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Audited Financial Report

**City of Bay St. Louis
Bay St. Louis, Mississippi**

Fiscal Year Ended September 30, 2016

City of Bay St. Louis, Mississippi
Audited Financial Report
Fiscal Year Ended September 30, 2016
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Introductory Section

City of Bay St. Louis, Mississippi

Listing of City Officials

September 30, 2016

Elected Officials

Mayor.....	Les Fillingame
Councilmember at Large.....	Mike Favre
Councilmember Ward 1.....	Doug Seal, Jr.
Councilmember Ward 2.....	Wendy McDonald
Councilmember Ward 3.....	Jeffrey Reed
Councilmember Ward 4.....	Robert J. Compretta
Councilmember Ward 5.....	Joey Boudin
Councilmember Ward 6.....	Lonnie Falgout

Appointed Department Heads

City Clerk.....	Paula Fairconnetue
City Attorney	Trent Favre
Police Department.....	Vacant
Fire Department	Monty Strong
Public Works.....	Kim Favre

Financial Section

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Bay St. Louis, 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 St. Louis, Mississippi ("City"), as of and for the year ended September 30, 2016, 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 and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note R and S to the financial statements, the City is under an ongoing investigation by the Federal Bureau Investigation (FBI) for potential collusion and nepotism in payroll fraud and other matters pertaining to the police department. The amount by which this potential payroll fraud would affect the financial statements of the governmental activities has not been determined. We were unable to obtain sufficient appropriate audit evidence about the ongoing FBI investigation for the year then ended because information on the investigation has not been released to the City. Consequently, we were unable to determine whether any adjustments are needed to the financial statements on matters pertaining to the FBI investigation of the police department.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph above, 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, 2016, 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 7 through 13, the schedule of budgetary comparison information on pages 50 through 52 and the schedules of the City's Proportionate Share of the Net Pension Liability and Schedule of City Contributions on pages 53 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining non-major 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 presented for purposes of additional analysis is also not a required part of the financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements 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 31, 2017, 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 31, 2017

Management's Discussion and Analysis

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Introduction

The following Management's Discussion and Analysis of the City of Bay St. Louis ("the City") activities and financial performance provides an introduction to the financial statements of the City for the fiscal year ended September 30, 2016. 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 Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities at September 30, 2016 by \$112,518,295 and by \$117,140,047 at September 30, 2015.
- The total net position decreased by \$4,621,752 for 2016 and decreased by \$12,784,545 for 2015; and of these amounts, governmental activities decreased by \$2,184,208, while business type activities decreased by \$2,437,544 during 2016. During 2015, governmental activities net position decreased by \$9,016,539, largely from implementing GASB 68 for pension liabilities, and business type activities net position decreased by \$3,768,006.
- The City's governmental funds reported a combined ending fund balance of \$4,204,011 for 2016, and \$1,592,810 for 2015, an increase of \$2,611,201.
- Unassigned fund balance for the general fund was \$(184,799) for 2016 compared to \$(94,200) for 2015.
- The City was named one of America's coolest small towns in 2013 by Budgettravel.com.
- The City was named one of the Best Little Beach Towns on the Gulf Coast according to Coastal Living Magazine.
- Our Harbor was voted second place in the 2015 Boater's Choice Top-Ten All-Around Marinas according to Marinas.com.

According to the US Census updates, the City of Bay St. Louis has experienced the fastest growing population in the state since the 2010 census was completed. That, combined with a rapidly expanding commercial presence in the City indicates that the City's efficient operations are attracting new residents and businesses alike. The city continues to provide one of the lowest property tax rates in the area and offers very competitive utility rates for citizens. The city has grown geographically to twice its size since 2005 due to annexation and manages over \$150,000,000 in net assets while streamlining its workforce by 10% during that same time. Applied operational efficiency has enabled the city to accumulate a healthy municipal reserves fund as of the date of this report. These measures will ensure that Bay St. Louis continues to be "A Place Apart" for its citizens to enjoy.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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. There are two government-wide statements: the state of net position and the statement of activities.

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 Bay St. Louis.

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 eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is always classified as a major fund, and the other governmental funds for the purpose of consistency. The municipal reserve and debt service fund was also selected by the City to be reported as a major fund due to its importance to readers, and the road construction fund was selected as a major fund due to its liabilities.

- **Proprietary Fund**

The City maintains two 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 proprietary statement of revenues, expenses, and changes in net position, along with a statement of cash flow.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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 comparisons for the general fund and municipal reserve fund are 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, 2016 and 2015.

Government-Wide Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 6,237,223	\$ 2,447,315	\$ 2,181,728	\$ 1,213,928	\$ 8,418,951	\$ 3,661,243
Capital assets, net	53,982,827	53,419,571	69,840,422	73,369,750	123,823,249	126,789,321
Total assets	60,220,050	55,866,886	72,022,150	74,583,678	132,242,200	130,450,564
Deferred Outflows of Resources	2,011,211	1,521,623	259,246	199,632	2,270,457	1,721,255
Liabilities:						
Current and other liabilities	2,480,911	1,038,102	873,543	779,252	3,354,454	1,817,354
Long-term liabilities	15,312,277	10,387,842	1,987,643	2,230,130	17,299,920	12,617,972
Total liabilities	17,793,188	11,425,944	2,861,186	3,009,382	20,654,374	14,435,326
Deferred Inflows of Resources	1,186,986	527,270	153,002	69,176	1,339,988	596,446
Net position:						
Invested in capital assets, net of related debt	48,034,658	51,703,058	68,790,422	71,989,750	116,825,080	123,692,808
Restricted	4,127,081	1,419,274	392,369	196,560	4,519,450	1,615,834
Unrestricted	(8,910,652)	(7,687,037)	84,417	(481,558)	(8,826,235)	(8,168,595)
Total net position	\$ 43,251,087	\$ 45,435,295	\$ 69,267,208	\$ 71,704,752	\$ 112,518,295	\$ 117,140,047

Analysis of Government Wide Statement of Net Position:

The City's assets exceeded liabilities by \$112,518,295 for 2016 and by \$117,140,047 for 2015. 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 2016, that amount decreased by \$6,867,728 from \$123,692,808 in 2015 to \$116,825,080 in 2016, while the capital assets, net of depreciation also decreased \$2,966,072 from \$126,789,321 in 2015 to \$123,823,249 in 2016. There remains \$3,293,505 of construction in progress on the fixed asset books at the end of 2016. The restricted net assets of \$4,519,450 are comprised of \$3,186,112 for capital improvements, \$436,231 for public safety, \$864,730 for future debt service, and \$32,377 for community rental deposits. The remaining deficit balance of \$(8,826,235) is a result of implementing GASB 68 on pension liability.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

The table below presents the City's condensed statement of activities as of September 30, 2016 and 2015:

Government Wide Statement of Activities						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 580,308	\$ 458,510	\$ 4,359,447	\$ 3,983,494	\$ 4,939,755	\$ 4,442,004
Operating grants	155,813	374,633	-	-	155,813	374,633
Capital grants	439,092	-	16,558	19,099	455,650	19,099
Total program	1,175,213	833,143	4,376,005	4,002,593	5,551,218	4,835,736
General revenues						
Property taxes	2,358,259	2,315,702	-	-	2,358,259	2,315,702
Sales taxes	1,464,861	1,472,826	-	-	1,464,861	1,472,826
Franchise taxes	395,700	440,103	-	-	395,700	440,103
Gaming revenue	2,091,112	2,122,677	-	-	2,091,112	2,122,677
Intergovernmental	548,801	276,869	-	-	548,801	276,869
Gain on sale of assets	40,098	276,551	-	-	40,098	276,551
Other	98,094	410,945	16,641	44,810	114,735	455,755
Total general	6,996,925	7,315,673	16,641	44,810	7,013,566	7,360,483
Total revenues	8,172,138	8,148,816	4,392,646	4,047,403	12,564,784	12,196,219
Expenses						
General government	2,740,183	2,742,988	-	-	2,740,183	2,742,988
Public safety	4,077,090	3,687,750	-	-	4,077,090	3,687,750
Public works	2,990,118	3,026,135	-	-	2,990,118	3,026,135
Culture and recreation	718,130	677,944	-	-	718,130	677,944
Interest	90,825	65,058	-	-	90,825	65,058
Water, sewer, and gas	-	-	5,554,339	5,604,634	5,554,339	5,604,634
Harbor	-	-	1,015,851	997,287	1,015,851	997,287
Total expenses	10,616,346	10,199,875	6,570,190	6,601,921	17,186,536	16,801,796
Operating income (loss)	(2,444,208)	(2,051,059)	(2,177,544)	(2,554,518)	(4,621,752)	(4,605,577)
Unallowable grant costs	-	(302,729)	-	-	-	(302,729)
Operating Transfers	260,000	300,000	(260,000)	(300,000)	-	-
Change in net position	(2,184,208)	(2,053,788)	(2,437,544)	(2,854,518)	(4,621,752)	(4,908,306)
Beginning net position	45,435,295	54,451,834	71,704,752	75,472,758	117,140,047	129,924,592
Prior period adjustments	-	(6,962,751)	-	(913,488)	-	(7,876,239)
Restated beginning net	45,435,295	47,489,083	71,704,752	74,559,270	117,140,047	122,048,353
Ending net position	\$43,251,087	\$45,435,295	\$69,267,208	\$71,704,752	\$112,518,295	\$ 117,140,047

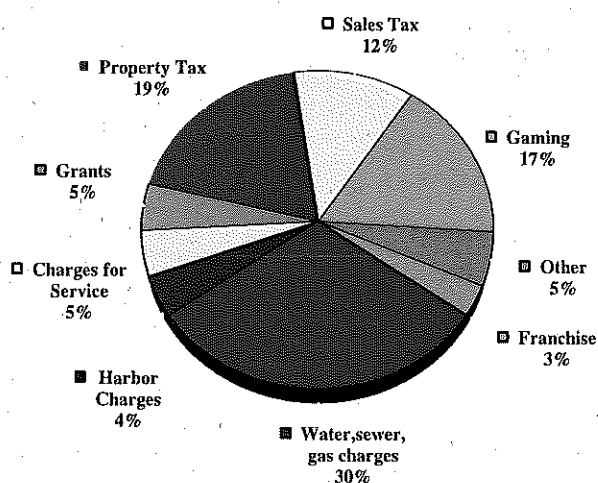
Analysis of Government Wide Statement of Activities:

Revenues

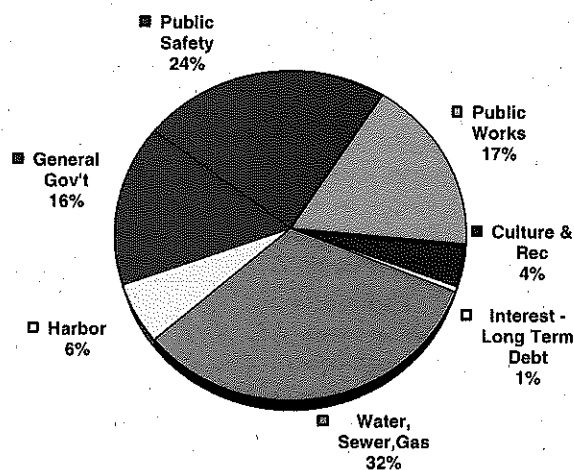
Total revenues increased by \$368,565 for 2016, from \$12,196,219 in 2015 to \$12,564,784 in 2016. With the near completion of hurricane recovery, federal grants are returning to pre-hurricane levels. The following graphs reflect the revenues and expenses of the City and the percentage of total for each type.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Where does the Money Come From?



How is the Money Used?



Property Tax – Property tax accounts for \$2.3 million or 19% of the City's total revenues and is considered one of the most stable revenue sources for the City. The City's property tax revenue increased by \$42,557 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 Tax – A significant source of revenue for the City is sales taxes accounting for \$1,464,861 or 12% of the City's total revenues. Sales tax decreased by \$7,965 from the prior year.

Gaming revenue – Another significant source of revenue for the City is gaming revenues totaling \$2,091,112 for 2016 and \$2,122,677 for 2015, a decrease of \$31,565.

Expenses

Total program expenses increased by \$384,740 from \$16,801,796 in 2015 to \$17,186,536 in 2016. The chart below represents the cost of each of the City's major governmental functional areas for 2016:

	Total Cost of Service	Net Cost of Service
Governmental Activities:		
General Government	\$ 2,740,183	\$ 2,341,637
Public Safety	4,077,090	3,739,307
Public Works	2,990,118	2,551,234
Culture and Recreation	718,130	718,130
Interest on long term debt	90,825	90,825
Total Governmental activities	\$ 10,616,346	\$ 9,441,133

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Governmental Funds Analysis

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$4,204,011, an increase of \$2,611,201 from the previous fiscal year. Of that balance \$3,318,475 is restricted and/or committed for capital improvements, \$334,285 for law enforcement, \$114,579 for fire safety, \$32,377 for community rental deposits, and \$472,361 for future debt service payments, with the remainder unrestricted in the general fund.

- **General Fund**
 1. Fund balance totaled \$78,890, a decrease of \$40,184 from the previous year.
 2. Revenues decreased \$71,146, while expenditures increased by \$254,226.
 3. Received \$260,000 transfer from water, sewer, gas, and harbor funds.
 4. Received \$560,310 capital lease loan proceeds for a tractor and fire truck.
- **Debt Service Fund**
 1. Paid out \$372,452 in debt service and received \$322,954 in property tax revenues.
 2. Received \$396,533 from the county to cover the road construction general government bonds.
 3. Amounts transferred in from general fund totaled \$49,000.
 4. Fund Balance totaled \$472,361, an increase of \$396,114 from the previous year.

Enterprise Funds Analysis

Total operating income increased \$375,953 from previous year, and the net change in position was \$(2,437,544) after transferring \$260,000 to the General fund, resulting in unrestricted net position of \$84,417 at the end of 2016.

	2016	2015
Operating Revenues	\$ 4,359,447	\$ 3,983,494
Operating Expenses	6,535,914	6,555,381
Operating Income	(2,176,467)	(2,571,887)
Non-Operating Items:		
Interest Expense	(34,276)	(46,540)
Other Income	16,641	44,810
Grant Revenue	16,558	19,099
Transfers Out	(260,000)	(300,000)
Transfers In	-	-
Total Non-Operating	(261,077)	(282,631)
Change in Net Position	\$ (2,437,544)	\$ (2,854,518)

Budget Variances in the General Fund

Amendments to the original budget increased total appropriations by \$1,612,104; while, budgeted revenues only increased by \$683,817. Refer to the budgetary comparison schedule for the General Fund on page 50-51 in the RSI section of the annual report.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2016, the City reported \$53,982,827 in net capital assets for governmental activities and \$69,840,422 for business-type activities for a total of \$123,823,249 net of depreciation, compared to \$126,789,321 for 2015. Construction in progress increased from \$98,612 in 2015 to \$2,435,872 in 2016.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 857,633	\$ 857,633	\$ -	\$ -	\$ 857,633	\$ 857,633
Buildings	26,132,005	26,636,480	39,978	40,978	26,171,983	26,677,458
Machinery & equipment	515,441	511,272	182,843	191,022	698,284	702,294
Infrastructure/improvements	22,493,473	23,998,765	69,584,455	73,127,047	92,077,928	97,125,812
Vehicles	206,625	235,069	10,703	10,703	217,328	245,772
Leased equipment/vehicles	1,364,221	1,081,740	-	-	1,364,221	1,081,740
Construction in progress	2,413,429	98,612	22,443	-	2,435,872	98,612
Total	<u>\$53,982,827</u>	<u>\$53,419,571</u>	<u>\$69,840,422</u>	<u>\$73,369,750</u>	<u>\$123,823,249</u>	<u>\$ 126,789,321</u>

Additional information on the City's capital assets can be found in Note H on pages 37-39 of this report.

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$7,287,686 in outstanding debt. During the year, the City issued \$4,000,000 in General Obligation Bond, Series 2016 and \$560,310 in capital leases for a fire truck and a Kubota tractor. Additional information on the City's long-term debt can be found in Note J: Long-Term Debt on pages 40-42 and the Schedule of Long-Term Debt on page 59 of the supplemental information section of this report.

Bonds, Loans, and Other Debt

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Bonds payable	\$ 4,430,000	\$ 537,500	\$ 1,050,000	\$ 1,380,000	\$ 5,480,000	\$ 1,917,500
Capital leases payable	1,442,481	1,047,466	-	-	1,442,481	1,047,466
Notes payable	75,688	131,547	-	-	75,688	131,547
Compensated absences	256,017	252,418	33,500	32,721	289,517	285,139
Total	<u>\$ 6,204,186</u>	<u>\$ 1,968,931</u>	<u>\$ 1,083,500</u>	<u>\$ 1,412,721</u>	<u>\$ 7,287,686</u>	<u>\$ 3,381,652</u>

Contact the City's Financial Management

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

Sissy Gonzales, City Comptroller
City of Bay St. Louis, Mississippi
P. O. Box 2550
Bay St. Louis, MS 39521

Basic Financial Statements

City of Bay St. Louis, Mississippi
Statement of Net Position
September 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,435,973	\$ 578,944	\$ 5,014,917
Restricted cash	146,956	957,757	1,104,713
Receivables:			
Taxes	401,636	-	401,636
Customer accounts, net	-	711,547	711,547
Due from other governments	488,522	-	488,522
Other	500,981	-	500,981
Inventory	-	58,126	58,126
Internal balances	146,422	(146,422)	-
Prepaid insurance	116,733	21,776	138,509
Capital assets:			
Land and construction in progress	3,271,062	22,443	3,293,505
Other (net of accumulated depreciation)	50,711,765	69,817,979	120,529,744
Total assets	<u>60,220,050</u>	<u>72,022,150</u>	<u>132,242,200</u>
Deferred Outflows of Resources			
Deferred amount on pension	<u>2,011,211</u>	<u>259,246</u>	<u>2,270,457</u>
Liabilities			
Accounts payable	1,747,932	204,148	1,952,080
Accrued payroll	86,072	11,571	97,643
Accrued interest payable	76,117	8,177	84,294
Deposits payable	26,900	309,647	336,547
Due within one year:			
Bonds and notes	543,890	340,000	883,890
Due beyond one year:			
Bonds and notes	5,404,279	710,000	6,114,279
Net pension liability	9,651,981	1,244,143	10,896,124
Compensated absences	256,017	33,500	289,517
Total liabilities	<u>17,793,188</u>	<u>2,861,186</u>	<u>20,654,374</u>
Deferred Inflows of Resources			
Deferred amount on pension	<u>1,186,986</u>	<u>153,002</u>	<u>1,339,988</u>
Net position			
Net Investment in capital assets	48,034,658	68,790,422	116,825,080
Restricted for:			
Debt service	472,361	392,369	864,730
Public safety	436,231	-	436,231
Community rental	32,377	-	32,377
Capital improvements	3,186,112	-	3,186,112
Unrestricted	(8,910,652)	84,417	(8,826,235)
Total net position	<u>\$ 43,251,087</u>	<u>\$ 69,267,208</u>	<u>\$ 112,518,295</u>

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

City of Bay St. Louis, Mississippi
Statement of Activities
For the Fiscal Year Ended September 30, 2016

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:						
General Government	\$ 2,740,183	\$ 398,546	\$ -	\$ -	\$ (2,341,637)	\$ -
Public Safety	4,077,090	181,762	155,813	208	(3,739,307)	-
Public Works	2,990,118	-	-	438,884	(2,551,234)	-
Culture and Recreation	718,130	-	-	-	(718,130)	-
Interest and Other, Long-Term Debt	90,825	-	-	-	(90,825)	-
Total Governmental Activities	10,616,346	580,308	155,813	439,092	(9,441,133)	-
Business-Type Activities:						
Water, sewer, and gas	5,554,339	3,827,374	-	-	(1,726,965)	(1,726,965)
Harbor	1,015,851	532,073	-	16,558	(467,220)	(467,220)
Total Business-Type Activities	6,570,190	4,359,447	-	16,558	(2,194,185)	(2,194,185)
Total Primary Government	\$ 17,186,536	\$ 4,939,755	\$ 155,813	\$ 455,650	(9,441,133)	(11,635,318)
General revenues:						
Property taxes					2,358,259	2,358,259
Sales taxes					1,464,861	1,464,861
Franchise taxes					395,700	395,700
Gaming revenues					2,091,112	2,091,112
Intergovernmental					548,801	548,801
Gain (loss) on sale of assets					40,098	40,098
Miscellaneous					98,094	114,735
Operating transfers					260,000	(260,000)
Total general revenues and transfers					7,256,925	7,013,566
Change in net position					(2,184,208)	(4,621,752)
Net Position - beginning of period					45,435,295	117,140,047
Prior period adjustment					-	-
Net Position - beginning as restated					45,435,295	117,140,047
Net Position - end of period					\$ 43,251,087	\$ 112,518,295

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

City of Bay St. Louis, Mississippi
Balance Sheet
Governmental Funds
September 30, 2016

	General	Municipal Reserve	Debt Service	Road Construction	Other Non-Major Governmental	Total Governmental
Assets						
Cash and cash equivalents	\$ 51,966	\$ 781,134	\$ 453,129	\$ 3,100,070	\$ 49,674	\$ 4,435,973
Restricted cash	146,956	-	-	-	-	146,956
Receivables:						
Property taxes	28,929	1,841	4,084	-	-	34,854
Sales taxes	245,226	-	-	-	-	245,226
Franchise taxes	121,556	-	-	-	-	121,556
Gaming	152,519	-	-	-	-	152,519
Court fines, net	154,657	-	-	-	-	154,657
Grants	-	340,308	-	-	-	340,308
Other	6,016	-	-	-	-	6,016
Due from other governments	164,518	-	1,682	-	169,803	336,003
Due from other funds	175,592	120,100	57,458	-	427,020	780,170
Prepays	116,733	-	-	-	-	116,733
Total assets	<u>1,364,668</u>	<u>1,243,383</u>	<u>516,353</u>	<u>3,100,070</u>	<u>646,497</u>	<u>6,870,971</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances						
<i>Liabilities</i>						
Accounts payable	287,826	272,197	-	805,972	179,849	1,545,844
Accrued liabilities	122,916	-	-	79,172	-	202,088
Accrued payroll	86,072	-	-	-	-	86,072
Rental deposits	26,900	-	-	-	-	26,900
Due to other funds	589,756	-	43,992	-	-	633,748
Total liabilities	<u>1,113,470</u>	<u>272,197</u>	<u>43,992</u>	<u>885,144</u>	<u>179,849</u>	<u>2,494,652</u>
<i>Deferred Inflows of Resources</i>						
Deferred rental revenue	17,650	-	-	-	-	17,650
Deferred court fees	154,658	-	-	-	-	154,658
Total deferred revenue	<u>172,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,308</u>
<i>Fund Balances</i>						
Nonspendable for prepaids	116,733	-	-	-	-	116,733
Restricted for:						
Capital improvements	-	971,186	-	2,214,926	-	3,186,112
Community rental	32,377	-	-	-	-	32,377
Fire safety	114,579	-	-	-	-	114,579
Law enforcement	-	-	-	-	321,652	321,652
Debt service	-	-	472,361	-	-	472,361
Committed:						
Law enforcement	-	-	-	-	12,633	12,633
Capital improvements	-	-	-	-	132,363	132,363
Assigned for subsequent year appropriations	-	-	-	-	-	-
Unassigned	(184,799)	-	-	-	-	(184,799)
Total fund balances	<u>78,890</u>	<u>971,186</u>	<u>472,361</u>	<u>2,214,926</u>	<u>466,648</u>	<u>4,204,011</u>
Total liabilities and fund balances	<u>\$ 1,364,668</u>	<u>\$ 1,243,383</u>	<u>\$ 516,353</u>	<u>\$ 3,100,070</u>	<u>\$ 646,497</u>	<u>\$ 6,870,971</u>

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

City of Bay St. Louis, Mississippi
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
as of September 30, 2016

Total fund balances of governmental funds in the balance sheet, page 17		\$ 4,204,011
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	72,845,634	
Less: accumulated depreciation	<u>(18,862,807)</u>	53,982,827
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:		
Net pension liability		(9,651,981)
Some of the City's revenues will be collected after year-end but are not available to pay current period expenditures and therefore not currently recognized as revenue in the funds.		
Deferred court fees		154,658
Deferred community rental		17,650
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources related to pensions	2,011,211	
Deferred inflows of resources related to pensions	<u>(1,186,986)</u>	824,225
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.		
Accrued interest payable	(76,117)	
Governmental bonds and notes payable	<u>(5,948,169)</u>	
Compensated absences payable	<u>(256,017)</u>	<u>(6,280,303)</u>
Net position of governmental activities, page 15		<u>\$ 43,251,087</u>

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

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

	General	Municipal Reserve	Debt Service	Road Construction	Other Nonmajor Governmental	Total Governmental
Revenues						
Taxes:						
Property	\$ 1,873,155	\$ 162,150	\$ 322,954	-	\$ -	\$ 2,358,259
Sales	1,464,861	-	-	-	-	1,464,861
Franchise	395,700	-	-	-	-	395,700
Licenses and permits	291,352	-	-	-	-	291,352
Intergovernmental	152,268	-	396,533	-	-	548,801
Charges for services	107,194	-	-	-	-	107,194
Gaming revenue	2,091,112	-	-	-	-	2,091,112
Grants	155,813	438,884	-	-	208	594,905
Fines and forfeitures	181,762	-	-	-	-	181,762
Other	26,403	1,645	79	2,588	15,809	46,524
Total revenues	6,739,620	602,679	719,566	2,588	16,017	8,080,470
Expenditures						
Current:						
General government	2,063,052	3,500	-	31,400	3,296	2,101,248
Public safety	3,068,676	-	-	-	-	3,068,676
Public works	1,607,382	-	-	-	-	1,607,382
Culture and recreation	255,816	-	-	-	-	255,816
Capital Outlay:						
General government	-	-	-	-	-	-
Public safety	527,845	-	-	-	-	527,845
Public works	155,994	558,555	-	1,756,262	-	2,470,811
Debt service:						
Principal retirement	-	-	328,654	-	-	328,654
Interest and agent fees	-	-	43,798	-	-	43,798
Total expenditures	7,678,765	562,055	372,452	1,787,662	3,296	10,404,230
Excess (deficiency) of revenues over expenditures	(939,145)	40,624	347,114	(1,785,074)	12,721	(2,323,760)
Other financing sources (uses)						
Insurance proceeds	89,651	-	-	-	-	89,651
Proceeds of loans	560,310	-	-	4,000,000	-	4,560,310
Sale of capital assets	25,000	-	-	-	-	25,000
Transfers in	302,000	-	49,000	-	-	351,000
Transfers out	(78,000)	(13,000)	-	-	-	(91,000)
Total other financing sources (uses)	898,961	(13,000)	49,000	4,000,000	-	4,934,961
Net change in fund balance	(40,184)	27,624	396,114	2,214,926	12,721	2,611,201
Fund balance, beginning	119,074	943,562	76,247	-	453,927	1,592,810
Fund balances, end of year	\$ 78,890	\$ 971,186	\$ 472,361	\$ 2,214,926	\$ 466,648	\$ 4,204,011

The Accompanying Notes are an Integral Part of the Financial Statements

City of Bay St. Louis, 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, 2016

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

Net change in fund balances of governmental funds, page 19	\$	2,611,201
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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	2,998,656	
Less: current year depreciation	<u>(2,412,417)</u>	586,239

In the statement of activities, only the gain/loss on the sale of assets is reported,

while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold.		(22,983)
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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	(4,560,310)	
Principal debt repayments	<u>328,654</u>	(4,231,656)

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	(1,236,718)	
Deferred outflow of current year pension contributions subsequent to measurement date	<u>160,338</u>	(1,076,380)

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	(47,027)	
Change in long-term compensated absences	<u>(3,602)</u>	(50,629)

Change in net position of governmental activities, page 16	\$	<u>(2,184,208)</u>
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The Accompanying Notes are an Integral Part of the Financial Statements

City of Bay St. Louis, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2016

	Business-Type Activities-Enterprise Funds		
	Major Funds		Total
	Utility Fund	Harbor Fund	Enterprise Funds
Assets			
Current assets:			
Cash	\$ 380,283	\$ 198,661	\$ 578,944
Restricted cash	957,757	-	957,757
Receivables:			
Customer accounts, net	693,583	17,964	711,547
Due from other funds	-	35,654	35,654
Inventory	37,316	20,810	58,126
Prepaid expenses	21,776	-	21,776
Total current assets	2,090,715	273,089	2,363,804
Noncurrent assets:			
Capital assets:			
Land and construction in progress	-	22,443	22,443
Other (net of accumulated depreciation)	49,714,506	20,103,473	69,817,979
Total noncurrent assets	49,714,506	20,125,916	69,840,422
Total assets	51,805,221	20,399,005	72,204,226
Deferred Outflows of Resources			
Deferred outflows - pensions	196,238	63,008	259,246
Total assets and deferred outflows	52,001,459	20,462,013	72,463,472
Liabilities			
Current liabilities:			
Accounts payable	168,234	35,914	204,148
Accrued payroll	7,669	3,902	11,571
Accrued interest	8,177	-	8,177
Due to other funds	182,076	-	182,076
Customer deposits payable from restricted assets	309,647	-	309,647
Current portion of bond and notes	340,000	-	340,000
Total current liabilities	1,015,803	39,816	1,055,619
Non-current liabilities:			
Compensated absences	22,697	10,803	33,500
Net pension liability	941,762	302,381	1,244,143
Notes payable, non-current	710,000	-	710,000
Total non-current liabilities	1,674,459	313,184	1,987,643
Total liabilities	2,690,262	353,000	3,043,262
Deferred Inflows of Resources			
Deferred inflows - pensions	115,816	37,186	153,002
Total liabilities and deferred inflows	2,806,078	390,186	3,196,264
Net Position			
Net investment in capital assets	48,664,506	20,125,916	68,790,422
Restricted for debt service	392,369	-	392,369
Unrestricted	138,506	(54,089)	84,417
Total net position	\$ 49,195,381	\$ 20,071,827	\$ 69,267,208

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

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

	Business-Type Activities-Enterprise Funds		
	Major Funds		Total Enterprise Funds
	Utility Fund	Harbor Fund	
Operating Revenues			
Charges for services:			
Water charges	\$ 599,541	\$ -	\$ 599,541
Sewer charges	758,976	-	758,976
Wastewater charges	771,784	-	771,784
Gas charges	561,547	-	561,547
Garbage charges	461,311	-	461,311
Slip rental fees	-	327,183	327,183
Fuel sales	-	204,890	204,890
Late pay penalties	92,758	-	92,758
Debt service charges	581,457	-	581,457
Total operating revenue	<u>3,827,374</u>	<u>532,073</u>	<u>4,359,447</u>
Operating expenses			
Personal services	564,247	221,826	786,073
Natural gas purchases	208,255	-	208,255
Fuel purchases	-	160,049	160,049
Garbage costs	402,075	-	402,075
Wastewater treatment	779,365	-	779,365
Supplies	129,607	6,046	135,653
Other services and charges	406,460	95,388	501,848
Depreciation	3,030,054	532,542	3,562,596
Total operating expenses	<u>5,520,063</u>	<u>1,015,851</u>	<u>6,535,914</u>
Operating income (loss)	<u>(1,692,689)</u>	<u>(483,778)</u>	<u>(2,176,467)</u>
Non-operating revenues (expenses):			
Grants	-	16,558	16,558
Other income	12,285	4,356	16,641
Interest expense	(34,276)	-	(34,276)
Transfers out	(200,000)	(60,000)	(260,000)
Net non-operating revenues			
over (under) expenses	<u>(221,991)</u>	<u>(39,086)</u>	<u>(261,077)</u>
Change in net position	<u>(1,914,680)</u>	<u>(522,864)</u>	<u>(2,437,544)</u>
Net position, beginning of year	51,110,061	20,594,691	71,704,752
Prior Period Adjustment	-	-	-
Net position, beginning restated	<u>51,110,061</u>	<u>20,594,691</u>	<u>71,704,752</u>
Net position, end of year	<u>\$ 49,195,381</u>	<u>\$ 20,071,827</u>	<u>\$ 69,267,208</u>

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

City of Bay St. Louis, Mississippi
Statement of Cash Flow
Proprietary Funds
For the Fiscal Year Ended September 30, 2016

	Business-Type Activities-Enterprise Funds		
	Major Funds		Total Enterprise Funds
	Utility Fund	Harbor Fund	
Cash flows from operating activities			
Receipts from customers	\$ 3,659,922	\$ 530,919	\$ 4,190,841
Payments to suppliers	(1,402,910)	(165,904)	(1,568,814)
Payments for contractual services	(406,460)	(95,388)	(501,848)
Payments for services of employees	(521,285)	(155,530)	(676,815)
Net cash provided by (used in) operating activities	1,329,267	114,097	1,443,364
Cash flows from non-capital financing activities			
Other income	12,285	4,356	16,641
Receipt of grants	-	16,558	16,558
Transfers (to) from other funds	(200,000)	(60,000)	(260,000)
Net cash provided by (used in) non-capital financing activities	(187,715)	(39,086)	(226,801)
Cash flows from capital and related financing activities			
Acquisition of capital assets	(10,825)	(22,443)	(33,268)
Retirement of debt	(330,000)	-	(330,000)
Interest paid on debt	(34,276)	-	(34,276)
Net cash provided by (used in) capital and related financing activities	(375,101)	(22,443)	(397,544)
Cash flows from investing activities			
Temporary loan repayments	(28,169)	-	(28,169)
Temporary loans to other funds	-	(41,243)	(41,243)
Net cash provided by (used in) investing activities	(28,169)	(41,243)	(69,412)
Net increase (decrease) in cash	738,282	11,325	749,607
Cash and cash equivalents, beginning	599,758	187,336	787,094
Cash and cash equivalents, ending	\$ 1,338,040	\$ 198,661	\$ 1,536,701
Classified as:			
Current assets	\$ 380,283	\$ 198,661	\$ 578,944
Restricted assets	957,757	-	957,757
Totals	\$ 1,338,040	\$ 198,661	\$ 1,536,701
	Current Assets	Restricted Assets	Total
Cash and cash equivalents - October 1	\$ 287,217	\$ 499,877	\$ 787,094
Net increase (decrease)	291,727	457,880	749,607
Cash and cash equivalents - September 30	\$ 578,944	\$ 957,757	\$ 1,536,701

(Continued)

City of Bay St. Louis, Mississippi
Statement of Cash Flow
Proprietary Funds
For the Fiscal Year Ended September 30, 2016
(Continued)

	Business-Type Activities-Enterprise Funds		
	Major Fund		Total
	Utility Fund	Harbor Fund	Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (1,692,689)	\$ (483,778)	\$ (2,176,467)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	3,030,054	532,542	3,562,596
Changes in assets and liabilities:			
Accounts receivable	(173,782)	(1,154)	(174,936)
Inventory	6,911	5,955	12,866
Prepaid	13,291	-	13,291
Accounts payable	96,190	(5,764)	90,426
Accrued payroll	(12,847)	1,159	(11,688)
Net pension liability	32,896	63,838	96,734
Deferred outflow	(38,109)	(21,505)	(59,614)
Deferred inflow	61,022	22,804	83,826
Customer deposits	6,330	-	6,330
Net cash provided by (used in) operating activities	\$ 1,329,267	\$ 114,097	\$ 1,443,364

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

NOTES TO THE FINANCIAL STATEMENTS

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

I. Summary of Significant Accounting Policies

The financial statements of the City of Bay St. Louis, 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 Bay St. Louis, Mississippi was incorporated on January 21, 1818 under the laws of the State of Mississippi. The City operates under a Mayor-Council form of government and provides the following services: public safety, (police, fire, and protection inspection), public works (streets maintenance and sanitation, water, sewer and gas services), cultural and recreational services, public improvements, 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 (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 Bay-Waveland 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. 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 has identified two joint ventures (Hancock County Solid Waste Authority and the Hancock County Utility Authority) and one jointly governed organization (the Bay St Louis 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.

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

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

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 Net Position presents the City's non-fiduciary assets, deferred outflows, liabilities, and deferred inflows, with the difference presented as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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.

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

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

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue 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. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is 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 non-operating 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 non-operating revenues and expenses.

The preparation of the basic financial statements in conformity with GAAP requires management

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

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:

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.

Debt Service 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.

Municipal Reserve Fund is used to account for an accumulation of reserved revenues primarily received from a separate property tax levy. This fund was selected to be classified as a major fund due to the type of expenditures.

Road Construction Fund is used to account for bond proceeds used for various City-wide road resurfacing projects. This fund was selected to be classified as a major fund due to the type of expenditures.

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

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental funds column on pages 17 and 19 and shown in the combining statements on pages 56-57.

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 Utility Fund accounts for the activities of the City's water, sewer, and gas systems. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All utility service costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

The Harbor Fund accounts for the activities of providing boat slips, utilities, and fuel to residents and visitors of the City. These services are financed or recovered primarily through user charges in the form of rental receipts and the sale of fuel to boaters.

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

(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.

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.

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. In the fund financial statements, governmental funds report the liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

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

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

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.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. As of September 30, 2016, the City had one deferred outflow of resources related to pension accrual.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2016, the City had deferred inflows of resources that were reported on the financial statements which resulted from court fines and community hall rental revenue that are not presently available for the City's use. Amounts related to pension accrual is also reported as a deferred inflow on the statement of financial position.

Pensions

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

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.

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

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

II. Stewardship, Compliance and Accountability:

Budgetary Data

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

1. The City Clerk's office prepares estimates of available revenue and the department directors submit proposed expenditure budgets to the City Clerk by June 1 of each year.
2. The Mayor and the department directors review expenditure budgets and necessary revisions are made.
3. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the Mayor.
4. The Mayor submits the proposed budget to the Council by August 1 and public hearings are conducted to obtain taxpayer comments.
5. The final budget is approved by September 15 and is published in a local newspaper on or before September 30.
6. The budget is formally adopted at the first meeting in September each year. However, budget revisions are made throughout the year (prior to September), as reallocations of funds are necessary, a budget deficit is indicated, or circumstances change which dictate the need for budget amendment.
7. Formal budget integration is employed as a management control device during the fiscal year for the general fund.
8. The general fund and the municipal reserve fund budgets are adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is at the department level. The City Clerk's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Council approval. However, department heads may make transfers of appropriations within a department. Budgetary controls are implemented through the City Clerk's office through the use of budget to actual reports.
9. 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.
10. 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.

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

11. 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.

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 Hancock 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 City Council at the first regular meeting in September. Through an inter-local agreement, all of the property taxes of the City of Bay St Louis are collected by the Hancock County Tax Collector and remitted as tax settlements (less an appropriate collection fee) to the City on a monthly basis. Taxes for the Bay-Waveland 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 City Council 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 City Council 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:

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

	2016-2017	2015-2016	2014-2015
	Millage	Millage	Millage
City Funds			
General	17.50	16.10	15.60
Library maintenance	2.50	2.66	2.66
Municipal reserve	-	1.24	1.74
Debt service	2.75	2.75	2.75
Total City administered funds	22.75	22.75	22.75
School Funds			
District maintenance	42.51	43.90	43.51
School debt	6.54	6.15	6.11
Total School administered funds	49.05	50.05	49.62
Total levy	71.80	72.80	72.37

B. Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City) back to the City monthly. Sales tax revenue reported in the general fund was \$1,464,861. Sales tax receivable consists of taxes collected in September 2016 but not received by the City until October 2016.

C. Gaming Revenues

The City receives gaming revenues from a casino located within the corporate City limits as follows:

Gross Revenue Gaming Tax and Gaming Device Tax

The gross revenue gaming tax is imposed and collected by the State of Mississippi which is similar to sales tax and remitted to the City.

The gaming device tax is similar to a personal property tax and is assessed on all gaming devices maintained by the casino within the City's corporate limits; this tax is also collected by the State. The amount of tax recognized as gaming revenue and gaming devices is \$112,647 and \$112,100 respectively, for the year ended September 30, 2016. These revenues are included in gaming revenue on the statement of activities.

Boarding Fees

The City is permitted by law to collect a boarding fee from the casino that is within its corporate limits. Accordingly, the City has negotiated a contractual amount to be paid directly to the City on a monthly basis and is based on gross revenues. The City collected \$1,866,365 in boarding fees for the year ended September 30, 2016. This represents a decrease of \$6,768 in comparison with the prior year's boarding fees of \$1,873,133.

D. Deposits and Investments

Deposits

The City deposits funds in financial institutions selected by the City Council 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.

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

Deposits and investments are summarized below.

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, 2016 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"*.

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, 2016 (including restricted deposits) are as follows:

	Bank Balances	Carrying Value
Pooled deposits:		
Cash and cash equivalents	\$ 306,047	\$ 303,697
Non-pooled deposits:		
Cash and cash equivalents	5,784,547	5,815,933
Total	<u>\$ 6,090,594</u>	<u>\$ 6,119,630</u>

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

Government activities:	
Unrestricted cash	\$ 4,435,973
Restricted (Fire rebate)	114,579
Restricted (Community hall deposits)	32,377
Business-type activities:	
Unrestricted cash	578,944
Restricted (Utility deposits)	957,757
Total	<u>\$ 6,119,630</u>

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

E. Receivables

The Statement of Net Position of the City includes the following receivables at September 30, 2016:

Taxes receivable:

Franchise tax	\$ 121,556
Sales tax	245,226
Ad valorem tax	34,854
Total taxes receivable	<u>\$ 401,636</u>

Court fines, grants, and other	<u>\$ 500,981</u>
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Customer accounts receivable

Harbor slip fees	\$ 17,964
Water, sewer, and gas utility charges (billed)	1,793,643
Less: allowance for doubtful accounts	(1,334,734)
Customer accounts receivable earned but not billed	234,674
Total customer accounts receivable, net	<u>\$ 711,547</u>

Due from Other Governments

Federal, state, and local assistance	<u>\$ 488,522</u>
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F. Prepaid Insurance

Prepaid Insurance at September 30, 2016 consists of the following:

Governmental Funds (Building & Liability)	\$ 116,733
Proprietary funds (Buildings & Liability)	21,776
Total Prepaid	<u>\$ 138,509</u>

G. Interfund Transactions

Interfund loans are reported on the government wide statements as internal balances and as interfund loans on the governmental fund statements. The following is a recap of interfund loans as of September 30, 2016:

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

Receivable Fund	Payable Fund	Amount
General Fund	Utility Fund	\$ 119,435
	Other governmental funds	43,992
	General Fund	12,165
Municipal Reserve Fund	General Fund	120,100
Debt Service Fund	Utility Fund	57,458
Other governmental funds	General Fund	427,020
Harbor Fund	General Fund	30,471
	Utility Fund	5,183
Total		<u>\$ 815,824</u>

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

Transfers Out	Transfers In	Amount
General Fund	Debt Service Fund	\$ 49,000
	General Fund	29,000
Municipal Reserve Fund	General Fund	13,000
Utility Fund	General Fund	200,000
Harbor Fund	General Fund	60,000
Total		<u>\$ 351,000</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.

H. Capital Assets

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

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

	Balance 10/1/2015	Additions	Deletions/ Adjustments	Balance 9/30/2016
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 857,633	\$ -	\$ -	\$ 857,633
Construction in progress	98,612	2,314,817	-	2,413,429
Total capital assets, not being depreciated	956,245	2,314,817	-	3,271,062
Capital assets being depreciated:				
Buildings and improvements	29,487,079	91,200	-	29,578,279
Machinery and equipment	2,197,039	32,329	211,441	2,440,809
Infrastructure/improvements	33,532,562	-	-	33,532,562
Vehicles	2,341,159	-	39,558	2,380,717
Leased equipment/vehicles	1,468,265	560,310	(386,370)	1,642,205
Total capital assets, being depreciated	69,026,104	683,839	(135,371)	69,574,572
Less: Accumulated depreciation				
Buildings and improvements	(2,850,599)	(595,675)	-	(3,446,274)
Machinery and equipment	(1,685,767)	(65,160)	(174,441)	(1,925,368)
Infrastructure/improvements	(9,533,797)	(1,505,292)	-	(11,039,089)
Vehicles	(2,106,090)	(88,555)	20,553	(2,174,092)
Leased equipment/vehicles	(386,525)	(157,735)	266,276	(277,984)
Total accumulated depreciation	(16,562,778)	(2,412,417)	112,388	(18,862,807)
Total capital assets being depreciated, net	52,463,326	(1,728,578)	(22,983)	50,711,765
Governmental activities capital assets, net	\$ 53,419,571	\$ 586,239	\$ (22,983)	\$ 53,982,827
Business - type activities:				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 22,443	\$ -	\$ 22,443
Total capital assets, not being depreciated	-	22,443	-	22,443
Capital assets being depreciated:				
Buildings	118,603	-	-	118,603
Machinery and equipment	592,276	10,825	-	603,101
Water, sewer, and gas systems	75,601,623	-	-	75,601,623
Vehicles	107,051	-	-	107,051
Harbor infrastructure	21,301,693	-	-	21,301,693
Total capital assets, being depreciated	97,721,246	10,825	-	97,732,071
Less: Accumulated depreciation				
Buildings	(77,625)	(1,000)	-	(78,625)
Machinery and equipment	(401,254)	(19,004)	-	(420,258)
Water, sewer, and gas systems	(23,110,591)	(3,010,050)	-	(26,120,641)
Vehicles	(96,348)	-	-	(96,348)
Harbor infrastructure	(665,678)	(532,542)	-	(1,198,220)
Total accumulated depreciation	(24,351,496)	(3,562,596)	-	(27,914,092)
Total capital assets being depreciated, net	73,369,750	(3,551,771)	-	69,817,979
Business activities capital assets, net	\$ 73,369,750	\$ (3,529,328)	\$ -	\$ 69,840,422
Primary Government				
Total capital assets, net	\$ 126,789,321	\$ (2,943,089)	\$ (22,983)	\$ 123,823,249

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

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

Governmental activities:	
General government	\$ 359,006
Public safety	410,894
Public works	1,233,982
Culture and recreation	408,535
Total	<u>\$ 2,412,417</u>
Business-type activities:	
Water system	\$ 532,542
Harbor	<u>3,030,054</u>
Total	<u>3,562,596</u>
Total All Depreciation	<u>\$ 5,975,013</u>

I. 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
2017	\$ 233,641	\$ 32,623	\$ 266,264
2018	239,206	29,808	269,014
2019	225,217	23,751	248,968
2020	174,704	17,914	192,618
2021	119,683	14,304	133,987
2022-2026	450,030	29,152	479,182
	<u>\$ 1,442,481</u>	<u>\$ 147,552</u>	<u>\$ 1,590,033</u>

<u>Assets Acquired thru Capital Lease:</u>	<u>Governmental Activities</u>
Fire truck	\$ 579,947
John Deere tractor	82,310
(11) police vehicles	419,638
Kubota Tractor	64,794
Ferrara Fire Truck	495,516
	<u>1,642,205</u>
Less: Accumulated depreciation	<u>(277,984)</u>
Total	<u>\$ 1,364,221</u>

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

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

<u>Year Ended September 30</u>	<u>Governmental Activities</u>
2017	\$ 266,264
2018	269,014
2019	248,968
2020	192,618
2021	133,987
2022-2026	<u>479,182</u>
Total minimum lease payments	1,590,033
Less: amount representing interest	<u>(147,552)</u>
Present value of minimum lease payments	<u>\$ 1,442,481</u>

Page 41 details the capital leases payable at September 30, 2016.

J. 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, 2016:

	Beginning			Ending	Amounts Due Within
	Balance	Additions	Reductions	Balance	One Year
Governmental activities:					
General obligation bonds	\$ 537,500	\$ 4,000,000	\$ 107,500	\$ 4,430,000	\$ 252,500
Notes payable	131,547	-	55,859	75,688	57,749
Capital leases	1,047,466	560,310	165,295	1,442,481	233,641
Compensated absences	252,415	3,602	-	256,017	-
Total governmental activities	<u>\$ 1,968,928</u>	<u>\$ 4,563,912</u>	<u>\$ 328,654</u>	<u>\$ 6,204,186</u>	<u>\$ 543,890</u>
Business-type activities:					
Refunding bonds	\$ 1,380,000	\$ -	\$ 330,000	\$ 1,050,000	\$ 340,000
Compensated absences	32,721	779	-	33,500	-
Total business-type activities	<u>\$ 1,412,721</u>	<u>\$ 779</u>	<u>\$ 330,000</u>	<u>\$ 1,083,500</u>	<u>\$ 340,000</u>

The annual requirements to pay principal and interest on the governmental activities bonds, notes and loans outstanding at September 30, 2016 are as follows:

	<u>Governmental Type Activities</u>					
Year Ending	General Obligation Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 252,500	\$ 112,904	\$ 365,404	\$ 57,749	\$ 1,462	\$ 59,211
2018	257,500	103,013	360,513	17,939	110	18,049
2019	262,500	96,608	359,108	-	-	-
2020	267,500	90,078	357,578	-	-	-
2021	165,000	84,750	249,750	-	-	-
2022-2026	910,000	359,250	1,269,250	-	-	-
2027-2031	1,065,000	237,750	1,302,750	-	-	-
2032-2036	1,250,000	95,750	1,345,750	-	-	-
	<u>\$ 4,430,000</u>	<u>\$ 1,180,103</u>	<u>\$ 5,610,103</u>	<u>\$ 75,688</u>	<u>\$ 1,572</u>	<u>\$ 77,260</u>

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

The annual requirements to pay principal and interest on the proprietary activities bonds outstanding at September 30, 2016 are as follows:

<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 340,000	\$ 28,035	\$ 368,035
2018	350,000	18,957	368,957
2019	360,000	9,612	369,612
	<u>\$1,050,000</u>	<u>\$ 56,604</u>	<u>\$1,106,604</u>

Bonds, notes, and other long-term debt payable at September 30, 2016 are comprised of the following individual issues:

Governmental Type Activities	<u>Original Issue</u>	<u>Interest Rates</u>	<u>Amount Outstanding</u>
General Obligation Bonds:			
General Obligation Katrina Loan Refunding Bonds Series 2010, semi-annual payments thru March 2020	\$ 1,075,000	2.47%	\$ 430,000
General Obligation Road and Construction Bond Series 2016, annual payments thru March 2036	4,000,000	2.50%	4,000,000
Total General Obligation bonds	<u>5,075,000</u>		<u>4,430,000</u>
Notes Payable:			
First Bank (5 Dodge Chargers) monthly payments until January 2018	186,732	3.04%	64,702
First Bank (Toyota Tundra) monthly payments until November 2017	36,462	2.18%	10,986
Total Notes Payable	<u>223,194</u>		<u>75,688</u>
Capital Leases Payable:			
BancorpSouth (3 Tractors) monthly installments through April 2016	211,441	3.27%	-
Kansas State Bank (5 Chevy Caprices) monthly installments through April 2016	174,929	3.33%	-
Suntrust Bank - Firetruck Aerial Ladder Truck annual installments thru November 2023	579,947	2.82%	473,016
BancorpSouth - John Deere Tractor w/boom monthly installments through November 2018	82,310	1.96%	36,644
Lease Experts (11 Dodge Chargers) monthly installments through February 2020	419,638	2.71%	374,561
BancorpSouth (Kubota Tractor) monthly installments through July 2021	64,794	2.14%	62,744
Leasing 2-Ferrara Fire Truck annual payments through April 2026	495,516	2.31%	495,516
Total Capital Leases Payable	<u>2,028,575</u>		<u>1,442,481</u>
Total Governmental Type Activities			5,948,169
Compensated absences			256,017
Total Governmental Type Debt			6,204,186
Less: Current Portion			(543,890)
Total Governmental Type Long-Term Debt			<u>\$ 5,660,296</u>

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

Business Type Activities

Water, Sewer, and Gas Debt:			
Refunding Bonds, Series 2014			
semi-annual payments thru June 2019	\$ 1,700,000	2.67%	\$ 1,050,000
Total Water, Sewer, and Gas Debt			1,050,000
Compensated absences			33,500
Total Business Type Activities			1,083,500
Less: Current Portion			(340,000)
Total Business Type Long-Term Debt			\$ 743,500

Legal Debt Margin

The amount of debt, excluding specific exempted debt, which can be incurred by the City, is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. The City's legal debt margin for general obligation bonds is \$17,762,045. At September 30, 2016, the City's legal debt margin, after reduction for outstanding general obligation bonds of \$5,480,000, is \$12,282,045. Thus, the amount of outstanding bond debt, at September 30, 2016, is equal to 30.85% of the latest property assessments.

K. Fund Balance Disclosures

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on specific purposes for which amounts in those funds can be spent.

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.

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.

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 City Council 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

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

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.

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

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year 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, 2016 was 15.75% of annual covered payroll. The contribution

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

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, 2016, 2015, and 2014 were \$618,526, \$622,015, and \$634,493, 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, 2016, the City reported a liability of \$10,896,124 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The city's proportionate share used to calculate the September 30, 2016 net pension liability was .0610%, which was based on a measurement date of June 30, 2016. This changed from its proportionate share of .0640% used to calculate the September 30, 2015 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended September 30, 2016, the City recognized pension expense of \$1,357,665. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Experience	\$ 276,028	\$ -
Net difference between projected and actual earnings on pension plan investments	1,295,162	-
Changes in assumptions	509,974	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,311,035
City contributions subsequent to the measurement date	160,338	-
Total	\$ <u>2,241,502</u>	\$ <u>1,311,035</u>

\$160,338 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:

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

Year ended September 30:	
2017	\$ 292,701
2018	189,297
2019	72,874
2020	215,257

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

Inflation	3.0 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-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

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

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

<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	100	%		

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	\$ 22,903,726	\$ 17,862,497	\$ 13,679,911

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

M. 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.

N. Related Party Commitments

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 an ongoing financial interest or an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share 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.

Hancock County Solid Waste Authority

The City provides for pickup and disposal of garbage and trash through a solid waste contract with Hancock County Solid Waste Authority "Authority", formerly Hancock County Solid Waste Management District. The Authority was formed as an inter-local joint venture with the City of Bay St. Louis and Hancock County, late in fiscal year 1994. The Authority was officially incorporated in March 1998 pursuant to an incorporation agreement entered into in December 1997.

During the year ended September 30, 2016, the City paid a total of \$402,075 for solid waste services, which is included in the business-type activities expenses in the statement of activities. The City pays \$9.00 per residential solid waste pickup. The City is jointly and severally liable for all of the liabilities of the Authority. Complete financial statements can be obtained from the Hancock County Solid Waste Authority's Administrator by calling (228) 467-2770.

Hancock County Utility Authority

The Hancock County Utility Authority, "Utility Authority" provides for the operation and maintenance of the sewer treatment plant on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facility.

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

The costs associated with the contract total \$779,365 for the year ended September 30, 2016, and are in the business-type activities expenses in the statement of activities. A fee has been added to rates charged by the utility billing system as an assessment for the City.

Accordingly, the City is jointly and severally liable for all of the liabilities of the Utility Authority. The Utility Authority is classified as a joint venture between the City and the other members.

In April 2009, the City entered into an agreement with the Utility Authority whereby the Utility Authority conveyed the wastewater collection system (once constructed by the Utility Authority and accepted by the City) to the City for the purpose of collecting and transporting wastewater to the Utility Authority's treatment plant for treatment and discharge. Complete financial statements can be obtained from the Hancock County Utility Authority's Administrator by calling (228) 467-3702.

O. Jointly Governed Organizations

Hancock County Library System

The City entered into an agreement with the City of Waveland and the Hancock County Board of Supervisors, to mutually cooperate in securing a more economical public library system through combined resources, interests, materials and facilities to be known as the Hancock County Library System. There are no specific monetary terms in the agreement and the City has no equity interest in the organization. However, a budget is approved every year by the County Library Board, which stipulates the amount of funds needed from the participating municipalities and various other funding sources.

The City of Bay St. Louis allocated and contributed 2.66 mills for the year ended September 30, 2016 through proceeds of a specific tax levy authorized by MS Code 39-3-13. The amount budgeted for the City of Bay St. Louis for the fiscal year ended September 30, 2017 is 2.50 mills. This agreement is cancelable upon 90 days written notice prior to the end of the fiscal year and therefore, the City does not have an ongoing financial responsibility.

P. Contractual Commitments

In connection with capital project contracts, the City budgeted certain commitments for engineering services, construction and other capital project costs. The Spanish Trail Sidewalks and Lights project is to be funded, in part, with MDOT grants. The remainder of the required funds will be generated by local sources. In March 2016, the City issued \$4,000,000 of General Obligation Public Improvement Bonds, Series 2016 for various City-wide road resurfacing projects. Also, the Harbor has incurred engineering fees for the Wave Screen project. The following is a summary of the budgeted commitment for future capital projects at September 30, 2016:

	Contract of Amount	Expended to Date	Remaining Contract
Spanish Trail Sidewalks and Lights	\$ 899,090	\$ 657,168	\$ 241,922
City-wide Road Resurfacing Projects	4,000,000	1,756,262	2,243,738
Wave Screen Project	448,638	22,443	426,195

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

Q. Risk Management

The City is covered for significant losses through commercial insurance carriers except for the following, which are covered through self-insurance risk pools.

Self-Insurance – Workers Compensation Fund

The City is one of approximately 250 members in the Mississippi Municipal Workers' Compensation Group, Inc. This non-profit corporation is a self-insurance workers' compensation fund organized under the non-profit laws of the State of Mississippi. The group is self-insured under statutory workers compensation protection up to \$1,000,000. Members are jointly and severally liable for the obligations for the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

Self-Insurance Liability Fund

The City is one of approximately 250 members in the Mississippi Municipal Liability Plan. The plan is a private non-profit corporation organized under the laws of the State of Mississippi. The plan provides liability and tort claims insurance for its members up to \$500,000 and \$50,000 per occurrence, respectively. The plan is totally self-insured with claims and expenses paid out of the premiums, and the members are jointly and severally liable for any claims and expenditures beyond the premium base. The possibility of additional liability exists, but that amount, if any cannot be determined.

R. Contingency Risks and Uncertainties

As of the audit report date of July 31, 2017, the City's police department is under an ongoing investigation by the FBI for potential payroll fraud due to collusion, nepotism, and other matters not released to the City or public at the date of the report. We were unable to obtain sufficient appropriate audit evidence on this matter as this is still an ongoing investigation and is unable to determine if there are any adjustments that are needed to be made to the financial statements as a result of this ongoing investigation.

S. 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 Bay St Louis evaluated the activity of the City through July 31, 2017 and determined the following were reportable subsequent events that require disclosure in the notes to the financial statements:

Ongoing FBI Investigation on Police Department

There is an ongoing investigation by the FBI on the City's police department. Please refer to Note R for an explanation on this matter.

Required Supplemental Information

City of Bay St Louis, Mississippi
Required Supplementary Information
Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Original to Final Variance	Actual (GAAP Basis)	Final Budget to Actual Variance
	Original	Final			
Revenues					
Taxes:					
Property	\$ 1,996,000	\$ 2,524,510	\$ 528,510	\$ 1,873,155	\$ (651,355)
Sales	1,450,000	1,450,000	-	1,464,861	14,861
Franchise	438,000	428,000	(10,000)	395,700	(32,300)
Licenses and permits	247,000	275,500	28,500	291,352	15,852
Intergovernmental	356,200	371,542	15,342	152,268	(219,274)
Charges for services	92,000	116,187	24,187	107,194	(8,993)
Gaming revenue	2,080,000	2,097,089	17,089	2,091,112	(5,977)
Grants	293,000	187,800	(105,200)	155,813	(31,987)
Fines and forfeitures	112,000	188,000	76,000	181,762	(6,238)
Other	5,000	114,389	109,389	26,403	(87,986)
Total revenues	7,069,200	7,753,017	683,817	6,739,620	(1,013,397)
Expenditures					
General Government					
City Council					
Personnel services	255,110	274,380	19,270	289,953	(15,573)
Supplies	7,500	7,775	275	4,546	3,229
Other services and charges	11,700	28,792	17,092	25,765	3,027
Capital outlay	-	-	-	-	-
Total	274,310	310,947	36,637	320,264	(9,317)
Judicial					
Personnel services	181,297	168,033	(13,264)	163,574	4,459
Supplies	5,000	4,000	(1,000)	3,996	4
Other services and charges	75,500	102,075	26,575	102,645	(570)
Capital outlay	-	500	500	-	500
Total	261,797	274,608	12,811	270,215	4,393
Administration					
Personnel services	597,389	561,627	(35,762)	503,529	58,098
Supplies	13,000	17,134	4,134	13,516	3,618
Other services and charges	1,265,700	2,040,701	775,001	647,327	1,393,374
Capital outlay	-	-	-	-	-
Total	1,876,089	2,619,462	743,373	1,164,372	1,455,090
Building Department					
Personnel services	286,078	292,634	6,556	292,571	63
Supplies	3,200	3,900	700	4,061	(161)
Other services and charges	7,450	12,720	5,270	11,569	1,151
Capital outlay	-	-	-	-	-
Total	296,728	309,254	12,526	308,201	1,053
Total General Government	2,708,924	3,514,271	805,347	2,063,052	1,451,219

(Continued)

City of Bay St Louis, Mississippi
Required Supplementary Information
Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended September 30, 2016

Expenditures (Continued)	Budgeted Amounts		Original to Final Variance	Actual (GAAP Basis)	Final Budget to Actual Variance
	Original	Final			
Public Safety:					
Police					
Personnel services	1,737,391	1,839,553	102,162	1,830,722	8,831
Supplies	100,000	105,000	5,000	75,061	29,939
Other services and charges	58,250	86,968	28,718	82,627	4,341
Capital outlay	-	36,000	36,000	32,329	3,671
Total	1,895,641	2,067,521	171,880	2,020,739	46,782
Fire					
Personnel services	1,038,669	1,054,477	15,808	1,029,395	25,082
Supplies	16,400	11,948	(4,452)	18,522	(6,574)
Other services and charges	36,600	48,545	11,945	32,349	16,196
Capital outlay	-	498,087	498,087	495,516	2,571
Total	1,091,669	1,613,057	521,388	1,575,782	37,275
Total Public Safety	2,987,310	3,680,578	693,268	3,596,521	84,057
Public Works					
Personnel services	783,408	771,283	(12,125)	740,876	30,407
Supplies	137,000	115,000	(22,000)	102,650	12,350
Other services and charges	712,500	701,100	(11,400)	763,856	(62,756)
Capital outlay	-	158,794	158,794	155,994	2,800
Total	1,632,908	1,746,177	113,269	1,763,376	(17,199)
Parks and Recreation					
Personnel services	251,563	251,333	(230)	235,486	15,847
Supplies	3,500	3,500	-	5,954	(2,454)
Other services and charges	16,500	16,950	450	14,376	2,574
Capital outlay	-	-	-	-	-
Total	271,563	271,783	220	255,816	15,967
Total expenditures	7,600,705	9,212,809	1,612,104	7,678,765	1,534,044
Excess (deficiency) of revenues over expenditures	(531,505)	(1,459,792)	(928,287)	(939,145)	520,647
Other financing sources (uses):					
Interest earned	500	500	-	-	(500)
Loan proceeds	-	560,121	560,121	560,310	189
Insurance proceeds	-	65,137	65,137	89,651	24,514
Sale of assets	20,000	70,000	50,000	25,000	(45,000)
Transfers in (out)	468,365	776,303	307,938	224,000	(552,303)
Total other financing sources (uses)	488,865	1,472,061	983,196	898,961	(573,100)
Net change in fund balances	\$ (42,640)	\$ 12,269	\$ 54,909	\$ (40,184)	\$ (52,453)

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

City of Bay St Louis, Mississippi
Required Supplementary Information
Budgetary Comparison Schedule
Municipal Reserve Fund
For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Original to Final Variance	Actual (GAAP Basis)	Final Budget to Actual Variance
	Original	Final			
Revenues					
Taxes:					
Property	\$ -	\$ -	\$ -	\$ 162,150	\$ 162,150
Grants	-	661,584	661,584	438,884	(222,700)
Total revenues	-	661,584	661,584	601,034	(60,550)
Expenditures					
Public Works					
General government	-	-	-	3,500	(3,500)
Capital outlay	180,000	830,480	650,480	558,555	271,925
Total	180,000	830,480	650,480	562,055	268,425
Total expenditures	180,000	830,480	650,480	562,055	268,425
Excess (deficiency) of revenues over expenditures	(180,000)	(168,896)	11,104	38,979	207,875
Other financing sources (uses):					
Interest earnings	6,000	6,000	-	1,645	(4,355)
Sale of assets	-	-	-	-	-
BP settlement	-	-	-	-	-
Transfers in	143,840	529,655	385,815	-	(529,655)
Transfers (out)	-	(133,100)	(133,100)	(13,000)	120,100
Total other financing sources (uses)	149,840	402,555	252,715	(11,355)	(413,910)
Net change in fund balances	\$ (30,160)	\$ 233,659	\$ 263,819	\$ 27,624	\$ (206,035)

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

City of Bay St. Louis, Mississippi
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
PERS
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>
City's proportion of the net pension liability (asset)	0.064%	0.061%
City's proportionate share of the net pension liability (asset)	\$ 9,893,138	\$ 10,896,124
City's covered-employee payroll	\$ 3,949,302	\$ 3,927,149
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	250.50%	277.46%
Plan fiduciary net position as a percentage of the total pension liability	61.700%	57.470%

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

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30/16.

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 the information is available.

City of Bay St. Louis, Mississippi
Required Supplementary Information
Schedule of City Contributions
PERS
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>
Actuarially calculated required contribution	\$ 622,015	\$ 618,526
Actual contributions in relation to the contractually required contribution	622,015	618,526
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	3,949,302	3,927,149
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year current to the fiscal year presented.

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.

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

Budgetary Comparison Schedule

(1) Basis of Presentation

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions

The budget is adopted by the city's board. Amendments can be made on the approval of the city's board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and the Food and Beverage Fund consistent with state statutes and regulations of the State Auditor.

Pension Schedules

(1) Changes of benefit terms

None.

(2) Changes of assumptions

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. In 2016, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.7% respectively.

Supplemental Information

City of Bay St Louis, Mississippi
Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2016

Assets	CDBG Grant Fund	DOJ Fund	Disaster Fund	Narcotics Task Force	Total
Cash	\$ 10,889	\$ 21,683	\$ 2,862	\$ 14,240	\$ 49,674
Due from other governments	1,799	-	168,004	-	169,803
Due from other funds	-	299,969	127,051	-	427,020
Total assets	<u>12,688</u>	<u>321,652</u>	<u>297,917</u>	<u>14,240</u>	<u>646,497</u>
Liabilities & Fund Balance					
Liabilities					
Accounts payable	-	-	178,242	1,607	179,849
Total liabilities	<u>-</u>	<u>-</u>	<u>178,242</u>	<u>1,607</u>	<u>178,242</u>
Fund balance					
Restricted for:					
Law enforcement	-	321,652	-	-	321,652
Committed:					
Law enforcement	-	-	-	12,633	12,633
Capital improvements	12,688	-	119,675	-	132,363
Total fund balances	<u>12,688</u>	<u>321,652</u>	<u>119,675</u>	<u>12,633</u>	<u>466,648</u>
Total liabilities and fund balance	<u>\$ 12,688</u>	<u>\$ 321,652</u>	<u>\$ 297,917</u>	<u>\$ 14,240</u>	<u>\$ 646,497</u>

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

City of Bay St Louis, Mississippi
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended September 30, 2016

	CDBG Grant Fund	DOJ Fund	Disaster Fund	Narcotics Task Force	Total
Revenues					
Grants	\$ -	\$ 208	\$ -	\$ -	\$ 208
Other	-	-	-	15,809	15,809
Total revenues	-	208	-	15,809	16,017
Expenditures					
Current:					
General					
Public safety	-	41	79	3,176	3,296
Capital outlay:					
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	-	41	79	3,176	3,296
Excess of revenues over (under) expenditures	-	167	(79)	12,633	12,721
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	167	(79)	12,633	12,721
Fund balance, beginning	12,688	321,485	119,754	-	453,927
Fund balance, end of year	\$ 12,688	\$ 321,652	\$ 119,675	\$ 12,633	\$ 466,648

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

City of Bay St Louis, Mississippi
Schedule of Long-Term Debt

September 30, 2016

	Date Issued	Original Issue	Balance		Retirements	Balance September 30, 2016	Requirements Year Ended September 30, 2017	
			October 1, 2015	New Issues			Principal	Interest
General Obligation Bonds								
GO Katrina Refinance of MDB 2007-A	07/20/10	\$ 1,075,000	\$ 537,500	\$ -	\$ 107,500	\$ 430,000	\$ 107,500	\$ 9,293
GO Bond Series 2016	03/15/16	4,000,000	-	4,000,000	-	4,000,000	\$ 145,000	\$ 103,611
Total General Obligation Bonds			537,500	4,000,000	107,500	4,430,000	252,500	112,904
Notes Payable								
The First Bank - 5 Dodge Chargers	01/10/14	186,732	111,360	-	46,658	64,702	48,362	1,316
The First Bank - Tundra	10/25/13	36,462	20,187	-	9,201	10,986	9,387	146
Total Notes Payable			131,547	-	55,859	75,688	57,749	1,462
Capital Leases Payable								
Bancorp South - 3 Tractors	04/29/11	211,441	26,485	-	26,485	-	-	-
Kansas State Bank - 5 Chevy Caprices	04/17/12	174,929	23,170	-	23,170	-	-	-
Suntrust Bank - Firetruck Aerial Ladder Truck	02/07/14	579,947	525,073	-	52,057	473,016	53,527	13,357
Bancorp South - John Deere Tractor w/boom	11/21/13	82,310	53,100	-	16,456	36,644	16,781	514
Lease Experts - 11 Dodge Chargers	08/28/15	419,638	419,638	-	45,077	374,561	103,323	9,380
Bancorp South-Kubota Tractor	06/01/16	64,794	-	64,794	2,050	62,744	12,455	1,221
Ferrara Fire Truck	07/19/16	495,516	-	495,516	-	495,516	47,555	8,151
Total Capital Leases Payable			1,047,466	560,310	165,295	1,442,481	233,641	32,623
Total General Long-Term Debt			1,716,513	4,560,310	328,654	5,948,169	543,890	146,989
Proprietary Funds Debt								
Bonds & Notes								
2014 Refunding Bonds	06/26/14	1,700,000	1,380,000	-	330,000	1,050,000	340,000	28,035
Total Proprietary Funds Debt			1,380,000	-	330,000	1,050,000	340,000	28,035
Total All			\$ 3,096,513	\$4,560,310	\$ 658,654	\$ 6,998,169	\$ 883,890	\$ 175,024

See Independent Auditor's Report.

City of Bay St. Louis, Mississippi
Schedule of Surety Bonds for Municipal Officials
And Other Municipal Employees

Name	Position	Surety	Bond
Les Fillingame	Mayor	Liberty Mutual	\$ 100,000
Phillip D. Seal, Jr.	Councilmember	Liberty Mutual	100,000
Wendy McDonald	Councilmember	Liberty Mutual	100,000
Jeffery Reed	Councilmember	Liberty Mutual	100,000
Lonnie Falgout	Councilmember	Western Surety	100,000
Joey Boudin	Councilmember	Western Surety	100,000
Robert J. Compretta	Councilmember	Liberty Mutual	100,000
Michael Favre	Councilmember	Liberty Mutual	100,000
Sissy Gonzales	Comptroller	Liberty Mutual	100,000
Paula Fairconnetue	City Clerk	Liberty Mutual	100,000
Charles Fortin	Harbor Master	The Hartford Insurance Group	50,000
Duane Caughlin	Deputy Harbor Master	The Hartford Insurance Group	50,000
Lisa Tilley	Clerk of Council	Travelers	50,000
Dana Feuerstein	Deputy City Clerk	RLI Surety Company	50,000
Clementine Sheppard	Court Clerk	RLI Surety Company	50,000
Rachel Smith	Deputy Court Clerk	RLI Surety Company	25,000
Mary Ann Bremer	Deputy Court Clerk	RLI Surety Company	25,000
Candee Breaux	Utility Supervisor	RLI Surety Company	50,000
Katie Stewart	Utility Clerk	RLI Surety Company	50,000
Patricia Tice	Deputy City Clerk/Payroll Clerk	RLI Surety Company	50,000
Police Department	Departmental	RLI Surety Company	25,000
E.J. Taylor Jr.	NTF Officer	RLI Surety Company	50,000

Note – In addition to the Surety Bond Coverage detailed above, all employees are covered under a \$100,000 Honesty Blanket Bond.

See Independent Auditor's Report

Compliance Section

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor Number	Federal Expenditures
<u>Department of Justice</u>			
Equitable Sharing Program	16.922		\$ 208
Total Department of Justice			<u>208</u>
<u>U.S. Department of the Interior - Fish and Wildlife Service</u>			
Passed through Mississippi Department of Marine Resources			
Sportfishing and Boating Safety Act	15.622	F12AF00235	22,443
Total U.S. Department of the Interior			<u>22,443</u>
<u>Executive Office of the President</u>			
High Intensity Drug Trafficking Areas Program	95.001		143,677
Total Executive Office of the President			<u>143,677</u>
<u>U.S. Department of Transportation</u>			
Passed through Mississippi Department of Transportation			
STP Funds		STP-9128-00(001)	383,766
Total U. S. Department of Transportation			<u>383,766</u>
Total Federal Financial Assistance			<u>\$ 550,094</u>

NOTE 1. BASIS OF PRESENTATION

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**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 Honorable Mayor and City Council
City of Bay St. Louis, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay St. Louis, Mississippi ("City"), 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 July 31, 2017.

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 is 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal controls that we considered to be material weaknesses and significant deficiencies.

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. We consider the deficiency found in the accompanying schedule of findings and questions costs to be material weaknesses: 2016-1.

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. We consider the deficiencies found in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2016-2 through 2016-8.

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*.

However, we have noted certain instances of noncompliance or other matters that we have reported to management of the City in a separate letter dated July 31, 2017, which is included in this report.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 31, 2017

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

To the Honorable Mayor and City Council
City of Bay St. Louis, Mississippi

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bay St. Louis, Mississippi as of and for the year ended September 30, 2016, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 31, 2017. 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 our procedures performed to test compliance with certain state laws and regulations and our audit of the financial statements resulted in the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Council Minutes *Prior year finding*

Finding

During our audit testing, we noted that the minutes were not signed by the Mayor or a majority of the Council within 30 days as required by MS Code 21-15-33. In several instances, the attachments to the official minutes were incomplete, and the City Clerk did not present the Council with all monthly revenue and expenditure reports as required by MS Code 21-35-13.

Recommendation

We recommend that all of the actions of the Council are properly reflected in a timely manner within the Council minutes. All attachments, including claims dockets, to the Council minutes should be specifically marked, approved, maintained, and available at City Hall and Council chambers. Attachments or documents containing financial calculations should be reviewed and footed for accuracy and typographical errors. We recommend that the finance department provide the Council with a revenue and expenditure report for every month by the second meeting of the following month as required by MS Code 21-35-13.

Response

The Administration will work to ensure all minutes are properly prepared and include all attachments.

2. Municipal Compliance Questionnaire *Prior year finding*

Finding

The Municipal Compliance Questionnaire that was attached to the minutes contained several

inconsistencies as noted during audit testing.

Recommendation

We recommend that the Municipal Compliance Questionnaire accurately reflect the actions of the Council.

Response

The City will ensure the Municipal Compliance Questionnaire will be completed by the Members of the City Council and reviewed and approved by the Mayor and City Clerk. The Mayor and City Clerk will ensure the Municipal Compliance Questionnaire is spread in the minutes on the 1st meeting in October and will ensure the questionnaire accurately reflects the actions of the Council.

3. Ordinance Book *Prior year finding*

Finding

MS Code 21-13-13 states that the City Clerk shall keep a record of all ordinances in force, and each ordinance must be entered into the ordinance record and spread upon the minutes. The City's ordinance book does not contain all required information as stated in MS Code 21-13-13.

Recommendation

We recommend that the City properly maintain the ordinance book to include every ordinance in force stating the date of its passage, cite the record and page of the minutes containing the record of its passage, and index all ordinances alphabetically.

Response

The City has begun to implement re-codification of the City ordinances currently in force along with developing policies and procedures compiling the minutes and records of its proceedings, ordinances, and resolutions.

4. Municipal Fire Funding Compliance *Prior year finding*

Finding

The Municipal Fire Funding Compliance Form must be completed by the City Clerk, financial officer, or CPA of the municipality and returned to the County Fire Coordinator by December 31 of each year. Failure to provide the compliance form will result in the forfeiture of designated state rebate and code monies.

Recommendation

We recommend that the City Clerk or financial officer of the City accurately and timely complete and submit this form by December 31 of each year so that the City will not lose its designated state rebate and code monies. Fire Rebate monies should be reconciled to the prior year's balance. The end of year balance per the compliance form should be reconciled to the general ledger, and the money set aside in a separate general ledger account to be used for approved fire department expenditures as listed on the compliance form.

Response

The Finance Department will prepare the annual Municipal Fire Funding Compliance annually by December 31. The Municipal Fire Funding Compliance will be reviewed and approved prior to submission by the City Comptroller. The City will also ensure the Municipal Fire Funding Compliance reconciles to the prior year's balance and the general ledger. The funds will be set aside in a separate general ledger account to be expended on approved fire department needs as noted on the compliance form.

5. Payment of Claims *Prior year finding*

Finding

Vendor invoices were paid in excess of 45 days after receipt of the invoice, and not in the order received or listed on the claims docket approved by the Council in violation of MS Code 31-7-305.

Recommendation

We recommend that a "Date Received" stamp be implemented for all vendor invoices and that the vendor invoices are paid in a timely manner upon its determination of being a valid claim against the City approved by the Council. We also recommend that all payments should be made from original invoices to eliminate invoices being paid twice.

Response

The City currently uses a stamp to notate the department approval, council approval date, check number, amount and account, and implemented a claim numbering system to help ensure claims are paid in order of council approval. The Finance Department has implemented the use of a date "Received" stamp for all vendor invoices, and City software already ensures all vendor invoices are not duplicate paid. The City will work closely with City Council members to ensure funds are available to meet City obligations, when necessary.

6. Possible Payroll Fraud

Finding

Payroll checks were possibly distributed to an employee who is no longer an employee of the City. A department head was submitting employee time cards for a former employee to the payroll department. This matter is still under investigation by the FBI. The amount that this affects the financial statement is still unknown at the time of this report.

Recommendation

We recommend that time cards be verified with the employee's signature and that someone, other than the department head, distributes check stubs to employees randomly to verify that the employee is still working for the City. Termination or resignation should be reported to human resources first instead of department heads to avoid nepotism and collusion.

Response

There is still an ongoing investigation by the FBI on this matter. The City will work to have in place stronger internal control policies and procedures regarding the employee termination or resignation process.

Instances of noncompliance of the prior year have been corrected by management, unless it is specifically stated otherwise in the findings and recommendations noted above. 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 Bay St. Louis, Mississippi's council 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 31, 2017

City of Bay St. Louis, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

- | | |
|--|----------|
| 1. Type of auditor’s report issued: | Modified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiency identified? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | |
|--|-----------|
| 4. Internal control over major programs: | |
| a. Material weakness identified? | N/A |
| b. Significant deficiency identified? | N/A |
| 5. Type of auditor’s report issued on compliance for major programs? | N/A |
| 6. Any audit finding(s) reported as required by Section 2 CFR.200.516 (a)? | N/A |
| 7. Identification of major programs: | N/A |
| 8. Dollar threshold used to distinguish between type A and type B programs | \$750,000 |
| 9. Auditee qualified as a low-risk auditee? | No |

*No single audit is required as federal expenditures did not exceed \$750,000.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Material Weaknesses

2016-1: Employee Termination or Resignation Controls

Criteria: The City's termination policy is that any employee termination or resignation has to be reported by the department head to the payroll department. The payroll department then reports the termination or resignation to the human resources department.

Condition: Time cards on a former employee were being submitted to the payroll department due to potential collusion and nepotism.

Cause: The payroll department continued paying a former employee who was no longer working for the city. The timeline is unknown at this time as this matter is still under investigation by the FBI.

Effect: Potential overstatement of payroll expenses can result due to potential collusion or nepotism. This could lead to overstatement of salaries and payroll taxes. The effect is still unknown at the date of the audit report as investigation is still ongoing with the FBI.

Recommendation: We recommend that the City randomly distribute payroll check stubs to employees of each department in order to detect if department heads are colluding with employees and that all termination or resignation should go straight to human resources instead of department heads. Hiring of related parties in the same department should be monitored to prevent potential collusion.

Significant Deficiencies

2016-2: Building Permits *Prior year finding*

Criteria: The City's ordinances require that all new building construction and remodels have a valid building permit, and if necessary, the permits may need to be renewed once they expire. Each file should contain documentation to support fees charged, inspections performed, and any other items to ensure compliance with City ordinances.

Condition: In the past some permit applications were incomplete and not signed by the applicant or by a City official. Some files were missing inspection documentation, certificates of occupancy, and other documents to ensure compliance with City ordinances. The City was not collecting all fees from property owners for work done to clean up blighted properties. The City has developed a policy and procedures manual to help alleviate confusion on job duties for all departments.

Cause: In some cases in past years, the permit department did not follow up on construction projects in progress, and once completed, they did not verify or document that previous issues had been addressed, nor does it perform a review of applicants or property owners that have outstanding balances to pursue collection.

Effect: Some building projects were noncompliant due to lack of required permits, documents, follow-up, final inspections, and/or certificates of occupancy, and a loss of revenue due to incorrect assessments and calculations could occur.

Recommendation: We recommend that all building projects have a completed and signed application on file with all applicable fees assessed and collected. All permits fees should be paid in full prior to the issuance of permits. The City should implement policies and procedures to ensure that all building projects are inspected throughout the building process, and all projects

should have a final inspection conducted. Project files should contain all necessary documentation to ensure compliance with City ordinances.

2016-3: Court Fines and Related Assessments *Prior year finding*

Criteria: Proper accounting for court fine revenue is required to accurately determine court assessments due to other agencies and to determine the court fines receivable amounts for each court case. The City is required to submit monthly court assessment reports detailing the amount of funds collected that are to be paid to various agencies and the State.

Condition: In some instances, case files were missing documentation detailing payment history, issuance of warrants, proof of jail time served, proof of community service hours served, etc. In other cases, payments and adjustments were not reflected within individual case files, and adjustments were made without proper documentation or approval.

In past years fines and assessments were not properly itemized on the citation or within the case file. Currently the court clerk has developed a new report that will detail and itemize fines and assessments to be placed in the case file. The City did generate a detailed court accounts receivable report on September 30, 2016 and has contracted with a collection agency for outstanding fines.

The City has developed a policy and procedures manual to help alleviate confusion on job duties for all departments.

Cause: The City's court department was not following up on offenders' payments, nor were they properly documenting payments and correspondence in each case file, which currently appears to be corrected.

Effect: Inadequate review, improper documentation, and untimely generation of reports can result in noncompliance with court orders and state regulations and cause inaccuracies in financial reporting. In the last year revenues have increased as a result of better management of collections.

Recommendation: We recommend that the court department continue to review the active files monthly to ensure that each case has current activity and that payment, payment plans, or other arrangements have been made and to determine what course of action should be taken. All correspondence should be documented within each case file. The accounts receivable report and cash bonds and restitution report should be printed and reviewed by knowledgeable personnel every month to ensure correct classifications and financial reporting of these receipts.

2016-4: Business-type Activities--Utility Fund and Harbor Fund *Prior year finding*

Criteria: Utility customer billings should be reviewed for accuracy and completeness prior to mailing to utility customers. City ordinances should be followed and adhered to for collection and cut-off of utility services.

The utility and harbor accounts receivable reports, the customer meter deposit report, the customer payment plan report, and the utility service cut-off report should be run and reviewed monthly to determine accuracy and the course of action, if necessary. Utility and harbor cash accounts should be reviewed and reconciled to the general ledger and bank statements monthly.

Condition: In the past utility billings and collections contained employees, residents, and businesses that were past due in excess of two months with their utility payments. Cutoffs are currently being performed on a consistent basis as required per the City's ordinance. In some cases, customers were not assessed penalties if their accounts were past due.

Utility customer adjustments were made without adequate supporting documentation detailing the reason for the adjustment, and a calculation worksheet was not attached to determine the basis for the amount of the adjustment. The City has developed a policy and procedures manual to help alleviate confusion on job duties for all departments.

Cause: City personnel were not printing and reviewing monthly reports to ensure accuracy and to ensure that City ordinances and policies are carried out.

Effect: Failure to properly collect utility receivables and enforce the City's cut-off procedures create a decrease in cash collections, and the increased utility accounts receivable. Improper or unauthorized adjustments are in violation of the City's policies and can result in a decrease of utility revenue.

Recommendation: We recommend that a thorough analysis and review continue to be performed at each billing cycle so that exceptions can be corrected prior to the mail out of utility bills. Cut-off for non-compliant utility customers should continue to be enforced consistently for all utility customers.

2016-5: Payroll Recordkeeping and Reporting *Prior year finding*

Criteria: Payroll time cards should be properly completed to reflect actual dates and times worked for all City employees. Paid time-off should be approved and documented by department supervisors for all City employees. Personnel files should contain all required payroll forms and should be updated with personnel changes, such as rate of pay and department information.

Condition: During our testing of payroll, we noted that some time cards were not accurately completed to reflect days and times worked. In some cases, paid time off requests were not approved by department supervisors as required by City policy. The fire and police departments are currently using manual systems to document time worked.

Some personnel files were missing required documents such as I-9, PERS forms, and some files lacked updated pay or department information. The City incurred penalties for untimely payments to the state for employee's amount of withholding taxes and PERS contributions. The City has developed a policy and procedures manual to help alleviate confusion on job duties for all departments.

Cause: Supervisors are not documenting their approval of employees' paid time-off and are also not enforcing accurate reporting of actual time worked on time cards.

Effect: By not ensuring that all time paid to employees was adequately and accurately documented, the City is noncompliant with Department of Labor laws and other City policies. If rate changes and other pertinent employee pay information are not updated within personnel files, employees could be paid incorrectly or improper deductions could be withheld from their paychecks.

Recommendation: We recommend that department supervisors ensure that all employees' time worked or paid time-off is completely and accurately reflected on their time cards for each pay period. Any monies due to taxing authorities should be paid timely and accurately reflected within the financial statements.

2016-6: Fixed Assets Management *Prior year finding*

Criteria: In accordance with the Mississippi Municipal Fixed Assets Management Manual, fixed assets should be maintained in a subsidiary ledger and updated when new fixed assets that meet capitalization thresholds are acquired or when fixed assets are disposed. All disposals should be properly spread on the minutes to include the method of disposition. Additionally, the Office of the State Auditor requires that an inventory asset listing report should be maintained.

Condition: During our audit testing, we noted several fixed assets that had to be added or deleted from the fixed asset subsidiary ledger and the inventory asset listing report. The City has developed a policy and procedures manual to help alleviate confusion on job duties for all departments.

Cause: The fixed asset clerk was not updating the fixed asset subsidiary ledger and inventory listing as required and in a timely manner. The City should record within the minutes each asset to be disposed.

Effect: Improperly accounting for fixed asset acquisitions or disposals can materially distort the subsidiary ledgers that are used to generate financial reports. Improper disposal of fixed assets could cause the City to be in violation of grant agreements, state statutes, and municipal regulations.

Recommendation: We recommend that management and the fixed asset clerk adhere to the guidelines set forth in the Mississippi Municipal Fixed Assets Management Manual and timely update the fixed assets subsidiary ledger and inventory listing report for acquisitions and disposals of fixed and inventory assets.

2016-7: Journal Entries Prior year finding

Criteria: Journal entries posted to the general ledger accounting software should have adequate supporting documentation that explains the journal entry, and all journal entries should be authorized and approved by management.

Condition: During our testing, we noted that numerous journal entries were made to the general ledger. Many of these entries were later voided and re-entered again in-part or in-whole, and some entries were made to reclassify expenditures from one account to another. We were not able to obtain complete supporting documentation to justify the reason for some journal entries or for some of the reclassifications. Currently the Comptroller is maintaining a file of properly documented journal entries.

Cause: We were unable to determine validity of all journal entries made by the City's finance department.

Effect: Journal entries posted to the general ledger without adequate supporting documentation increases the risk of financial statement misrepresentation and misstatements, and it can also distort budget to actual reporting.

Recommendation: We recommend that management continue to properly maintain a file for all journal entries made to the general ledger system, and that all journal entries have adequate supporting documentation to justify each entry.

2016-8: Pooled Cash Reconciliations

Criteria: Claims on pooled cash in funds should equal the amount that is available in the pooled cash account on the general ledger.

Condition: The claims on pooled cash accounts in the general fund and utility fund did not match the total pooled cash amount available on the general ledger.

Cause: Some adjustments had to be made to cash due to voided checks, improper recording of credit card transactions, improper general ledger coding, and corrections to outstanding checks listing.

Effect: Errors in cash postings could cause the financial statements to be misstated. It could also cause money to be misappropriated within departments.

Recommendation: We recommend that the City reconcile all claims on pooled cash accounts to the total available pooled cash on the general ledger.

SECTION 3 – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

We did not perform a single audit on expenditures of federal awards because the City did not exceed the \$750,000 threshold that would have required a single audit.

**AUDITEE CORRECTIVE ACTION PLAN/
SUMMARY OF PRIOR YEAR AUDIT FINDINGS**



**AUDITEE'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

Material Weaknesses

Finding 2016-1: Employee Termination or Resignation Controls

Corrective Action: The City will develop a better policy in the reporting of terminated employees and will monitor the hiring of related parties in the same department. The City's human resources and payroll departments will work with one another to develop a better policy to alleviate payroll collusion.

Significant Deficiencies

Finding 2016-2: Building Permits

Corrective Action: The Building Department will develop policies and procedures and utilize checklists to collect monies and ensure proper documentation is maintained. The departments will develop and implement checklists to ensure proper permitting has been conducted and will be reviewed to ensure policies are being followed. The City has developed a policy and procedures manual to help alleviate confusion on job duties for all departments.

Finding 2016-3: Court Fines and Related Assessments

Corrective Action: The Court Department currently has a process in place to collect fines and assessments, to review files, payment plan, etc. The City has developed a policy and procedures manual to help alleviate confusion on job duties for all departments. The Court Department has developed procedures which will aide in the processes to collect and report fines and assessments, review active files on a timely basis and to ensure all applicable documentation is included.

The City's Finance Department will work with the Court Department to develop a reconciliation to agree court fine revenue from the court software system to the general ledger accounting system on a monthly basis. The Court Department is also looking to upgrade their software, which will aide in reporting and collections.

Finding 2016-4: Business-type Activities--Utility Fund and Harbor Fund

Corrective Action: The City has developed a policies and procedures manual to help alleviate confusion on job duties for all departments. Monthly utility billing packets will be created including utility billing review, reporting (cut-offs, assessments, and adjustment) and deadlines. A review process has already been implemented with the comptroller.

Finding 2016-5: Payroll Recordkeeping and Reporting

Corrective Action: The Payroll Clerk will develop procedures to include the review, approval and submission of timecards prior to payroll processing. The policies will include the responsibilities of the department supervisors, timelines for submitting payments to taxing authorities, and review and reconciliation of time-off. The City has developed a policy and procedures manual to help alleviate confusion on job duties for all departments.

The Payroll Clerk and Human Resources personnel will develop employee file documentation requirements to include I-9, W-4, background checks, change of pay records and other departmental or other essential employee records. Procedures will be developed to review employee files to ensure all documents are included and updated. Finance will also work with Payroll to ensure all payments to taxing authorities are accurate and remitted in a timely manner to thwart penalties.

Finding 2016-6: Fixed Assets Management

Corrective Action: The City currently maintains a fixed asset subsidiary listing through INCODE as well as an inventory listing including identification tags and location of assets. The Fixed Asset Clerk will work closely with the City Clerk to ensure assets are recorded and disposed of properly to include documentation and proper recording in minutes.

The Fixed Asset Clerk will continue to update the fixed asset sub-ledger as well as the inventory listing of assets purchased and disposed of as outlined in the Mississippi Municipal Fixed Assets Management Manual and perform an annual inventory.

Finding 2016-7: Journal Entries

Corrective Action: The Finance Department has implemented procedures whereby all journal entries must be reviewed and approved prior to being posted. Procedures will include the review of proper and adequate supporting documentation.

Finding 2016-8: Pooled Cash Reconciliations

Corrective Action: The Finance Department has developed procedures to ensure reconciliations are accurate and prepared and reviewed in a timely manner.



**SUMMARY OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Finding

2015-7- Corrective action was taken.

2015-8- Corrective action was taken.

