taxes	714,640	-	714,640
Total Deferred Inflows of Resources	718,364	2,366	720,730
Net Position			
Net investment in capital assets	3,359,549	5,823,534	9,183,083
Restricted for debt service	95,888	-	95,888
Unrestricted	(1,062,533)	486,472	(576,061)
Total Net Position	2,392,904	6,310,006	8,702,910
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 5,438,505	\$ 8,711,692	\$ 14,150,197

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

City of Bay Springs, Mississippi
Statement of Activities
For the Year Ended September 30, 2016

EXHIBIT 2

Function/Programs:	Expenses	Program Revenues			Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants	Capital Grants			
Governmental Activities:							
General government	\$ (841,754)	\$ -	\$ -	\$ -	\$ (841,754)	\$ -	\$ (841,754)
Public safety	(874,757)	-	-	-	(874,757)	-	(874,757)
Public works	(715,492)	130,413	-	535,794	(49,285)	-	(49,285)
Culture and recreation	(193,786)	-	-	-	(193,786)	-	(193,786)
Economic development	(61,047)	-	-	-	(61,047)	-	(61,047)
Interest on long-term debt	(3,407)	-	-	-	(3,407)	-	(3,407)
Total governmental activities	<u>(2,690,243)</u>	<u>130,413</u>	<u>-</u>	<u>535,794</u>	<u>(2,024,036)</u>	<u>-</u>	<u>(2,024,036)</u>
Business-type Activities:							
Water	-	-	-	-	-	(311,577)	(311,577)
Sewer	-	-	-	-	-	(60,572)	(60,572)
Gas	-	-	-	-	-	463,576	463,576
Industrial park	-	-	-	-	-	273,974	273,974
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>365,401</u>	<u>365,401</u>
Total functions/programs	<u>\$ (2,690,243)</u>	<u>\$ 130,413</u>	<u>\$ -</u>	<u>\$ 535,794</u>	<u>\$ (2,024,036)</u>	<u>\$ 365,401</u>	<u>\$ (1,658,635)</u>
General revenues:							
Property tax					\$ 782,300	\$ -	\$ 782,300
Franchise tax					125,371	-	125,371
Sales tax					672,770	-	672,770
Licenses and permits					10,658	-	10,658
Fines and forfeitures					18,574	-	18,574
Intergovernmental, not restricted to							
Specific functions/programs					31,071	-	31,071
Other					208,582	-	208,582
Transfers in (out)					(33,203)	33,203	-
Total general revenues and transfers					<u>1,816,123</u>	<u>33,203</u>	<u>1,849,326</u>
Change in Net Position					(207,913)	398,604	190,691
Net Position- Beginning, as previously reported					2,600,817	6,005,733	8,606,550
Prior period adjustment					-	(94,331)	(94,331)
Net Position-Beginning, as restated					<u>2,600,817</u>	<u>5,911,402</u>	<u>8,512,219</u>
Net Position, End of year					<u>\$ 2,392,904</u>	<u>\$ 6,310,006</u>	<u>\$ 8,702,910</u>

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

City of Bay Springs, Mississippi
Balance Sheet
Governmental Funds
September 30, 2016

EXHIBIT 3

	Governmental Funds			
	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 517,188	\$ 93,852	\$ -	\$ 611,040
Restricted cash	26,293	-	117,445	143,738
Accounts receivable	14,170	-	-	14,170
Property tax receivable	678,212	36,428	-	714,640
Due from other governments	55,897	-	-	55,897
Due from other funds	38,383	2,036	25,000	65,419
Other receivables	31,054	-	-	31,054
Prepaid expenses	6,669	-	-	6,669
Total Assets	<u>\$ 1,367,866</u>	<u>\$ 132,316</u>	<u>\$ 142,445</u>	<u>\$ 1,642,627</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 35,826	\$ -	\$ 158	\$ 35,984
Accrued payroll	6,379	-	-	6,379
Due to other funds	42,195	-	25,000	67,195
Unearned revenue	678,212	36,428	-	714,640
Other accrued liabilities	17,718	-	-	17,718
Total liabilities	<u>780,330</u>	<u>36,428</u>	<u>25,158</u>	<u>841,916</u>
Fund Balances:				
Restricted for debt service	-	95,888	-	95,888
Unassigned	587,536	-	117,287	704,823
Total fund balances	<u>587,536</u>	<u>95,888</u>	<u>117,287</u>	<u>800,711</u>
Total liabilities and fund balances	<u>\$ 1,367,866</u>	<u>\$ 132,316</u>	<u>\$ 142,445</u>	<u>\$ 1,642,627</u>

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

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City of Bay Springs, Mississippi
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
September 30, 2016

EXHIBIT 3.1

Fund balances - Total Governmental Funds

\$ 800,711

Amounts reported for governmental activities in the Statement of
Net Position are different because:

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

Governmental Capital Assets	6,554,403	
Less: Accumulated depreciation	<u>(2,998,715)</u>	3,555,688

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

Notes payable	(196,139)	
Compensated absences	<u>(37,427)</u>	(233,566)

Deferred Outflows related to pension liability are applicable
to future periods, and therefore, are not reported in the funds.

240,190

Net pension obligations are not due and payable in the current
period and, therefore, are not reported in the funds.

(1,966,395)

Deferred Inflows related to pension liability are applicable
to future periods, and therefore, are not reported in the funds.

(3,724)

Net Position of Governmental Activities

\$ 2,392,904

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

City of Bay Springs, Mississippi
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2016

EXHIBIT 4

	Governmental Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Other Governmental Funds	
REVENUES				
Property taxes	\$ 743,185	\$ 39,115	\$ -	\$ 782,300
Licenses and permits	136,029	-	-	136,029
Intergovernmental revenue	703,842	-	535,794	1,239,636
Charges for services	130,413	-	-	130,413
Fines and forfeitures	18,574	-	-	18,574
Other revenues	99,476	112	108,993	208,581
Total Revenues	<u>1,831,519</u>	<u>39,227</u>	<u>644,787</u>	<u>2,515,533</u>
EXPENDITURES				
Current:				
General government	483,545	-	30,953	514,498
Public safety	765,585	-	-	765,585
Public works	927,828	-	-	927,828
Culture and recreation	171,092	-	-	171,092
Economic development	61,047	-	-	61,047
Debt service:				
Principal retirement	2,169	19,142	-	21,311
Interest and fiscal charges	155	3,252	-	3,407
Total Expenditures	<u>2,411,421</u>	<u>22,394</u>	<u>30,953</u>	<u>2,464,768</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(579,902)</u>	<u>16,833</u>	<u>613,834</u>	<u>50,765</u>
OTHER FINANCING SOURCES AND (USES)				
Transfers in	639,100	-	132,394	771,494
Transfers out	(173,196)	-	(631,501)	(804,697)
Proceeds from debt	99,722	-	-	99,722
Total Other Financing Sources and (Uses)	<u>565,626</u>	<u>-</u>	<u>(499,107)</u>	<u>66,519</u>
Net Change in Fund Balances	<u>(14,276)</u>	<u>16,833</u>	<u>114,727</u>	<u>117,284</u>
Fund Balance -Beginning	<u>601,812</u>	<u>79,055</u>	<u>2,560</u>	<u>683,427</u>
Fund Balances-Ending	<u>\$ 587,536</u>	<u>\$ 95,888</u>	<u>\$ 117,287</u>	<u>\$ 800,711</u>

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

City of Bay Springs, Mississippi
Reconciliation of the Statement of Revenues, Expenditures, and Changes
In Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

EXHIBIT 4.1

Net Changes in Fund Balances - Total Governmental Funds	\$	117,284
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.

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

Expenditures for capital assets	414,189	
Less: Current year depreciation	<u>(253,832)</u>	160,357

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

Proceeds from debt	(99,722)	
Principal payments	<u>21,312</u>	(78,410)

Some expenses in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in long-term compensated absences		(895)
--	--	-------

Some items reported in the Statement of Activities relating to the Implementation of GASB 68 are not reported in the government funds. These activities include:

Recording of pension expense for the current period	(377,778)	
Recording of contributions made subsequent to measurement date	<u>(28,471)</u>	<u>(406,249)</u>

Change in Net Position of Governmental Activities	\$	<u>(207,913)</u>
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The notes to the financial statements are an integral part of this statement.

City of Bay Springs, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2016

EXHIBIT 5

	Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Gas	Industrial Park	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 43,954	\$ 112,185	\$ 1,193,352	\$ 232,245	\$ 1,581,736
Accounts receivable	95,097	75,448	127,735	-	298,280
Due from other funds	-	-	1,877	-	1,877
Total current assets	139,051	187,633	1,322,964	232,245	1,881,893
Noncurrent assets:					
Capital assets:					
Land	258	38,517	-	415,143	453,918
Improvements	18,718	-	-	3,450	22,168
Systems	3,104,234	3,335,779	579,000	2,906,027	9,925,040
Mobile equipment	105,911	86,752	212,879	106,934	512,476
Other furniture and equipment	74,769	132,622	209,916	112,321	529,628
Less accumulated depreciation	(1,388,181)	(1,433,938)	(753,396)	(1,190,460)	(4,765,975)
Total noncurrent assets	1,915,709	2,159,732	248,399	2,353,415	6,677,255
Total Assets	2,054,760	2,347,365	1,571,363	2,585,660	8,559,148
Deferred Outflows of Resources:					
Deferred outflows related to pension	36,043	19,646	66,334	30,521	152,544
Total outflows of resources	36,043	19,646	66,334	30,521	152,544
Total Assets and Deferred Outflows of Resources	<u>\$ 2,090,803</u>	<u>\$ 2,367,011</u>	<u>\$ 1,637,697</u>	<u>\$ 2,616,181</u>	<u>\$ 8,711,692</u>

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

City of Bay Springs, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2016

Page 2
EXHIBIT 5

	Enterprise Funds				Total
	Water	Sewer	Gas	Industrial Park	Enterprise Funds
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 8,400	\$ 2,671	\$ 96,010	\$ 46,592	\$ 153,673
Accrued payroll	1,172	573	2,101	734	4,580
Due to other funds	101	-	-	-	101
Customer deposits	77,509	-	36,354	-	113,863
Current portion of long-term debt	56,621	11,168	-	12,657	80,446
Total current liabilities	143,803	14,412	134,465	59,983	352,663
Noncurrent liabilities:					
Compensated absences payable	8,365	4,132	2,282	9,749	24,528
Long-term debt	429,082	211,734	-	132,459	773,275
Net pension liability	280,969	159,347	545,739	262,799	1,248,854
Total noncurrent liabilities	718,416	375,213	548,021	405,007	2,046,657
Total Liabilities	862,219	389,625	682,486	464,990	2,399,320
Deferred Inflows of Resources					
Deferred inflows related to pension	380	305	1,117	564	2,366
Total Deferred Inflows of Resources	380	305	1,117	564	2,366
NET POSITION					
Net investment in capital assets	1,430,006	1,936,830	248,399	2,208,299	5,823,534
Unrestricted	(201,802)	40,251	705,695	(57,672)	486,472
Total net position	1,228,204	1,977,081	954,094	2,150,627	6,310,006
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 2,090,803	\$ 2,367,011	\$ 1,637,697	\$ 2,616,181	\$ 8,711,692

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

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City of Bay Springs, Mississippi
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2016

EXHIBIT 6

	Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Gas	Industrial Park	
Operating revenues:					
Sales	\$ 428,191	\$ 206,824	\$ 1,857,346	\$ 782,266	\$ 3,274,627
Other revenue	9,974	961	87,429	235	98,599
Total operating revenues	438,165	207,785	1,944,775	782,501	3,373,226
Operating expenses:					
Personnel services	183,873	114,417	403,045	193,664	894,999
Contractual services, materials, and supplies	114,825	25,777	211,325	59,589	411,516
Utilities	103,498	32,140	3,906	103,779	243,323
Other services and charges	241,866	-	819,697	57,775	1,119,338
Depreciation	97,477	92,012	43,226	89,604	322,319
Total operating expenses	741,539	264,346	1,481,199	504,411	2,991,495
Operating income (loss)	(303,374)	(56,561)	463,576	278,090	381,731
Nonoperating expense:					
Interest Expense	(8,203)	(4,011)	-	(4,116)	(16,330)
Income (loss) before transfers	(311,577)	(60,572)	463,576	273,974	365,401
Transfers in	104,122	646,481	-	-	750,603
Transfers out	-	(60,000)	(232,900)	(424,500)	(717,400)
Change in net position	(207,455)	525,909	230,676	(150,526)	398,604
Total net position- beginning, as previously reported	1,435,659	1,545,503	723,418	2,301,153	6,005,733
Prior period adjustment	-	(94,331)	-	-	(94,331)
Net position-beginning, as restated	1,435,659	1,451,172	723,418	2,301,153	5,911,402
Total net position - ending	\$ 1,228,204	\$ 1,977,081	\$ 954,094	\$ 2,150,627	\$ 6,310,006

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

City of Bay Springs, Mississippi
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2016

EXHIBIT 7

	Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Gas	Industrial Park	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers and users	\$ 446,145	\$ 212,298	\$ 2,077,533	\$ 782,501	\$ 3,518,477
Cash payments to suppliers	(481,361)	(38,942)	(1,068,082)	(132,988)	(1,721,373)
Cash payments to employees	(190,455)	(118,889)	(411,026)	(199,130)	(919,500)
Operating transfers	104,122	586,481	(232,900)	(424,500)	33,203
Net cash provided by (used by) operating activities	(121,549)	640,948	365,525	25,883	910,807
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchases of capital assets	(8,890)	(681,366)	(12,436)	(45,395)	(748,087)
Principal payments	(41,333)	(10,974)	-	(16,569)	(68,876)
Proceeds from debt	139,917	-	-	-	139,917
Net cash provided by (used by) capital and related financing activities	89,694	(692,340)	(12,436)	(61,964)	(677,046)
Net increase (decrease) in cash and cash equivalents	(31,855)	(51,392)	353,089	(36,081)	233,761
Cash and cash equivalents, beginning of year	75,809	163,577	840,263	268,326	1,347,975
Cash and cash equivalents, end of year	\$ 43,954	\$ 112,185	\$ 1,193,352	\$ 232,245	\$ 1,581,736
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:					
Change in net position	\$ (207,455)	\$ 525,909	\$ 230,676	\$ (150,526)	\$ 398,604
Adjustments not affecting cash:					
Depreciation expense	97,477	92,012	43,226	89,604	322,319
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(7,980)	(4,513)	132,758	-	120,265
(Increase) in due from other funds	-	-	(385)	-	(385)
Decrease in deferred outflows related to pension	5,168	3,249	11,508	6,111	26,036
Increase (decrease) in accounts payable	(43,014)	504	(145,781)	33,026	(155,265)
Increase in customer deposits	280	-	1,385	-	1,665
(Decrease) in payroll related liabilities	(4,332)	(2,245)	(3,929)	(3,120)	(13,626)
(Decrease) in compensated absences payable	(2,250)	(2,227)	(4,052)	(2,346)	(10,875)
(Decrease) to other funds	(4,284)	-	-	-	(4,284)
Increase in net pension liability	44,461	27,954	99,002	52,570	223,987
Increase in deferred inflows related to pension	380	305	1,117	564	2,366
Total adjustments	85,906	115,039	134,849	176,409	512,203
Net cash provided by (used by) operating activities	\$ (121,549)	\$ 640,948	\$ 365,525	\$ 25,883	\$ 910,807

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

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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

Basis of Presentation

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

Government-wide Financial Statements:

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

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

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Financial Statements:

The governmental and proprietary financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues and expenditures/expenses. Funds are organized into governmental and proprietary categories. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Measurement Focus and Basis of Accounting

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

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

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

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

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The City reports the following major Governmental Funds:

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

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

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

The City reports the following major Proprietary Funds:

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

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

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

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

Capital Assets

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

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

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Encumbrances

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

Receivables

No allowance account is used by the City as of September 30, 2016. All accounts receivable balances reflect amounts due from customers.

Surety Bonds

Surety bond coverage meets the legal requirements for the year ended September 30, 2016.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The city has incurred deferred outflows that are related to pension reporting.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows are directly related to pension reporting.

Cash and Cash Equivalents

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

Operating Revenues and Expenses

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

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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and displayed in three components:

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position not meeting the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements:

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

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

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

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

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

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

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

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 2 – PRIOR PERIOD ADJUSTMENT

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

Statement of Activities and Statement of Revenues, Expenses, and Changes in Net Position-Proprietary Funds:

Long-Term Debt Adjustment	<u>\$(94,331)</u>
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NOTE 3 – CASH AND INVESTMENTS

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

Code Sec. 21-33-323 Miss Code Ann. (1972) allows municipalities to invest their surplus funds. The City may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts. All investments of the City throughout the year and at year-end were interest bearing time certificates of deposit which are recorded at cost plus interest earned at September 30, 2016. The market value equals the carrying amount of these investments.

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

The City's deposits, which include all cash accounts and certificates of deposits, with a carrying value of \$2,336,514 and a bank balance of \$2,424,976 at September 30, 2016, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the year ended September 30, 2016:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental Activities:					
<i><u>Capital assets not being depreciated:</u></i>					
Land	\$ 257,243	\$ -	\$ -	-	\$ 257,243
Construction in progress	494,097	-	-	(494,097)	-
	<u>751,340</u>	<u>-</u>	<u>-</u>	<u>(494,097)</u>	<u>257,243</u>
<i><u>Capital assets being depreciated:</u></i>					
Buildings	1,438,671	-	-	-	1,438,671
Improvements other than buildings	2,173,792	28,260	-	-	2,202,052
Mobile equipment	962,365	99,722	-	-	1,062,087
Other furniture and equipment	471,226	-	-	-	471,226
Infrastructure	342,820	286,207	-	494,097	1,123,124
Total capital assets being depreciated	<u>\$ 5,388,874</u>	<u>\$ 414,189</u>	<u>\$ -</u>	<u>494,097</u>	<u>\$ 6,297,160</u>
	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
<i><u>Less accumulated depreciation for:</u></i>					
Buildings	\$ 555,836	\$ 35,967	\$ -	-	\$ 591,803
Improvements other than buildings	792,451	93,872	-	-	886,323
Mobile equipment	915,250	48,777	-	-	964,027
Other furniture and equipment	363,553	29,276	-	-	392,829
Infrastructure	117,793	45,940	-	-	163,733
Total accumulated depreciation	<u>2,744,883</u>	<u>253,832</u>	<u>-</u>	<u>-</u>	<u>2,998,715</u>
Total capital assets being depreciated, net	<u>2,643,991</u>	<u>160,357</u>	<u>-</u>	<u>494,097</u>	<u>3,298,445</u>
Governmental activities capital assets, net	<u>\$ 3,395,331</u>	<u>\$ 160,357</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 3,555,688</u>

Depreciation expense was charged to the following functions as follows:

Governmental Activities:	
General government	<u>\$ 253,832</u>
Total Depreciation Expense	<u><u>\$ 253,832</u></u>

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 4 - CAPITAL ASSETS – Continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 453,918	\$ -	\$ -	\$ 453,918
Total capital assets not being depreciated	453,918	-	-	453,918
<u>Capital assets being depreciated:</u>				
Utility systems	9,284,649	640,391	-	9,925,040
Improvements other than buildings	22,168	-	-	22,168
Machinery and equipment	417,217	95,259	-	512,476
Other furniture and equipment	517,191	12,437	-	529,628
Total capital assets being depreciated	\$ 10,241,225	\$ 748,087	\$ -	\$ 10,989,312

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Less accumulated depreciation for:</u>				
Utility systems	\$ 3,706,640	\$ 254,314	\$ -	\$ 3,960,954
Improvements other than buildings	20,026	289	-	20,315
Machinery and equipment	298,044	37,289	-	335,333
Other furniture and equipment	418,946	30,427	-	449,373
Total accumulated depreciation	4,443,656	322,319	-	4,765,975
Total capital assets being depreciated, net	5,797,569	425,768	-	6,223,337
Business-type activities capital assets, net	\$ 6,251,487	\$ 425,768	\$ -	\$ 6,677,255

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 5 - LONG-TERM DEBT

Loans payable at September 30, 2016 are comprised of the following issues:

Cap Loans

<u>Purpose</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
Maintenance and storage facility	\$ 260,000	2021	4.80%	\$ 98,587
Water improvements	87,207	2017	3.00%	5,279
Water improvements	94,980	2017	2.00%	21,235
Water tank	498,100	2028	2.00%	322,281
Water tank	200,000	2027	2.00%	145,116
Water pollution control -01-2	249,098	2034	1.75%	222,902
Water pollution control -02-2	139,917	2036	1.75%	136,908
Total				<u>\$ 952,308</u>

Capital Leases

<u>Purpose</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2016 Chevy Crew cab Truck	\$ 35,883	2020	1.75%	\$ 33,713
2-2017 Ford Explorers	63,839	2020	1.75%	63,839
Total				<u>\$ 97,552</u>

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 5 - LONG-TERM DEBT - Continued

The following is a summary of changes in long-term debt for the year ended September 30, 2016:

DEFINITION AND PURPOSE	Balance Outstanding Oct 1, 2015	Transactions During Fiscal Year		Balance Outstanding Sept 30, 2016	Due Within One Year
		Issued	Redeemed		
<u>Governmental Activities:</u>					
CAP Loan - Maintenance and storage facility	\$ 117,729	\$ -	\$ (19,142)	\$ 98,587	\$ 20,091
Capital Lease - 2-2017 Ford Explorers	-	63,839		63,839	15,558
Capital Lease - 2016 Crew cab Truck	-	35,883	(2,170)	33,713	8,776
Total governmental activities	\$ 117,729	\$ 99,722	\$ (21,312)	\$ 196,139	\$ 44,425

DEFINITION AND PURPOSE	Balance	Transactions		Balance	Due
	Outstanding	During Fiscal Year		Outstanding	Within One
	Oct 1, 2015	Issued	Redeemed	Sept 30, 2016	Year
<u>Business-type Activities:</u>					
CAP loan - Water pollution control -01-2	\$ 233,876	\$ -	\$ (10,974)	\$ 222,902	\$ 11,168
CAP loan - Water well repairs	1,036	-	(1,036)	-	-
CAP loan - Water improvements	12,232	-	(6,953)	5,279	5,279
CAP loan - Water improvements	28,035	-	(6,800)	21,235	21,235
CAP loan - Water tank	345,816	-	(23,535)	322,281	24,010
CAP loan - Water tank	156,499	-	(11,383)	145,116	12,657
CAP loan - Water pollution control -02-2	-	139,917	(3,009)	136,908	6,097
Capital Lease - 2013 Chevy Silverado	5,186	-	(5,186)	-	-
Total business-type activities	<u>782,680</u>	<u>139,917</u>	<u>(68,876)</u>	<u>853,721</u>	<u>80,446</u>
Total government-wide long-term debt	\$ 900,409	\$ 239,639	\$ (90,188)	\$ 1,049,860	\$ 124,871

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 5 - LONG-TERM DEBT - Continued

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15 percent of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20 percent whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2016, the amount of outstanding debt was equal to 2.62 percent of the latest property assessments.

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

<u>Year</u>	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2017	\$ 44,425	\$ 5,837	\$ 80,446	\$ 15,899
2018	45,836	4,425	54,977	14,128
2019	47,319	2,943	56,043	13,064
2020	46,514	1,405	57,127	11,978
2021	12,045	170	58,235	10,870
2022-2026	-	-	308,544	36,984
2027-2031	-	-	172,073	11,880
2032-2035	-	-	65,573	1,905
2036	-	-	703	1
Total	<u>\$ 196,139</u>	<u>\$ 14,780</u>	<u>\$ 853,721</u>	<u>\$ 116,709</u>

NOTE 6 - RISK MANAGEMENT

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

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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 7 – PENSION PLAN OBLIGATIONS

General Information about the Pension plan

Plan Description

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

Benefits Provided

For the cost-sharing plan, participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled upon application, to annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. Benefits are established by Section 25-11-1 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature.

A Cost of Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.00% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.00% compounded for each fiscal year thereafter.

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City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 7 – PENSION PLAN OBLIGATIONS (continued)

Contributions

Per Chapter 11 of Title 25, Mississippi Code Ann. (1972), contribution requirements of plan members and their employers are established and may be amended only by the PERS Board. The adequacy of the rates is assessed annually by actuarial valuation. For the year ended September 30, 2016, member employees were required to contribute 9.00 percent of their annual pay, while the City's required contribution rate was 15.75 percent of annual covered payroll. The City's employer contributions to PERS for the year ended September 30, 2016, 2015, and 2014 were \$186,951, \$165,989, and \$160,138 (employer share). The contributions for the year met the required contributions.

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

At September 30, 2016, the City of Bay Springs reported a liability of \$3,215,249 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates, the City of Bay Springs's proportion of the net pension liability was based on employer contributions to PERS for the plan's fiscal year ended June 30, 2016, relative to the total employer contributions of participating employers to PERS. At June 30, 2016, the City of Bay Springs's proportion was .18% which was .001% more than its proportion measured as of June 30, 2015.

For the year ended September 30, 2016, the City of Bay Springs, recognized pension expense of \$506,147. At September 30, 2016, the City of Bay Springs reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 63,911	\$ -
Net difference between projected and actual earnings on pension plan investments	174,254	-
Changes in assumptions	108,018	6,090
Contributions subsequent to the measurement date	46,551	-
	<u>\$ 392,734</u>	<u>\$ 6,090</u>

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 7 –PENSION PLAN OBLIGATIONS (continued)

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

At September 30, 2016, the City of Bay Springs reported \$46,551 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2017	\$ 110,435
2018	110,435
2019	75,662
2020	43,561
	<u>\$ 340,093</u>

Actuarial Assumptions

The total pension liability used in the September 30, 2016, actuarial valuation was determined using the following actuarial assumptions and other inputs:

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

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

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

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 7 – PENSION PLAN OBLIGATIONS (continued)

Actuarial Assumptions (continued)

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

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

Discount Rate

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

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**City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016**

NOTE 7 – PENSION PLAN OBLIGATIONS (continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase 8.75%
Proportionate share of the net pension liability	\$ 4,122,671	\$ 3,215,249	\$ 2,462,384

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At September 30, 2016, the City of Bay Springs has no amounts payable for outstanding contributions to the pension plan required for the year ended September 30, 2016.

NOTE 8 – PROPERTY TAXES

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

NOTE 9 – INTERFUND TRANSFERS

Funds are frequently transferred from the utility funds to the General Fund to finance the operations of the General Fund. Transfers of this nature were \$639,100 for the year.

City of Bay Springs, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 10 – JOINT VENTURE

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

NOTE 11 – DEFICIT FUND BALANCE OF INDIVIDUAL FUNDS

The following funds reported deficits in fund balance at September 30, 2016:

<u>Fund</u>	<u>Deficit Amount</u>
CDBG Fund	<u>\$ (22,987)</u>

NOTE 12 – EFFECT OF DEFERRED AMOUNTS ON NET POSITION

The governmental activities' unrestricted net position amount of \$(1,062,533) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$46,551 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. The \$346,183 balance of the deferred outflow of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next four years. The \$6,090 balance of the deferred inflow of resources related to pension at September 30, 2016, will be recognized in pension expense over the next four years.

NOTE 13 – SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Bay Springs, Mississippi evaluated the activity of the City through August 21, 2017, (the date the financial statements were available to be issued) and determined that no subsequent events require disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Bay Springs, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2016

	General Fund			Variance with
	Original	Final	Actual	Final Budget
	Budget	Budget	(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Property taxes	\$ 728,983	\$ 728,983	\$ 743,185	\$ 14,202
Licenses and permits	151,000	151,000	138,700	(12,300)
Intergovernmental revenues	642,150	642,150	682,862	40,712
Charges for services	135,000	135,000	130,616	(4,384)
Fines and forfeitures	22,300	22,300	18,574	(3,726)
Other revenue	40,300	40,300	99,476	59,176
Total Revenues	<u>1,719,733</u>	<u>1,719,733</u>	<u>1,813,413</u>	<u>93,680</u>
EXPENDITURES				
Current:				
General government	519,129	519,129	495,254	23,875
Public safety	659,951	659,951	679,832	(19,881)
Public works	871,468	871,468	935,518	(64,050)
Culture and recreation	191,894	191,894	175,910	15,984
Economic development	50,500	50,500	61,047	(10,547)
Total expenditures	<u>2,292,942</u>	<u>2,292,942</u>	<u>2,347,561</u>	<u>(54,619)</u>
(Deficiency) of revenues over Expenditures	<u>(573,209)</u>	<u>(573,209)</u>	<u>(534,148)</u>	<u>39,061</u>
OTHER FINANCING SOURCES				
Transfers in	573,209	573,209	485,106	(88,103)
Total Other Financing Sources	<u>573,209</u>	<u>573,209</u>	<u>485,106</u>	<u>(88,103)</u>
Net Change in Fund Balance	-	-	(49,042)	(49,042)
Fund Balances - beginning	447,370	149,761	499,777	350,016
Fund Balances - ending	<u>\$ 447,370</u>	<u>\$ 149,761</u>	<u>\$ 450,735</u>	<u>\$ 300,974</u>

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

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THE CITY OF BAY SPRINGS
Schedule of the City's Proportionate Share
of the Net Pension Liability
For the Years Ended September 30, 2016, 2015 and 2014

	2016	2015	2014
Employer's proportion of the net pension liability (asset)	.018%	.017%	.016%
Employer's proportionate share of the net pension liability (asset)	\$ 3,215,249	\$ 2,627,865	\$ 1,942,107
Employer's covered-employee payroll	1,186,990	1,053,897	1,016,752
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	270.87%	249.35%	191.01%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%

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

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

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.

See Notes to the Required Supplementary Information.

THE CITY OF BAY SPRINGS
Schedule of the City's Contributions
For the Years Ended September 30, 2016, 2015 and 2014

	2016	2015	2014
Contractually required contribution	\$ 186,951	\$ 165,989	\$ 160,138
Contributions in relation to the contractually required	<u>(186,951)</u>	<u>(165,989)</u>	<u>(160,138)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	1,186,990	1,053,897	1,016,752
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%

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

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

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.

See Notes to the Required Supplementary Information.

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City of Bay Springs, Mississippi
Notes to the Required Supplementary Information
For the Year Ended September 30, 2016

a.) Budgetary Information

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

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

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

b.) Basis of Presentation

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

c.) Budget/GAAP Reconciliation

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

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

City of Bay Springs, Mississippi
Notes to Required Supplementary Information
For the Year Ended September 30, 2016

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

	<u>Governmental Fund Types</u>
	<u>General Fund</u>
Budget (Cash Basis)	\$ (49,042)
Increase (Decrease)	
Net adjustments for revenue accruals	(42,361)
Net adjustments for expenditures accruals	77,127
GAAP Basis	<u>\$ (14,276)</u>

d.) Schedule of the City's Proportionate Share of the Net Pension Liability and Schedule of the City's Contributions.

Changes in Benefit Provisions.

2016

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

Changes of Assumptions.

2015

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.
- The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
- Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
- The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016

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

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OTHER INFORMATION

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City of Bay Springs, Mississippi
Schedule of Surety Bonds for Municipal Officials - Unaudited
September 30, 2016

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

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SPECIAL REPORTS

HERZOG CPA COMPANY, PLLC

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 21, 2017.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2016-001 and 2016-002 to be material weaknesses.

Compliance and Other Matters

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

City of Bay Springs, Mississippi's response to findings

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

Purpose of this Report

This report is intended solely for the information and use of management, the Board of Aldermen, federal awarding agencies, and passes through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
August 21, 2017

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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

We have audited the basic financial statements of City of Bay Springs, Mississippi for the year ended September 30, 2016 and have issued our report dated August 21, 2017. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

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

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
August 21, 2017

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SCHEDULE OF FINDINGS AND RESPONSES

City of Bay Springs, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2016

Section 1: Summary of Auditors' Results

Financial Statements:

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

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City of Bay Springs, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2016

Section 2: Financial Statement Findings

2016-001. Finding

Significant Deficiency- Material Weakness.

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

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

Response: The City will comply in the future.

2016-002. Finding

Significant Deficiency- Material Weakness.

The City exceeded the budget in the general fund for public safety, public works, and economic development expenditures.

Recommendation: The City should amend the budget to actual in October of each year.

Response: The City will comply in the future.