



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

Audited Financial Report

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

Fiscal Year Ended September 30, 2016



City of Ocean Springs, Mississippi
Audited Financial Report
Fiscal Year Ended September 30, 2016
Table of Contents

I. INTRODUCTORY SECTION

Listing of City Officials	2
Organizational Chart	3

II. FINANCIAL SECTION

Independent Auditor's Report	5-6
A. Management's Discussion and Analysis (required supplementary information)	8-15
B. Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	19
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Proprietary Fund Financial Statements	
Statement of Net Position	23
Statement of Revenues, Expenses, and Changes in Net Position	24
Statement of Cash Flow	25-26
Fiduciary Fund Financial Statement	
Statement of Assets and Liabilities	27
Notes to the Financial Statements	28-49
C. Required Supplemental Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – Budget Basis – General Fund	51-52
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – Budget Basis – Food and Beverage Tax Fund	53
Schedule of City's Proportionate Share of the Net Pension Liability	54
Schedule of City PERS Contributions	55
Notes to Required Supplementary Information	56

City of Ocean Springs, Mississippi
Audited Financial Report
Fiscal Year Ended September 30, 2016
Table of Contents

D. Supplemental Information

Combining Financial Statements Non-Major Governmental Funds:	
Balance Sheet	58-59
Statement of Revenues, Expenditures, and Changes in Fund Balances	60-61
Schedule of Long Term Debt	62
Schedule of Surety Bonds for Municipal Officials and Employees	63
Statistical Schedules 1 - 7	64-71

III. COMPLIANCE SECTION

Schedule of Expenditures of Federal Awards	73-74
---	-------

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 <i>Government Auditing Standards</i>	76-77
--	-------

Independent Auditor's Report

on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	79-80
--	-------

Independent Auditor's Report

on Compliance with Mississippi State Laws and Regulations	82
---	----

Schedule of Findings and Questioned Costs	83-84
--	-------

Auditee's Corrective Action Plan	86
---	----

Introductory Section

City of Ocean Springs, Mississippi

Listing of City Officials

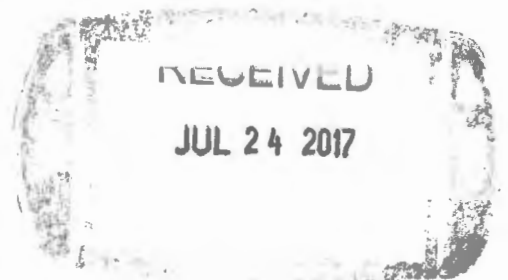
September 30, 2016

Elected Officials

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

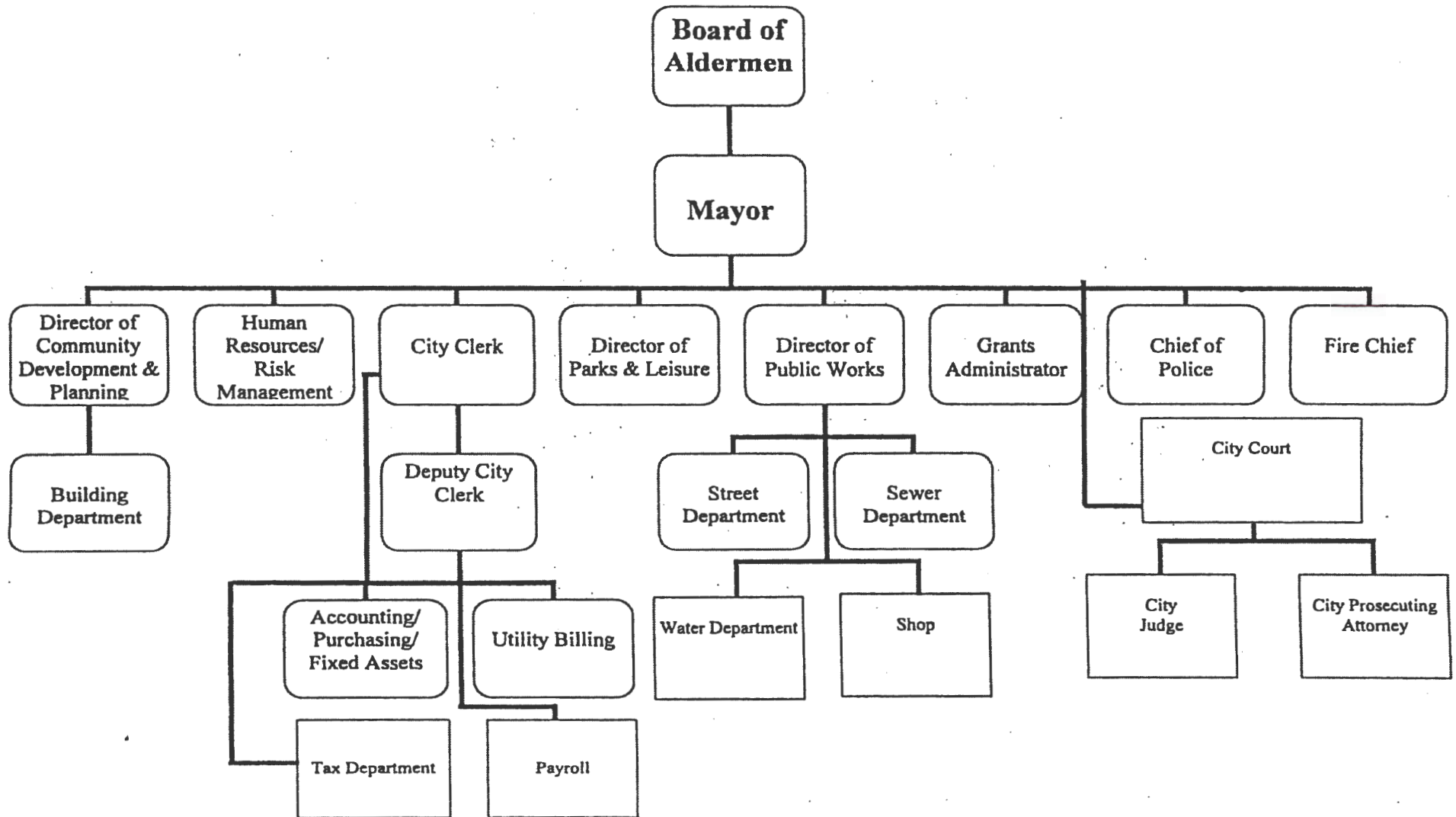
Appointed Department Heads

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



Organizational Chart

City of Ocean Springs, MS



Financial Section

INDEPENDENT AUDITOR'S REPORT

To the Board of Aldermen
City of Ocean Springs
Ocean Springs, Mississippi

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 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 8 through 15, the schedule of budgetary comparison information on pages 51 through 53 and the schedules of the City's Proportionate Share of the Net Pension Liability and Schedule of City Contributions on pages 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 May 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 and Associates, PA
Certified Public Accountants

Gulfport, Mississippi
May 31, 2017

Management's Discussion and Analysis

**CITY OF OCEAN SPRINGS, 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 Ocean Springs' ("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 and Economical Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows at September 30, 2016 by \$36,481,319 and by \$37,478,302 at September 30, 2015.
- The total net position decreased by \$626,207 for 2016 and increased by \$1,141,613 for 2015; and of these amounts, governmental activities decreased by \$579,059, while business type activities decreased by \$47,148 during 2016. During 2015, governmental activities net position increased \$748,423, and business type activities net position increased \$393,190.
- The City's governmental funds reported a combined ending fund balance of \$3,536,144 for 2016 and \$4,742,451 for 2015, a decrease of \$1,206,307.
- Unassigned fund balance for the general fund was \$1,710,449 for 2016 or 12.2% of total general fund expenditures, compared to \$2,813,505 for 2015 or 21.2% of total general fund expenditures.
- The City was voted Best Place to Live in Mississippi, Best Town for Weekend Visit, and Best Downtown Area in Mississippi Magazine for 2016.
- Smithsonian Magazine named Ocean Springs as one of the top 20 Small Towns to visit in the nation, and Coastal Magazine named the City the top five in the Happiest Seaside Town in 2016.
- The City recently received designation from Mississippi Department of Transportation as a Scenic Byway.
- In 2013 Ocean Springs was one of three Great American Main Street award winners in the United States.
- The City hosts the annual Peter Anderson Arts and Crafts Festival in November and it is known as the largest fine arts festival in the state with over 400 artists, crafters and food vendors along with over 100,000 visitors in attendance.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplementary information, supplementary information, and other information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all of the City's non-fiduciary assets, deferred outflows, liabilities, and deferred inflows, with the differences amongst them reported as "net position." Over time, increases or decreases in the City's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting also helps to control and manage money for particular purposes or to show the city 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**

Most of the City's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the City's near-term financing decisions.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

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

- **Proprietary Fund**

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

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements but are reported as expenditures on the governmental funds financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules, Schedule of the City's Proportionate Share of the New Pension Liability, and Schedule of City Contributions as required supplementary information. The City adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and the Food and Beverage Fund.

Supplementary Information

Additionally, a 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 can be found in this report.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Other Information

Although not a required part of the basic financial statements, this report also presents certain other information for purposes of additional analysis.

Government-wide Financial Analysis

Net position

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	\$ 4,502,626	\$ 5,652,961	\$ 2,022,056	\$ 2,697,683	\$ 6,524,682	\$ 8,350,644
Capital assets, net	47,686,764	46,238,066	21,388,691	21,323,663	69,075,455	67,561,729
Total assets	52,189,390	51,891,027	23,410,747	24,021,346	75,600,137	75,912,373
Deferred Outflows of Resources	3,674,146	2,778,341	529,383	390,872	4,203,529	3,169,213
Liabilities:						
Current and other liabilities	1,912,451	1,944,041	1,441,229	1,710,507	3,353,680	3,654,548
Long-term liabilities	30,867,442	29,417,176	7,111,480	7,233,286	37,978,922	36,650,462
Total liabilities	32,779,893	31,361,217	8,552,709	8,943,793	41,332,602	40,305,010
Deferred Inflows of Resources	1,727,226	1,127,230	262,520	171,043	1,989,746	1,298,273
Net position:						
Invested in capital assets, net of related debt	33,653,972	31,353,665	16,481,498	15,951,146	50,135,470	47,304,811
Restricted	1,432,507	1,540,872	-	-	1,432,507	1,540,872
Unrestricted	(13,730,062)	(10,713,616)	(1,356,596)	(653,765)	(15,086,658)	(11,367,381)
Total net position	\$ 21,356,417	\$ 22,180,921	\$ 15,124,902	\$ 15,297,381	\$ 36,481,319	\$ 37,478,302

Analysis of Government Wide Statement of Net Position:

The City's assets exceeded liabilities by \$36,481,319 for 2016 and by \$37,478,302 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 increased by \$2,830,659 from \$47,304,811 in 2015 to \$50,135,470 in 2016, while the Capital assets, net of depreciation also increased from \$67,561,729 in 2015 to \$69,075,455 in 2016. There remains \$3,784,400 of construction in progress on the fixed assets' books at the end of 2016. The restricted net assets of \$1,432,507 are comprised of \$83,716 for capital improvements, \$99,253 for public safety, \$65,697 for library support, \$384,165 for economic development, and \$799,676 for future debt service.

In connection with the implantation of new standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position (deficit)	(\$13,730,062)
Less unrestricted net position resulting from recognition of the net pension liability and related pension deferrals	<u>17,626,082</u>
Unrestricted net position, exclusive of the pension liability effect	<u>\$3,896,020</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Changes in net position

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

Government Wide Statement of Activities

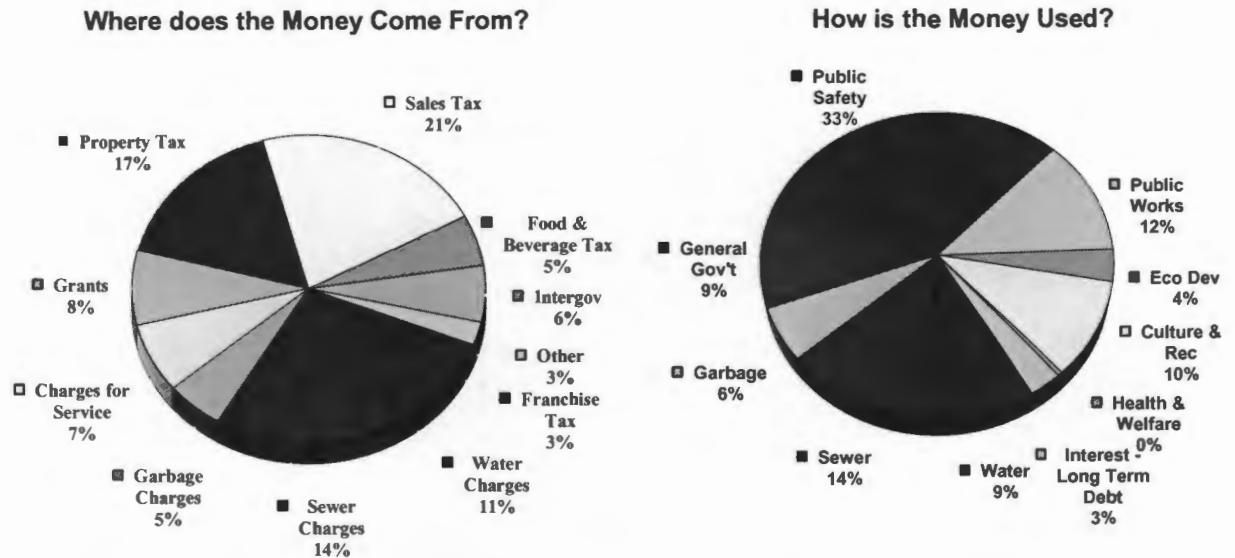
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 1,690,354	\$ 1,702,350	\$ 6,874,323	\$ 6,383,979	\$ 8,564,677	\$ 8,086,329
Operating grants	248,107	634,624	-	-	248,107	634,624
Capital grants	1,581,326	983,403	-	248,928	1,581,326	1,232,331
Total program	3,519,787	3,320,377	6,874,323	6,632,907	10,394,110	9,953,284
General revenues						
Property taxes	3,873,998	3,754,437	-	-	3,873,998	3,754,437
Franchise taxes	731,292	884,084	-	-	731,292	884,084
Sales, restaurant, and hotel taxes	6,195,830	6,179,410	-	-	6,195,830	6,179,410
Intergovernmental	1,379,518	1,414,281	-	-	1,379,518	1,414,281
BP settlement	-	615,089	-	-	-	615,089
Interest earnings	5,692	4,729	-	-	5,692	4,729
Other	155,550	186,244	-	-	155,550	186,244
Total general	12,341,880	13,038,274	-	-	12,341,880	13,038,274
Total revenues	15,861,667	16,358,651	6,874,323	6,632,907	22,735,990	22,991,558
Expenses						
General government	2,190,719	1,985,235	-	-	2,190,719	1,985,235
Public safety	7,767,114	7,337,130	-	-	7,767,114	7,337,130
Public works	2,879,592	2,401,806	-	-	2,879,592	2,401,806
Health & welfare	101,809	369,378	-	-	101,809	369,378
Economic development	803,801	864,805	-	-	803,801	864,805
Culture and recreation	2,425,268	2,454,485	-	-	2,425,268	2,454,485
Interest	672,423	697,389	-	-	672,423	697,389
Water	-	-	2,031,144	1,633,638	2,031,144	1,633,638
Sewer	-	-	3,152,168	2,816,964	3,152,168	2,816,964
Garbage	-	-	1,338,159	1,289,115	1,338,159	1,289,115
Total expenses	16,840,726	16,110,228	6,521,471	5,739,717	23,362,197	21,849,945
Operating income (loss)	(979,059)	248,423	352,852	893,190	(626,207)	1,141,613
Unallowable FEMA costs	-	-	-	-	-	-
Operating Transfers	400,000	500,000	(400,000)	(500,000)	-	-
Change in net position	(579,059)	748,423	(47,148)	393,190	(626,207)	1,141,613
Beginning net position	22,180,921	33,763,782	15,297,381	16,732,661	37,478,302	50,496,443
Prior period adjustments	(245,445)	(12,331,284)	(125,331)	(1,828,470)	(370,776)	(14,159,754)
Restated beginning net	21,935,476	21,432,498	15,172,050	14,904,191	37,107,526	36,336,689
Ending net position	\$21,356,417	\$22,180,921	\$15,124,902	\$15,297,381	\$36,481,319	\$37,478,302

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Analysis of Government Wide Statement of Activities:

Revenues

Total revenues for 2016 have decreased by \$255,568 from \$22,991,558 in 2015 to \$22,735,990 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 total percentage for each type.



Property Tax – Property tax accounts for \$3.87 million or 17% of the City's total revenues and is usually considered one of the most stable revenue sources for the City. The City's property tax revenue has increased by \$119,561 as compared to the previous year. The entire Gulf South Region is experiencing significant insurance cost increases, increased cost of construction due to new elevation requirements, and overall insurability issues.

Sales, Restaurant, and Hotel Tax – The most significant source of revenue for the City is sales taxes which accounts for \$4.9 million or 21% of the City's total revenues. Sales tax decreased as compared to the prior year by \$43,726, while Food & Beverage tax increased by \$38,506 from 2015.

Expenses

Total program expenses increased by \$1,512,252 from \$21,849,945 in 2015 to \$23,362,197 in 2016. The Chart below represents the cost of each of the City's major governmental activities functional areas for 2016:

	Total Cost of Service	Net Cost of Service
Governmental Activities:		
General Government	\$ 2,190,719	\$ 2,119,288
Public Safety	7,767,114	6,835,359
Public Works	2,879,592	2,456,653
Health and Welfare	101,809	101,809
Economic Development	803,801	506,927
Culture and Recreation	2,425,268	628,481
Interest on long term debt	672,423	672,423
Total Governmental activities	\$ 16,840,726	\$ 13,320,939

**CITY OF OCEAN SPRINGS, 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 \$3,536,144, a decrease of \$1.2 million from the previous fiscal year. Of that balance \$83,716 is restricted for capital improvements, \$384,165 for economic development, \$99,253 for public safety, \$65,697 for library support, and \$972,736 for future debt service payments, with the remainder unrestricted in the general fund.

- General Fund
 1. Fund balance totaled \$1,930,577, a decrease of \$1.09 million from the previous year.
 2. Revenues decreased \$902,878, while expenditures increased by \$735,627.
 3. The General Fund received \$400,000 transfer from Water & Sewer funds.
- General Obligation Fund (Debt Service)
 1. Paid out \$560,297 in debt service and received \$459,528 in property tax revenues.
 2. Fund Balance totaled \$80,615, a decrease of \$100,769 from the previous year.
- Food and Beverage Tax Fund
 1. Received \$1,242,862 in tax revenues.
 2. Paid out \$1,173,794 in costs, including \$897,043 of debt service.
 3. Fund balance totaled \$1,269,780, an increase of \$69,445 from the previous year.
- CIAP Harbor Improvements
 1. Received \$1,199,964 in grants.
 2. Paid out \$1,177,361 in capital outlay.

Enterprise Funds Analysis

Total operating income increased \$490,344 from previous year, and the net change in net position was a decrease of \$440,338 after transferring \$400,000 to the General fund. This resulted in unrestricted net position of (\$1,356,596) at the end of 2016.

	2016	2015
Operating Revenues	\$ 6,874,323	\$ 6,383,979
Operating Expenses	6,402,592	5,608,325
Operating Income	471,731	775,654
Non-Operating Items:		
Interest Expense	(118,879)	(131,392)
Grant Revenue	-	248,928
Transfers Out	(400,000)	(500,000)
	(518,879)	(382,464)
Change in Net Position	\$ (47,148)	\$ 393,190

Budget Variances in the General and Food and Beverage Tax Funds

Amendments to the General Fund original budget increased total appropriations and revenues by \$676,547. Refer to the budgetary comparison schedule for the General Fund and the Food and Beverage Tax Fund on pages 51-53 in the RSI section of the annual report.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2016, the City reported \$47,686,764 in net capital assets for governmental activities and \$21,388,691 for business-type activities for a total of \$69,075,455 net of depreciation, compared to \$67,561,721 for 2015. Construction in progress increased from \$2,165,058 in 2015 to \$3,784,400 in 2016.

	Capital Assets (net of depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and artwork	\$ 9,365,447	\$ 9,365,447	\$ 29,413	\$ 29,413	\$ 9,394,860	\$ 9,394,860
Buildings & improvements	10,749,983	10,956,960	3,191	3,191	10,753,174	10,960,151
Machinery & equipment	200,005	309,403	268,449	282,768	468,454	592,171
Infrastructure & systems	8,855,594	9,144,403	20,998,423	20,372,403	29,854,017	29,516,806
Other improvements	13,451,075	13,745,959	-	-	13,451,075	13,745,959
Vehicles	1,280,260	1,085,179	89,215	101,537	1,369,475	1,186,716
Construction in progress	3,784,400	1,630,715	-	534,343	3,784,400	2,165,058
Total	<u>\$ 47,686,764</u>	<u>\$ 46,238,066</u>	<u>\$ 21,388,691</u>	<u>\$ 21,323,655</u>	<u>\$ 69,075,455</u>	<u>\$ 67,561,721</u>

Additional information on the City's capital assets can be found in Note F on pages 38-39 of this report.

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$18,939,984 in outstanding debt. Additional information on the City's long-term debt can be found in Note H: Long-Term Debt on pages 41-43 and the Schedule of Long-Term Debt on page 62 of the supplemental information section of this report.

General Obligation, Revenue Bonds and Other Loans

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Special obligation bonds	\$ 8,695,000	\$ 9,015,000	\$ -	\$ -	\$ 8,695,000	\$ 9,015,000
General obligation bonds	3,630,000	3,815,000	-	-	3,630,000	3,815,000
Notes payable	550,875	771,904	4,907,193	5,372,517	5,458,068	6,144,421
Capital leases payable	1,156,916	1,282,497	-	-	1,156,916	1,282,497
Total	<u>\$14,032,791</u>	<u>\$14,884,401</u>	<u>\$ 4,907,193</u>	<u>\$ 5,372,517</u>	<u>\$18,939,984</u>	<u>\$20,256,918</u>

Contact the City's Financial Management

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

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

Basic Financial Statements

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

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Assets			
Cash and cash equivalents	\$ 1,828,871	\$ 774,867	\$ 2,603,738
Restricted assets:			
Cash - customers deposits	-	485,776	485,776
Investments - bond reserve	737,500	-	737,500
Receivables:			
Taxes	1,049,065	-	1,049,065
Customer accounts, net	-	749,999	749,999
Grants	648,938	-	648,938
Other	29,538	-	29,538
Internal balances	(11,414)	11,414	1
Prepaid insurance	220,128	-	220,128
Capital assets:			
Land, artwork and construction in progress	13,149,847	29,413	13,179,260
Other (net of accumulated depreciation)	34,536,917	21,359,278	55,896,195
Total assets	52,189,390	23,410,747	75,600,138
Deferred Outflows of Resources			
Deferred bond issuance charges	191,119	-	191,119
Deferred pension amounts	3,483,027	529,383	4,012,410
Total deferred outflows of resources	3,674,146	529,383	4,203,529
Liabilities			
Accounts payable	732,595	427,386	1,159,981
Retainage payable	54,975	-	54,975
Accrued payroll	138,727	23,549	162,276
Accrued interest payable	173,060	-	173,060
Developer deposits payable	40,185	511,835	552,020
Due within one year:			
Bonds and notes	772,909	478,459	1,251,368
Due beyond one year:			
Bonds and notes	13,259,883	4,428,734	17,688,617
Net pension liability	17,056,354	2,592,392	19,648,746
Compensated absences	551,205	90,354	641,559
Total liabilities	32,779,893	8,552,709	41,332,602
Deferred Inflows of Resources			
Deferred pension amounts	1,727,226	262,520	1,989,746
Net position			
Net Investment in capital assets	33,653,972	16,481,498	50,135,470
Restricted for:			
Debt service	799,676	-	799,676
Specific grant programs	549,115	-	549,115
Capital improvements	83,716	-	83,716
Unrestricted	(13,730,062)	(1,356,596)	(15,086,658)
Total net position	\$ 21,356,417	\$ 15,124,902	\$ 36,481,319

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 2,190,719	\$ 71,431	\$ -	\$ -	\$ (2,119,288)	\$ -	\$ (2,119,288)
Public Safety	7,767,114	776,751	143,531	11,473	(6,835,359)	-	(6,835,359)
Public Works	2,879,592	-	53,051	369,888	(2,456,653)	-	(2,456,653)
Health and Welfare	101,809	-	-	-	(101,809)	-	(101,809)
Economic Development	803,801	296,874	-	-	(506,927)	-	(506,927)
Culture and Recreation	2,425,268	545,298	51,525	1,199,964	(628,481)	-	(628,481)
Interest and Other, Long-Term Debt	672,423	-	-	-	(672,423)	-	(672,423)
Total Governmental Activities	16,840,726	1,690,354	248,107	1,581,326	(13,320,939)	-	(13,320,939)
Business-Type Activities:							
Water	2,031,144	2,425,109	-	-	-	393,965	393,965
Sewer	3,152,168	3,225,042	-	-	-	72,874	72,874
Garbage	1,338,159	1,224,172	-	-	-	(113,987)	(113,987)
Total Business-Type Activities	6,521,471	6,874,323	-	-	-	352,852	352,852
Total Primary Government	\$ 23,362,197	\$ 8,564,677	\$ 248,107	\$ 1,581,326	(13,320,939)	352,852	(12,968,087)
General revenues:							
Property taxes					3,873,998	-	3,873,998
Sales, restaurant, and hotel taxes					6,195,830	-	6,195,830
Franchise and utility taxes					731,292	-	731,292
Intergovernmental					1,379,518	-	1,379,518
Interest earnings					5,692	-	5,692
Miscellaneous					155,550	-	155,550
Operating transfers					400,000	(400,000)	-
Total general revenues and transfers					12,741,880	(400,000)	12,341,880
Change in net position					(579,059)	(47,148)	(626,207)
Net Position - beginning of period					22,180,921	15,297,381	37,478,302
Prior period adjustment					(245,445)	(125,331)	(370,776)
Net Position - beginning restated					21,935,476	15,172,050	37,107,526
Net Position - end of period					\$ 21,356,417	\$ 15,124,902	\$ 36,481,319

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

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

	General	Food and Beverage Tax	General Obligation	CIAP Harbor Improvements	Other Non-Major Governmental	Total Governmental
Assets						
Cash and cash equivalents	\$ 1,198,798	\$ 387,473	\$ 63,142	\$ -	\$ 179,458	\$ 1,828,871
Restricted assets:						
Investments - bond reserve	-	737,500	-	-	-	737,500
Receivables:						
Taxes	841,970	179,121	17,473	-	10,501	1,049,065
Grants	50,132	-	-	386,897	211,909	648,938
Other	29,538	-	-	-	-	29,538
Due from other funds	269,996	-	-	-	2,396	272,392
Prepays	220,128	-	-	-	-	220,128
Total assets	<u>2,610,562</u>	<u>1,304,094</u>	<u>80,615</u>	<u>386,897</u>	<u>404,264</u>	<u>4,786,432</u>
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	436,746	29,856	-	263,324	2,669	732,595
Retainage payable	50,517	4,458	-	-	-	54,975
Accrued payroll	138,727	-	-	-	-	138,727
Developer deposits	40,185	-	-	-	-	40,185
Due to other funds	13,810	-	-	100,970	169,026	283,806
Total liabilities	<u>679,985</u>	<u>34,314</u>	<u>-</u>	<u>364,294</u>	<u>171,695</u>	<u>1,250,288</u>
Fund Balances:						
Nonspendable for prepaids	220,128	-	-	-	-	220,128
Restricted for:						
Economic development	-	377,659	-	-	6,506	384,165
Library support	-	-	-	-	65,697	65,697
Public safety	-	-	-	-	99,253	99,253
Debt service	-	892,121	80,615	-	-	972,736
Capital improvements	-	-	-	22,603	61,113	83,716
Unassigned	<u>1,710,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,710,449</u>
Total fund balances	<u>1,930,577</u>	<u>1,269,780</u>	<u>80,615</u>	<u>22,603</u>	<u>232,569</u>	<u>3,536,144</u>
Total liabilities and fund balances	<u>\$ 2,610,562</u>	<u>\$ 1,304,094</u>	<u>\$ 80,615</u>	<u>\$ 386,897</u>	<u>\$ 404,264</u>	<u>\$ 4,786,432</u>

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

City of Ocean Springs, Mississippi
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
as of September 30, 2016

Total fund balances of governmental funds in the balance sheet, page 19 \$ 3,536,144

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	63,884,084	
Less: accumulated depreciation	(16,197,320)	47,686,764

Some liabilities, including net pension obligations, are not due and the current period and, therefore, are not reported in the funds:

Net pension liability		(17,056,354)
-----------------------	--	--------------

Deferred outflows and inflows of resources related to pensions are to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	3,483,027	
Deferred inflows of resources related to pensions	(1,727,226)	1,755,801

Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds. Also governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Deferred charges on bond discounts	191,119	
Accrued interest payable	(173,060)	
Governmental bonds and notes payable	(14,032,792)	
Compensated absences payable	(551,205)	(14,565,938)
Net position of governmental activities, page 17		\$ 21,356,417

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

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

	General	Food and Beverage Tax	General Obligation	CIAP Harbor Improvements	Other Nonmajor Governmental	Total Governmental
Revenues						
Ad valorem taxes	\$ 3,240,687	\$ -	\$ 459,528	\$ -	\$ 173,783	\$ 3,873,998
Franchise fees	731,292	-	-	-	-	731,292
Licenses and permits	296,874	-	-	-	-	296,874
Intergovernmental	6,182,106	1,242,862	-	-	150,380	7,575,348
Charges for services	616,729	-	-	-	-	616,729
Grants	508,342	-	-	1,199,964	121,127	1,829,433
Fines and forfeitures	776,751	-	-	-	-	776,751
Interest income	5,692	-	-	-	-	5,692
Other	130,418	377	-	-	-	130,795
Total revenues	12,488,891	1,243,239	459,528	1,199,964	445,290	15,836,912
Expenditures						
Current:						
General government	1,906,137	-	-	-	-	1,906,137
Public safety	6,268,551	20,194	-	-	58,743	6,347,488
Public works	2,146,857	-	-	-	-	2,146,857
Health and welfare	101,809	-	-	-	-	101,809
Economic development	542,467	71,827	-	-	38,468	652,762
Culture and recreation	1,721,222	31,353	-	-	165,864	1,918,439
Capital Outlay:						
Public safety	66,757	-	-	-	243,675	310,432
Public works	238,082	-	-	-	-	238,082
Economic development	993,345	-	-	-	-	993,345
Culture and recreation	21,913	153,377	-	1,177,361	-	1,352,651
Debt service:						
Principal retirement	-	407,351	406,029	-	38,230	851,610
Interest and agent fees	-	489,692	154,268	-	8,587	652,547
Total expenditures	14,007,140	1,173,794	560,297	1,177,361	553,567	17,472,159
Excess (deficiency) of revenues over expenditures	(1,518,249)	69,445	(100,769)	22,603	(108,277)	(1,635,247)
Other financing sources (uses)						
Insurance proceeds	24,755	-	-	-	-	24,755
Proceeds of loans	-	-	-	-	-	-
Sale of capital assets	4,185	-	-	-	-	4,185
BP Settlement	-	-	-	-	-	-
Transfers in	400,000	-	-	-	-	400,000
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	428,940	-	-	-	-	428,940
Net change in fund balance	(1,089,309)	69,445	(100,769)	22,603	(108,277)	(1,206,307)
Fund balance, beginning	3,019,886	1,200,335	181,384	-	340,846	4,742,451
Fund balances, end of year	\$ 1,930,577	\$ 1,269,780	\$ 80,615	\$ 22,603	\$ 232,569	\$ 3,536,144

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

City of Ocean Springs, Mississippi
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
for the Fiscal Year Ended September 30, 2016

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

Net change in fund balances of governmental funds, page 21	\$ (1,206,307)
--	----------------

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	3,074,627	
Less: current year depreciation	(1,344,043)	1,730,584

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 assets sold.

Cost of disposed assets	(19,175)
-------------------------	----------

Repayment of borrowed principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

Principal debt repayments	851,610
---------------------------	---------

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	(2,246,983)	
Deferred outflow of current year pension contributions subsequent to measurement date	261,316	(1,985,667)

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	(8,634)	
Amortization of bond discounts	(11,242)	
Change in long-term compensated absences	69,772	49,896

Change in net position of governmental activities, page 18	\$ (579,059)
--	--------------

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

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

	Business-Type Activities-Enterprise Funds				
	Major Funds				Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Collection Fund	Non-Major Fund	
Assets					
Current assets:					
Cash	\$ 733,570	\$ -	\$ 41,297	\$ -	\$ 774,867
Restricted cash	-	-	-	485,776	485,776
Receivables:					
Customer accounts, net	213,112	433,540	103,347	-	749,999
Due from other funds	267,644	2,818	-	-	270,462
Total current assets	1,214,326	436,358	144,644	485,776	2,281,104
Noncurrent assets:					
Capital assets:					
Land and construction in progress	24,059	5,354	-	-	29,413
Other (net of accumulated depreciation)	9,053,154	12,306,124	-	-	21,359,278
Total noncurrent assets	9,077,213	12,311,478	-	-	21,388,691
Total assets	10,291,539	12,747,836	144,644	485,776	23,669,795
Deferred Outflow of Resources					
Deferred pension amount	227,482	169,918	131,983	-	529,383
Liabilities					
Current liabilities:					
Accounts payable	101,914	251,018	74,454	-	427,386
Accrued payroll	10,267	7,165	6,117	-	23,549
Due to other funds	-	259,048	-	-	259,048
Customer deposits payable from restricted assets	-	-	-	511,835	511,835
Current portion of bond and notes	337,459	141,000	-	-	478,459
Total current liabilities	449,640	658,230	80,571	511,835	1,700,276
Non-current liabilities:					
Compensated absences	26,070	37,570	26,714	-	90,354
Net pension obligation	1,113,980	832,090	646,322	-	2,592,392
Notes payable, non-current	3,547,449	881,285	-	-	4,428,734
Total non-current liabilities	4,687,499	1,750,945	673,036	-	7,111,480
Total liabilities	5,137,139	2,409,175	753,607	511,835	8,811,756
Deferred Inflow of Resources					
Deferred pension amount	112,808	84,262	65,450	-	262,520
Net position					
Net investment in capital assets	5,192,305	11,289,193	-	-	16,481,498
Unrestricted	76,769	(864,876)	(542,430)	(26,059)	(1,356,596)
Total net position	\$ 5,269,074	\$ 10,424,317	\$ (542,430)	\$ (26,059)	\$ 15,124,902

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

City of Ocean Springs, Mississippi
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds

For the Fiscal Year Ended September 30, 2016

	Business-Type Activities-Enterprise Funds				
	Major Funds			Non-Major Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Collection Fund		
Operating Revenues					
Charges for services:					
Water, sewer, and garbage, net of penalties & installations	\$ 2,425,109	\$ 3,225,042	\$ 1,224,172	\$ -	\$ 6,874,323
Operating expenses					
Personal services	888,048	365,466	424,937	-	1,678,451
Supplies	175,852	155,957	19,813	-	351,622
Contracted services	76,183	2,117,828	885,766	-	3,079,777
Other services and charges	417,040	261,028	7,643	-	685,711
Depreciation	401,234	205,797	-	-	607,031
Total operating expenses	1,958,357	3,106,076	1,338,159	-	6,402,592
Operating income (loss)	466,752	118,966	(113,987)	-	471,731
Non-operating revenues (expenses):					
Interest expense	(72,787)	(46,092)	-	-	(118,879)
Transfers in	-	300,000	-	-	300,000
Transfers out	(500,000)	(200,000)	-	-	(700,000)
Net non-operating revenues over (under) expenses	(572,787)	53,908	-	-	(518,879)
Change in net position	(106,035)	172,874	(113,987)	-	(47,148)
Net position, beginning of year	5,375,109	10,251,443	(347,213)	18,042	15,297,381
Prior Period Adjustment	-	-	(81,230)	(44,101)	(125,331)
Net position, beginning restated	5,375,109	10,251,443	(428,443)	(26,059)	15,172,050
Net position, end of year	\$ 5,269,074	\$ 10,424,317	\$ (542,430)	\$ (26,059)	\$ 15,124,902

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

City of Ocean Springs, Mississippi
Statement of Cash Flow
Proprietary Funds
For the Fiscal Year Ended September 30, 2016

	Business-Type Activities-Enterprise Funds				
	Major Funds				Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Collection Fund	Non-Major Fund	
Cash flows from operating activities					
Receipts from customers	\$ 2,478,439	\$ 3,103,516	\$ 1,153,830	\$ 345	\$ 6,736,130
Payments to suppliers	(645,061)	(2,847,827)	(915,248)	-	(4,408,136)
Payments for services of employees	(598,732)	(441,230)	(364,705)	-	(1,404,667)
Net cash provided by (used in) operating activities	1,234,646	(185,541)	(126,123)	345	923,327
Cash flows from non-capital financing activities					
Receipt of grants	-	-	-	-	-
Transfers (to) from other funds	-	100,000	-	-	100,000
Net cash provided by (used in) non-capital financing activities	-	100,000	-	-	100,000
Cash flows from capital and related financing activities					
Acquisition of capital assets	(220,953)	(451,104)	-	-	(672,057)
Retirement of debt	(328,904)	(136,420)	-	-	(465,324)
Interest paid on debt	-	300,000	-	-	300,000
Net cash provided by (used in) capital and related financing activities	(549,857)	(287,524)	-	-	(837,381)
Cash flows from investing activities					
Temporary loan repayments	(259,048)	259,048	-	-	-
Net cash provided by (used in) investing activities	(259,048)	259,048	-	-	-
Net increase (decrease) in cash and cash equivalents	425,741	(114,017)	(126,123)	345	185,946
Cash and cash equivalents, beginning	880,615	460,109	167,420	485,431	1,993,575
Cash and cash equivalents, ending	\$ 1,306,356	\$ 346,092	\$ 41,297	\$ 485,776	\$ 2,179,521
Classified as:					
Current assets	\$ 733,570	\$ -	\$ 41,297	\$ -	\$ 774,867
Restricted assets	-	-	-	485,776	485,776
Totals	\$ 733,570	\$ -	\$ 41,297	\$ 485,776	\$ 1,260,643
			Current Assets	Restricted Assets	Total
Cash and cash equivalents - October 1			\$ 1,508,144	\$ 485,431	\$ 1,993,575
Net increase (decrease)			(733,277)	345	(732,932)
Cash and cash equivalents - September 30			\$ 774,867	\$ 485,776	\$ 1,260,643

(Continued)

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

City of Ocean Springs, Mississippi
Statement of Cash Flow
Proprietary Funds
For the Fiscal Year Ended September 30, 2016
(Continued)

	Business-Type Activities-Enterprise Funds				
	Major Fund				Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Collection Fund	Non-Major Fund	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income	\$ 466,752	\$ 118,966	\$ (113,987)	\$ -	\$ 471,731
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	401,234	205,797	-	-	607,031
Changes in assets and liabilities:					
Accounts receivable	53,331	(121,526)	(70,342)	-	(138,537)
Accounts payable	24,014	(313,014)	(2,026)	-	(291,026)
Accrued payroll and comp absence	(16,198)	(9,418)	(5,761)	-	(31,377)
Accrued pension obligation	305,513	(66,346)	65,993	-	305,160
Customer deposits	-	-	-	345	345
Net cash provided by (used in) operating activities	<u>\$ 1,234,646</u>	<u>\$ (185,541)</u>	<u>\$ (126,123)</u>	<u>\$ 345</u>	<u>\$ 923,327</u>

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

City of Ocean Springs, Mississippi
Statement of Assets and Liabilities
Agency Funds
September 30, 2016

Assets	<u>Tax Sale & Redemption</u>	<u>Payroll Clearing</u>	<u>Flexible Medical Spending</u>	<u>Total</u>
Cash	\$ 5,727	\$ 354,261	\$ 9,199	\$ 369,187
Total assets	<u>5,727</u>	<u>354,261</u>	<u>9,199</u>	<u>369,187</u>
 Liabilities				
Accounts payable	<u>5,727</u>	<u>354,261</u>	<u>9,199</u>	<u>369,187</u>
Total liabilities	<u>\$ 5,727</u>	<u>\$ 354,261</u>	<u>\$ 9,199</u>	<u>\$ 369,187</u>

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

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

I. Summary of Significant Accounting Policies

The accompanying financial statements of the City of Ocean Springs, Mississippi (the City) have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the City:

(A) Reporting Entity

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

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

(B) Component Unit Disclosure

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

(C) Related Organizations

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

(D) Joint Ventures and Jointly Governed Organizations

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

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

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

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

(E) Basic Financial Statements- GASB Statement 34

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

The proprietary funds distinguish operating revenues and expenses from 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 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

JUL 24 2017

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.

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

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

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

CIAP Harbor Improvements Fund is used to account for a federal grant received to improve the Ocean Springs Harbor.

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

Special Revenue Funds

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

Capital Projects Funds

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

Proprietary Funds

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

Enterprise Funds

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

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

Non-Current Governmental Assets / Liabilities

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

(H) Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents

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

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

Accounts Receivable

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

Inventories

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

Capital Assets

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

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

Compensated Absences

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

Post-Employment Health Care Benefits

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

Interfund Transactions

Disbursements made by one fund which are properly chargeable to another fund result in the creation of interfund receivables and payables. This type of transaction is normally settled by a cash payment between the funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government financial statements as "internal balances". All other interfund transactions are accounted for as either an operating transfer or a capital transfer. For example, 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. 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

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

uncertain; thus, an allocable portion of fund balance would be reserved in governmental funds.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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.

Bond Discounts, Bond Premiums, and Issuance Costs

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

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

Restrictions of Fund Equity

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

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

II. Stewardship, Compliance and Accountability:

Budgetary Data

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

1. Prior to October 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Not later than September 15, the budget is legally enacted through passage of a resolution.

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

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

	General Fund	Beverage Tax Fund
Excess (deficiency) of revenues over		
expenditures, budgetary basis	\$ (1,324,210)	\$ 97,629
Adjustments		
To convert receivables	(312,205)	(6,558)
To convert liabilities	118,166	(21,626)
Totals, GAAP basis	<u>\$ (1,518,249)</u>	<u>\$ 69,445</u>

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

III. Detail Notes - All Funds

A. Property Tax Revenues

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

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

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

	2016-2017	2015-2016	2014-2015
	<u>Millage</u>	<u>Millage</u>	<u>Millage</u>
City Funds			
General	19.05	19.05	19.05
Library maintenance	1.01	1.01	1.01
Debt service	<u>2.77</u>	<u>2.77</u>	<u>1.77</u>
Total City administered funds	<u>22.83</u>	<u>22.83</u>	<u>21.83</u>
School Funds			
District maintenance	54.32	55.75	55.00
School debt	<u>12.64</u>	<u>13.90</u>	<u>14.61</u>
Total School administered funds	<u>66.96</u>	<u>69.65</u>	<u>69.61</u>
Total levy	<u>89.79</u>	<u>92.48</u>	<u>91.44</u>

B. Deposits and Investments

Deposits

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

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

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

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*".

The City awarded Hancock Bank the designated depository for calendar year 2015-2016, who then allocates resulting balances of cash to other City approved depositories as follows:

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

Custodial Credit Risk. Deposits. Custodial credit risk is the risk that in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions' trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. By signed agreement, the Mississippi State Treasurer's office is acting on behalf of the City. Deposits at September 30, 2016 (including restricted deposits) are as follows:

	<u>Bank Balances</u>	<u>Carrying Value</u>
Pooled deposits:		
Cash and cash equivalents	\$ 3,242,640	\$ 3,089,514
Non-pooled deposits:		
Cash and cash equivalents	461,999	369,187
Total	<u>\$ 3,704,639</u>	<u>\$ 3,458,701</u>

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

Government activities:	
Unrestricted cash	\$ 1,828,871
Business-type activities:	
Unrestricted cash	774,867
Restricted (Utility deposits)	<u>485,776</u>
Total	<u>3,089,514</u>
Agency fund cash (not included in government-wide statements)	<u>369,187</u>
Total	<u>\$ 3,458,701</u>

Investments

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

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

C. Receivables

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

Taxes receivable:	
Franchise taxes	\$ 245,391
Sales, restaurant, and hotel taxes	616,743
Ad valorem taxes	<u>186,931</u>
Total taxes receivable	\$ <u><u>1,049,065</u></u>
Customer accounts receivable:	
Garbage fees	\$ 112,680
Water and sewer utility charges (billed)	725,867
Less allowance for doubtful accounts	(190,482)
Customer accounts receivable earned but not billed	<u>101,934</u>
Total customer accounts receivable, net	\$ <u><u>749,999</u></u>
Grants receivable:	
Federal, state, and local grants	\$ <u><u>648,938</u></u>

D. Prepaid Insurance

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

Governmental Funds (Building & Liability)	\$ <u><u>220,128</u></u>
---	--------------------------

E. Interfund Transactions

Almost all funds are pooled into one bank account, therefore limiting the need for interfund loans, except for grant funds that have been expended but not yet reimbursed by year end. Interfund loans are reported on the government wide statements as internal balances. The following is a recap of interfund loans as of September 30, 2016:

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ 269,996
	General Fund	13,810
Other Governmental Funds	General Fund	2,396
Water Fund	General Fund	8,596
Sewer Fund	General Fund	2,818
Water Fund	Sewer Fund	<u>259,048</u>
Total		\$ <u><u>556,664</u></u>

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

E. Interfund Transactions (Continued)

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

Transfers Out	Transfers In	Amount
Water Fund	General Fund	\$ 200,000
	Sewer Fund	300,000
Sewer Fund	General Fund	200,000
Total		<u>\$ 700,000</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.

F. Capital Assets

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

	Balance 10/1/2015	Additions	Deletions/ Adjustments	Balance 9/30/2016
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 3,648,304	\$ -	\$ -	\$ 3,648,304
Donated artwork	5,717,143	-	-	5,717,143
Construction in progress	1,630,715	2,324,084	(170,399)	3,784,400
Total capital assets, not being depreciated	<u>10,996,162</u>	<u>2,324,084</u>	<u>(170,399)</u>	<u>13,149,847</u>
Capital assets being depreciated:				
Buildings and improvements	13,877,944	-	-	13,877,944
Machinery and equipment	1,021,781	18,681	(118,045)	922,417
Other improvements	15,211,917	88,670	-	15,300,587
Infrastructure	15,732,724	238,083	-	15,970,807
Vehicles	4,595,304	405,109	(337,931)	4,662,482
Total capital assets, being depreciated	<u>50,439,670</u>	<u>750,543</u>	<u>(455,976)</u>	<u>50,734,237</u>
Less: Accumulated depreciation				
Buildings	(2,920,984)	(206,977)	-	(3,127,961)
Machinery and equipment	(712,378)	(50,400)	40,366	(722,412)
Other improvements	(1,465,958)	(383,554)	-	(1,849,512)
Infrastructure	(6,588,321)	(526,892)	-	(7,115,213)
Vehicles	(3,510,125)	(176,220)	304,123	(3,382,222)
Total accumulated depreciation	<u>(15,197,766)</u>	<u>(1,344,043)</u>	<u>344,489</u>	<u>(16,197,320)</u>
Total capital assets being depreciated, net	<u>35,241,904</u>	<u>(593,500)</u>	<u>(111,487)</u>	<u>34,536,917</u>
Governmental activities capital assets, net	<u>\$ 46,238,066</u>	<u>\$ 1,730,584</u>	<u>\$ (281,886)</u>	<u>\$ 47,686,764</u>

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

	Balance 10/1/2015	Additions	Deletions/ Adjustments	Balance 9/30/2016
Business - type activities:				
Capital assets, not being depreciated				
Land	\$ 29,413	\$ -	\$ -	\$ 29,413
Construction in progress	534,343	375,043	(909,386)	-
Total capital assets, not being depreciated	563,756	375,043	(909,386)	29,413
Capital assets being depreciated:				
Buildings	35,390	-	-	35,390
Machinery and equipment	739,513	50,748	-	790,261
Infrastructure	39,367,509	1,155,662	-	40,523,171
Vehicles	826,984	-	-	826,984
Total capital assets, being depreciated	40,969,396	1,206,410	-	42,175,806
Less: Accumulated depreciation				
Buildings	(32,199)	-	-	(32,199)
Machinery and equipment	(456,745)	(65,067)	-	(521,812)
Infrastructure	(18,995,106)	(529,642)	-	(19,524,748)
Vehicles	(725,447)	(12,322)	-	(737,769)
Total accumulated depreciation	(20,209,497)	(607,031)	-	(20,816,528)
Total capital assets being depreciated, net	20,759,899	599,379	-	21,359,278
Business activities capital assets, net	\$ 21,323,655	\$ 974,422	\$ (909,386)	\$ 21,388,691
Primary Government				
Total capital assets, net	\$ 67,561,721	\$ 2,705,006	\$ (1,191,272)	\$ 69,075,455

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

Governmental activities:	
General government	\$ 12,338
Public safety	291,609
Public works	543,550
Community development	13,466
Culture and recreation	483,080
Total	<u>1,344,043</u>
Business-type activities:	
Water system	401,234
Sewer system	205,797
Total	<u>607,031</u>
Total All Depreciation	\$ <u>1,951,074</u>

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

G. Capital Leases

The City has entered into several capital leases to finance the purchase of equipment and vehicle. 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	\$ 125,247	\$ 71,687	\$ 196,934
2018	133,017	63,918	196,935
2019	141,275	55,659	196,934
2020	150,053	46,882	196,935
2021	120,272	37,552	157,824
2022-2025	487,052	65,339	552,391
	<u>\$ 1,156,916</u>	<u>\$ 341,037</u>	<u>\$ 1,497,953</u>

	Governmental Activities
Assets Acquired thru Capital Lease:	
Fire Trucks	\$ 842,829
Hwy 57 Sportsplex Lighting	1,489,000
Total Cost	<u>\$ 2,331,829</u>

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

	Governmental Activities
Year Ended September 30:	
2017	\$ 196,934
2018	196,935
2019	196,934
2020	196,935
2021	157,824
2022-2025	552,391
Total minimum lease payments	1,497,953
Less: amount representing interest	<u>(341,037)</u>
Present value of minimum lease payments	<u>\$ 1,156,916</u>

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

H. Long-Term Debt

The following is a summary of bond and other long-term debt transactions of the City for the year ended September 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds and Notes	\$ 13,601,904	\$ -	\$ 726,029	\$ 12,875,875	\$ 647,662
Capital leases	1,282,497	-	125,581	1,156,916	125,247
Compensated absences	620,977	12,741	82,513	551,205	-
Total governmental activities	<u>\$ 15,505,378</u>	<u>\$ 12,741</u>	<u>\$ 934,122</u>	<u>\$ 14,583,996</u>	<u>\$ 772,909</u>
Business-type activities:					
Water & Sewer, pollution control notes & bonds	\$ 5,372,517	\$ -	\$ 465,324	\$ 4,907,193	\$ 478,459
Compensated absences	85,963	11,383	6,992	90,354	-
Total business-type activities	<u>\$ 5,458,480</u>	<u>\$ 11,383</u>	<u>\$ 472,316</u>	<u>\$ 4,997,549</u>	<u>\$ 478,459</u>

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

Governmental Type Activities	Original Issue	Interest Rates	Amount Outstanding
General & Special Obligation Bonds and Notes:			
Mississippi Development Bank special obligation bonds, semi-annual payments through July 2034	\$ 10,710,000	5.13%	\$ 8,695,000
General Obligation bonds series 2009, semi annual payments through December 2029	4,600,000	various	3,630,000
Mississippi Development Bank promissory note, due monthly installments of \$2,773 through May 2023	500,000	3.00%	200,875
General Obligation Note-Bancorp South, annual payments of \$50,000 plus interest thru November 2018	250,000	2.11%	150,000
General Obligation Note-Community Bank, annual payments of \$50,000 plus interest thru February 2020	250,000	1.80%	200,000
Total General & Special Obligation Bonds and Notes			<u>12,875,875</u>

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

H. Long-Term Debt (Continued)

	Original Issue	Interest Rates	Amount Outstanding
Capital Leases:			
First Security Leasing, semi annual payments of \$78,913 maturing December 2024	\$ 1,489,000	6.50%	\$ 1,018,366
Oshkosh Capital, annual payments of \$39,109 maturing April 2020	306,954	5.04%	<u>138,550</u>
Total Capital Leases			1,156,916
Compensated absences			<u>551,205</u>
Total Governmental Type Debt			14,583,996
Less: Current Portion			<u>(772,909)</u>
Total Governmental Type Long-Term Debt			<u><u>\$ 13,811,087</u></u>

Business Type Activities

Water and Sewer Debt:			
State of MS Drinking Water Improv Notes, due in varying monthly installments, maturing Nov 2029	\$ 5,453,946	Various	\$ 3,435,288
MS Development Capital Loan, monthly payments of \$1,872, maturing Dec 2027	500,000	4.95%	225,938
Capital Improv Revolving Loan, monthly payments of \$1,515, maturing Sept 2021	273,115	3.00%	84,437
MS Development Capital Loan, monthly payments of \$2,773, maturing March 2021	500,000	3.00%	139,246
State Revolving Loan, monthly payments of \$8,077, maturing January 2018	1,100,100	4.50%	125,204
State of MS Pollution Control Loan, monthly payments of \$5,289 maturing Jan 2033	1,059,133	1.75%	<u>897,081</u>
Total Water and Sewer Debt			4,907,193
Compensated absences			<u>90,354</u>
Total Business Type Debt			4,997,549
Less: Current Portion			<u>(478,459)</u>
Total Business Type Long-Term Debt			<u><u>\$ 4,519,090</u></u>

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

H. Long-Term Debt (Continued)

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

Year Ending	Governmental Type Activities			Business Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 647,662	\$ 544,431	\$ 1,192,093	\$ 478,459	\$ 105,742	\$ 584,201
2018	668,504	524,647	1,193,151	427,523	92,892	520,415
2019	689,371	503,426	1,192,797	404,295	82,981	487,276
2020	665,264	480,602	1,145,866	414,002	73,276	487,278
2021	641,184	457,037	1,098,221	406,168	63,476	469,644
2022-2026	3,543,890	1,872,941	5,416,831	1,806,200	189,466	1,995,666
2027-2031	4,020,000	1,039,603	5,059,603	892,066	37,118	929,184
2032-2034	2,000,000	208,332	2,208,332	78,480	918	79,398
	<u>\$ 12,875,875</u>	<u>\$ 5,631,020</u>	<u>\$ 18,506,895</u>	<u>\$ 4,907,193</u>	<u>\$ 645,868</u>	<u>\$ 5,553,062</u>

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

Assessed valuations 2016 (inside the City):

Real property	\$ 138,141,342
Personal property	10,176,041
Public utility	11,179,004
Autos, estimated	<u>19,690,266</u>
Total assessed valuations	<u>\$ 179,186,653</u>
Fifteen percent (15%) of total assessed valuation	\$ 26,877,998
Less: outstanding general obligation debt at 9/30/15	<u>(3,630,000)</u>
Remaining	<u>\$ 23,247,998</u>

The Board of Aldermen annually adopts a resolution providing for the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City. The City's debt service millage rate for the year ended September 30, 2016 is at 2.77 mills or \$2.77 per \$1,000 of assessed value.

I. Fund Balance Disclosures

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

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

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

I. Fund Balance Disclosures (continued)

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

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

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

Unassigned – includes fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

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

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

J. Retirement Plans

PERS' Defined Benefit Pension Plan

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

Plan Description: The City of Ocean Springs contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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.

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

J. Retirement Plans (Continued)

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions: PERS members are required to contribute 9.00% of their annual covered salary, and the city is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2016, 2015, and 2014 were \$1,152,234, \$1,078,020, and \$1,115,367, 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 \$19,648,746 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 .11 percent, which was based on a measurement date of June 30, 2016. This remained the same from its proportionate share 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 \$2,588,502. At September 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

J. Retirement Plans (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Experience	\$ 489,615	\$ -
Net difference between projected and actual earnings on pension plan investments	2,298,841	-
Changes of assumptions	874,071	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,937,534
City contributions subsequent to the measurement date	297,671	-
Total	\$ <u>3,960,198</u>	\$ <u>1,937,534</u>

\$297,671 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2017	\$ 668,075
2018	490,345
2019	178,406
2020	388,167
	<u>\$ 1,724,993</u>

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	3.00 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

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

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.

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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability	\$ 22,903,726	\$ 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.

Deferred Compensation Plan

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

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

K. Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$15,086,658) includes the effect of deferring the recognition of expenses and revenue associated with the net pension liability and related account balances.

L. Related Party Commitments

Joint Venture

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

The governing board is comprised of one member from each of the cities and two members from each of the counties who are members of the Authority. Through a fifty-year contract, the City of Ocean Springs is obligated to pay monthly, its pro-rata share of all operating, administrative, and capital costs of the Authority. Additionally, the City is jointly and severally liable for all of the liabilities of the Authority. The Authority is classified as a joint venture between the City of Ocean Springs and the other members. A copy of the Authority's financial statements as of and for the year ended September 30, 2016 can be found online at <http://www.jcua-ms.us/all-forms-and-reports>. A complete copy is on file at the administrative offices of the Authority.

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

Sewer Enterprise Fund Group

Statement of revenues, expenses and changes in fund balance:

Contractual Services (wastewater treatment)	\$ <u>2,028,334</u>
---	---------------------

M. Jointly Governed Organizations

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

The City of Ocean Springs contributed \$165,864 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 Ocean Springs for the fiscal year ended September 30, 2016 was \$164,892, which includes \$135,000 of appropriations and \$29,892 of building insurance and repairs. This agreement is cancelable upon 90 days written notice prior to the end of the fiscal year; therefore, the City of Ocean Springs does not have an ongoing financial responsibility.

N. Other Commitments

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

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

	Contract Amount	Expended to Date	Remaining Contract
Ocean Springs Harbor	\$1,244,015	\$1,241,884	\$2,131
Government Street Signal	528,644	489,214	39,430
Street Scape Phase III	480,744	140,326	340,418
Hawk Pedestrian Gov't St.	1,122,592	48,421	1,074,171
CIAP Harbor Storm Water	1,100,000	833,283	266,717
CIAP Front Beach	872,786	872,786	-
Sewer Rehab Phase II	909,386	909,386	-

O. Prior Period Adjustments

The prior period adjustments reported on the Statement of Activities (page 18) and the Statement of Revenues and Expenses and Changes in Net Position (page 24) are the result of corrections as follows:

Governmental Activities:

Adjustment for reclassification and prior period disposal of assets	\$ 245,445
---	------------

Business Type Activities:

Adjustment for prior period receivables and deposits	123,331
--	---------

Total Prior Period Adjustments	\$ <u>368,776</u>
--------------------------------	-------------------

P. Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Ocean Springs evaluated the activity of the City through May 31, 2017 and determined there were no reportable subsequent events that require disclosure in the notes to the financial statements.

Required Supplemental Information

City of Ocean Springs, Mississippi
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budget Basis
General Fund

For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Original	Budget	Final Budget
	Original	Final	to Final	Basis	to Actual
			Variance	Actual	Variance
Revenues					
Ad valorem taxes	\$ 3,298,900	\$ 3,303,503	\$ 4,603	\$ 3,193,028	\$ (110,475)
Licenses and permits	267,000	285,500	18,500	296,873	11,373
Franchise fees	890,000	890,000	-	724,811	(165,189)
Intergovernmental	6,196,670	6,259,195	62,525	6,198,251	(60,944)
Federal & state grants	185,000	787,244	602,244	872,174	84,930
Charges for services	568,800	557,475	(11,325)	596,869	39,394
Fines and forfeitures	890,000	890,000	-	776,752	(113,248)
Other	145,000	145,000	-	142,338	(2,662)
Total revenues	12,441,370	13,117,917	676,547	12,801,096	(316,821)
Expenditures					
General Government					
Executive - Mayor					
Personnel services	167,698	164,583	(3,115)	164,531	52
Supplies	4,650	6,814	2,164	5,882	932
Other services and charges	204,300	262,405	58,105	253,183	9,222
Capital outlay	5,000	5,000	-	2,916	2,084
Total	381,648	438,802	57,154	426,512	12,290
Legislative -Board of Aldermen					
Personnel services	209,753	204,112	(5,641)	203,988	124
Supplies	-	-	-	-	-
Other services and charges	15,533	82,513	66,980	86,100	(3,587)
Capital outlay	35,000	38,892	3,892	21,502	17,390
Total	260,286	325,517	65,231	311,590	13,927
Finance					
Personnel services	398,448	409,206	10,758	408,902	304
Supplies	8,200	10,434	2,234	8,658	1,776
Other services and charges	208,500	217,797	9,297	202,643	15,154
Capital outlay	5,000	1,844	(3,156)	1,844	-
Total	620,148	639,281	19,133	622,047	17,234
Human Resources					
Personnel services	114,355	118,126	3,771	118,144	(18)
Supplies	1,000	1,000	-	924	76
Other services and charges	533,000	506,000	(27,000)	498,558	7,442
Capital outlay	-	-	-	-	-
Total	648,355	625,126	(23,229)	617,626	7,500
Total General Government	1,910,437	2,028,726	118,289	1,977,775	50,951

(Continued)

City of Ocean Springs, Mississippi
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budget Basis
General Fund

For the Fiscal Year Ended September 30, 2016

Expenditures (Continued)	Budgeted Amounts		Original to Final Variance	Budget Basis Actual	Final Budget to Actual Variance
	Original	Final			
Planning and Community Develop					
Personnel services	414,212	395,164	(19,048)	394,982	182
Supplies	27,500	26,600	(900)	17,834	8,766
Other services and charges	204,500	230,055	25,555	176,489	53,566
Capital outlay	7,000	835,637	828,637	997,155	(161,518)
Total	<u>653,212</u>	<u>1,487,456</u>	<u>834,244</u>	<u>1,586,460</u>	<u>(99,004)</u>
Public Safety					
Personnel services	5,514,459	5,581,510	67,051	5,584,160	(2,650)
Supplies	350,200	309,800	(40,400)	279,077	30,723
Other services and charges	385,210	408,960	23,750	381,449	27,511
Capital outlay	140,000	185,409	45,409	139,556	45,853
Total	<u>6,389,869</u>	<u>6,485,679</u>	<u>95,810</u>	<u>6,384,242</u>	<u>101,437</u>
Public Works					
Personnel services	1,156,894	1,166,558	9,664	1,163,918	2,640
Supplies	292,650	283,531	(9,119)	246,262	37,269
Other services and charges	766,450	713,846	(52,604)	664,240	49,606
Capital outlay	280,000	387,826	107,826	310,894	76,932
Total	<u>2,495,994</u>	<u>2,551,761</u>	<u>55,767</u>	<u>2,385,314</u>	<u>166,447</u>
Culture and Recreation					
Personnel services	1,011,071	1,007,211	(3,860)	1,005,919	1,292
Supplies	231,500	208,564	(22,936)	190,108	18,456
Other services and charges	483,300	524,323	41,023	503,356	20,967
Capital outlay	75,136	101,821	26,685	92,132	9,689
Total	<u>1,801,007</u>	<u>1,841,919</u>	<u>40,912</u>	<u>1,791,515</u>	<u>50,404</u>
Total expenditures	<u>13,250,519</u>	<u>14,395,541</u>	<u>1,145,022</u>	<u>14,125,306</u>	<u>270,235</u>
Excess (deficiency) of revenues over expenditures	<u>(809,149)</u>	<u>(1,277,624)</u>	<u>(468,475)</u>	<u>(1,324,210)</u>	<u>(46,586)</u>
Other financing sources (uses):					
Interest earned	5,000	5,000	-	5,692	692
Loan proceeds	-	-	-	-	-
BP settlement	-	-	-	-	-
Insurance proceeds	20,000	24,755	4,755	24,755	-
Sale of assets	5,000	5,000	-	4,185	(815)
Transfers in	400,000	400,000	-	400,000	-
Transfers (out)	(90,000)	-	90,000	-	-
Total other financing sources (uses)	<u>340,000</u>	<u>434,755</u>	<u>94,755</u>	<u>434,632</u>	<u>(123)</u>
Net change in fund balances	<u>(469,149)</u>	<u>(842,869)</u>	<u>(373,720)</u>	<u>(889,578)</u>	<u>(46,709)</u>
Fund balances, beginning of year	<u>352,872</u>	<u>1,176,970</u>		<u>2,172,276</u>	
Fund balances, end of year	<u>\$ (116,277)</u>	<u>\$ 334,101</u>		<u>\$ 1,282,698</u>	

(See Note II)

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

City of Ocean Springs, Mississippi
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budget Basis
Food and Beverage Tax Fund
For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Original to Final Variance	Budget Basis Actual	Final Budget to Actual Variance
	Original	Final			
Revenues					
Intergovernmental	\$ 1,190,000	\$ 1,220,000	\$ 30,000	\$ 1,249,797	\$ 29,797
Total revenues	1,190,000	1,220,000	30,000	1,249,797	29,797
Expenditures					
Public Safety					
Capital outlay	-	20,950	20,950	20,882	68
Economic Development					
Other services and charges	71,000	71,000	-	71,328	(328)
Culture and Recreation					
Capital outlay	300,000	332,000	32,000	162,915	169,085
Debt Service					
Principal	407,351	404,602	(2,749)	404,601	1
Interest	487,246	492,442	5,196	492,442	-
Total	1,265,597	1,320,994	55,397	1,152,168	168,826
Total expenditures	1,265,597	1,320,994	55,397	1,152,168	168,826
Excess (deficiency) of revenues over expenditures	(75,597)	(100,994)	(25,397)	97,629	(139,029)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	(75,597)	(100,994)	(25,397)	97,629	(139,029)
Fund balances, beginning of year	163,827	289,843		289,843	
Fund balances, end of year	\$ 88,230	\$ 188,849		\$ 387,472	

(See Note II)

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

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

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.11%	0.11%
City's proportionate share of the net pension liability (asset)	\$ 19,648,746	\$ 17,003,831
City's covered-employee payroll	\$ 6,984,165	\$ 6,862,749
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	281.33%	247.77%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%

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

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

RECEIVED

JUL 24 2017

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

	<u>2016</u>	<u>2015</u>
Actuarially calculated required contribution	\$ 1,100,006	\$ 1,080,883
Actual contributions in relation to the contractually required contribution	1,100,006	1,080,883
Contribution deficiency (excess)	<u>-</u>	<u>\$ -</u>
City's covered-employee payroll	6,984,165	6,862,749
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

* The amounts presented for each fiscal year were determined as of the 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 Ocean Springs, Mississippi
Required Supplementary Information
For the Fiscal 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 budget basis, variances between the original budget and the final budget, and variances between the final budget and the actual budget basis 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 7.75% respectively.

11-24-2017

Supplemental Information

City of Ocean Springs, Mississippi
Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2016

Assets	Special Revenue Funds						Total
	Tourism	Library	Special Paid Fines and Forfeitures	Task Force	EMG Disaster Issac	Fire Protection	
Cash	\$ -	\$ 60,474	\$ 22,718	\$ 18,299	\$ -	\$ 59,737	\$ 161,228
Receivables:							
Taxes	4,109	6,392	-	-	-	-	10,501
Grants	-	-	-	-	95,427	-	95,427
Due from other funds	2,396	-	-	-	-	-	2,396
Total assets	6,505	66,866	22,718	18,299	95,427	59,737	269,552
Liabilities & Fund Balance							
Liabilities							
Accounts payable	-	1,169	-	-	-	1,500	2,669
Retainage payable	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	57,877	-	57,877
Total liabilities	-	1,169	-	-	57,877	1,500	60,546
Fund balance							
Restricted for:							
Economic development	6,505	-	-	-	-	-	6,505
Library support	-	65,697	-	-	-	-	65,697
Public safety	-	-	22,718	18,299	-	58,237	99,254
Capital projects	-	-	-	-	37,550	-	37,550
Total fund balances	6,505	65,697	22,718	18,299	37,550	58,237	209,006
Total liabilities and fund balance	\$ 6,505	\$ 66,866	\$ 22,718	\$ 18,299	\$ 95,427	\$ 59,737	\$ 269,552

City of Ocean Springs, Mississippi
Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2016

Assets	Capital Projects Funds				Total	Non-Major Total All
	CDBG Mary O'Keefe	CDBG Front Beach	STP Government Street - Phase II	Downtown Revitalization Construction		
Cash	\$ 10,000	\$ -	\$ 8,230	\$ -	\$ 18,230	\$ 179,458
Receivables:						
Taxes	-	-	-	-	-	10,501
Grants	-	107,610	-	8,872	116,482	211,909
Due from other funds	-	-	-	-	-	2,396
Total assets	<u>10,000</u>	<u>107,610</u>	<u>8,230</u>	<u>8,872</u>	<u>134,712</u>	<u>404,264</u>
Liabilities & Fund Balance						
Liabilities						
Accounts payable	-	-	-	-	-	2,669
Retainage payable	-	-	-	-	-	-
Due to other funds	-	102,277	-	8,872	111,149	169,026
Total liabilities	<u>-</u>	<u>102,277</u>	<u>-</u>	<u>8,872</u>	<u>111,149</u>	<u>171,695</u>
Fund balance						
Restricted for:						
Economic development	-	-	-	-	-	6,505
Library support	-	-	-	-	-	65,697
Public safety	-	-	-	-	-	99,254
Capital projects	10,000	5,333	8,230	-	23,563	61,113
Total fund balances	<u>10,000</u>	<u>5,333</u>	<u>8,230</u>	<u>-</u>	<u>23,563</u>	<u>232,569</u>
Total liabilities and fund balance	<u>\$ 10,000</u>	<u>\$ 107,610</u>	<u>\$ 8,230</u>	<u>\$ 8,872</u>	<u>\$ 134,712</u>	<u>\$ 404,264</u>

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

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

	Special Revenue Funds						
	Tourism	Library	Special Paid Fines and Forfeitures	Task Force	EMG Disaster Issac	Fire Protection	Total
Revenues							
Ad valorem taxes	\$ -	\$ 173,783	\$ -	\$ -	\$ -	\$ -	\$ 173,783
Fines and forfeitures	-	-	-	-	-	-	-
Intergovernmental	38,515	-	-	-	-	111,865	150,380
Grants	-	-	1,710	81,867	37,550	-	121,127
Total revenues	38,515	173,783	1,710	81,867	37,550	111,865	445,290
Expenditures							
Current:							
Public safety	-	-	34,674	-	-	24,069	58,743
Public works	-	-	-	-	-	-	-
Economic development	38,468	-	-	-	-	-	38,468
Culture and recreation	-	165,864	-	-	-	-	165,864
Capital outlay:							
Public safety	-	-	180,107	63,568	-	-	243,675
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	38,230	38,230
Interest	-	-	-	-	-	8,587	8,587
Total expenditures	38,468	165,864	214,781	63,568	-	70,886	553,567
Excess of revenues over (under) expenditures	47	7,919	(213,071)	18,299	37,550	40,979	(108,277)
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	47	7,919	(213,071)	18,299	37,550	40,979	(108,277)
Fund balance, beginning	6,458	57,778	235,789	-	-	17,258	317,283
Fund balance, end of year	\$ 6,505	\$ 65,697	\$ 22,718	\$ 18,299	\$ 37,550	\$ 58,237	\$ 209,006

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

	Capital Projects Funds					Non-Major Total All
	CDBG Mary O'Keefe	STP Government Street - Phase II	CDBG Front Beach	Downtown Revitalization Construction	Total	
Revenues						
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 173,783
Fines and forfeitures	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	150,380
Grants	-	-	-	-	-	121,127
Total revenues	-	-	-	-	-	445,290
Expenditures						
Current:						
Public safety	-	-	-	-	-	58,743
Public works	-	-	-	-	-	-
Economic development	-	-	-	-	-	38,468
Culture and recreation	-	-	-	-	-	165,864
Capital outlay:						
Public safety	-	-	-	-	-	243,675
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	38,230
Interest	-	-	-	-	-	8,587
Total expenditures	-	-	-	-	-	553,567
Excess of revenues over (under) expenditures	-	-	-	-	-	(108,277)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	-	-	-	(108,277)
Fund balance, beginning	10,000	8,230	5,333	-	23,563	340,846
Fund balance, end of year	\$ 10,000	\$ 8,230	\$ 5,333	\$ -	\$ 23,563	\$ 232,569

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

24 2017

City of Ocean Springs, Mississippi
Schedule of Long-Term Debt
September 30, 2016

	Date Issued	Original Issue	Balance October 1, 2015	New Issues	Retirements	Balance September 30, 2016	Requirements Year Ended September 30, 2017	
							Principal	Interest
General Obligation Bonds and Notes								
General Obligation Note, Series 2011	04/20/11	\$ 200,000	\$ 42,023	\$ -	\$ 42,023	\$ -	\$ -	\$ -
General Obligation Note, Series 2010	12/21/10	250,000	52,389	-	52,389	-	-	-
MS Dev. Bank Spec. Obligation Bonds, Series 2009	05/06/09	10,710,000	9,015,000	-	320,000	8,695,000	330,000	404,296
MS Develop Authority-386 Mary C. O'Keefe Cente	06/01/03	500,000	227,492	-	26,617	200,875	27,662	5,613
General Obligation Bonds, Series 2009-Peoples Bank	12/01/09	4,600,000	3,815,000	-	185,000	3,630,000	190,000	128,500
General Obligation Note-Bancorp South	11/01/13	250,000	200,000	-	50,000	150,000	50,000	2,642
General Obligation Note-Coast Community Bank	02/18/15	250,000	250,000	-	50,000	200,000	50,000	3,381
Total General Obligation Bonds and Notes			13,601,904	-	726,029	12,875,875	647,662	544,431
Capital Leases								
Oshkosh Capital - Fire Truck	05/03/10	306,954	169,135	-	30,585	138,550	32,126	6,983
Hancock Bank - Fire Truck	12/06/05	535,875	7,645	-	7,645	-	-	-
First Security Leasing - Musco Lighting	10/02/10	1,489,000	1,105,717	-	87,351	1,018,366	93,121	64,704
Total Capital Leases			1,282,497	-	125,581	1,156,916	125,247	71,687
Total General Long-Term Debt			14,884,401	-	851,610	14,032,791	772,909	616,118
Proprietary Funds Debt								
Civic Center - Halstead Water Tanks - MS Develop	10/01/01	273,115	99,746	-	15,309	84,437	15,825	2,351
MS Develop Cap Loan 9-282-CP-01	04/01/01	500,000	167,736	-	28,490	139,246	29,571	3,704
State Revolving Loan - Sewer SRF-C280752-01-2	06/14/98	1,100,100	214,307	-	89,103	125,204	92,848	4,076
Drinking Water Improve DWI-H280035-01-3	06/15/01	634,072	282,878	-	34,575	248,303	35,626	6,962
Drinking Water Improve DWI-H280035-02-3	08/10/02	1,054,818	654,161	-	51,985	602,176	53,835	20,218
Drinking Water Improve DWI-H280035-03-0	11/10/06	1,943,294	1,472,549	-	91,143	1,381,406	92,936	26,110
Drinking Water Improve DWI-H280035-04-2	11/18/08	1,029,345	717,009	-	49,297	667,712	50,267	12,573
Drinking Water Improve DWI-H280035-05-2	09/03/08	835,711	576,190	-	40,499	535,691	41,296	10,078
MS Develop Cap Loan 4-282-CP-01	12/20/04	328,752	243,543	-	17,605	225,938	18,103	4,356
MS Dept Environmental-SRF-C280752-02-2	09/01/10	1,059,133	944,398	-	47,317	897,081	48,152	15,314
Total Proprietary Funds Debt			5,372,517	-	465,324	4,907,193	478,459	105,742
Total All			\$ 20,256,918	\$ -	\$ 1,316,933	\$ 18,939,984	\$ 1,251,368	\$ 721,860

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

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

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Connie M. Moran	Mayor	McGuire Ins.	\$ 100,000
Robert Cox	Alderman-at-Large	McGuire Ins.	100,000
John Gill	Alderman	McGuire Ins.	100,000
Matt McDonnell	Alderman	McGuire Ins.	100,000
Frederick Cody, Jr.	Alderman	McGuire Ins.	100,000
Greg Denyer	Alderman	McGuire Ins.	100,000
Jerry Dalgo	Alderman	McGuire Ins.	100,000
Michael Impey	Alderman	McGuire Ins.	100,000
Shelly Ferguson	City Clerk	Scott Ins.	100,000
Janice Hilton	Deputy Clerk	Scott Ins.	50,000
Patty Gaston	Payroll Clerk	Scott Ins.	50,000
Ryheen Brown	Purchasing Agent	Scott Ins.	50,000
Jennifer Simmons	Accountant	Beacon Ins.	50,000
Mark Dunston	Chief of Police	Scott Ins.	50,000
Hailey Sheline	Court Clerk	Scott Ins.	50,000
Ashlee Miller	Building Office Admin.	Scott Ins.	50,000
Geri Straight	Parks and Leisure Director	Lemon Mohler	50,000

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

	Fiscal Year								
	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities									
Invested in capital assets, net of related debt	\$ 33,653,972	\$ 31,353,665	\$ 31,382,569	\$ 31,215,299	\$ 30,591,229	\$ 27,334,794	\$ 28,047,509	\$ 22,838,073	\$ 24,286,294
Restricted	1,432,507	1,540,872	1,473,011	1,591,039	2,472,307	2,406,098	7,726,863	10,182,864	906,837
Unrestricted	(13,730,062)	(10,713,616)	908,202	(1,634,152)	(1,671,143)	879,835	1,953,557	1,249,784	6,712,466
Total governmental activities net assets	<u>\$ 21,356,417</u>	<u>\$ 22,180,921</u>	<u>\$ 33,763,782</u>	<u>\$ 31,172,186</u>	<u>\$ 31,392,393</u>	<u>\$ 30,620,727</u>	<u>\$ 37,727,929</u>	<u>\$ 34,270,721</u>	<u>\$ 31,905,597</u>
Business-type activities									
Invested in capital assets, net of related debt	\$ 16,481,498	\$ 15,951,146	\$ 15,422,319	\$ 15,220,344	\$ 15,054,115	\$ 12,215,993	\$ 11,949,059	\$ 9,734,419	\$ 6,817,627
Restricted	-	-	-	-	-	115,732	115,457	-	-
Unrestricted	(1,356,596)	(653,765)	1,310,342	1,600,981	1,565,779	1,830,329	1,858,947	2,369,216	3,247,157
Total business-type activities net assets	<u>\$ 15,124,902</u>	<u>\$ 15,297,381</u>	<u>\$ 16,732,661</u>	<u>\$ 16,821,325</u>	<u>\$ 16,619,894</u>	<u>\$ 14,162,054</u>	<u>\$ 13,923,463</u>	<u>\$ 12,103,635</u>	<u>\$ 10,064,784</u>
Primary government									
Invested in capital assets, net of related debt	\$ 50,135,470	\$ 47,304,811	\$ 46,804,888	\$ 46,435,643	\$ 45,645,344	\$ 39,550,787	\$ 39,996,568	\$ 32,572,492	\$ 31,103,921
Restricted	1,432,507	1,540,872	1,473,011	1,591,039	2,472,307	2,521,830	7,842,320	10,182,864	906,837
Unrestricted	(15,086,658)	(11,367,381)	2,218,544	(33,171)	(105,364)	2,710,164	3,812,504	3,619,000	9,959,623
Total primary government net assets	<u>\$ 36,481,319</u>	<u>\$ 37,478,302</u>	<u>\$ 50,496,443</u>	<u>\$ 47,993,511</u>	<u>\$ 48,012,287</u>	<u>\$ 44,782,781</u>	<u>\$ 51,651,392</u>	<u>\$ 46,374,356</u>	<u>\$ 41,970,381</u>

See Independent Auditors' Report.

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

	Fiscal Year								
	2016	2015	2014	2013	2012	2011	2010	2009	2008
Expenses									
Governmental activities:									
General government	\$ 2,190,719	\$ 1,985,235	\$ 2,042,967	\$ 2,003,419	\$ 2,049,162	\$ 1,508,639	\$ 3,548,837	\$ 3,876,915	\$ 3,908,281
Public safety	7,767,114	7,337,130	6,436,312	5,960,704	6,569,544	6,101,302	8,165,947	7,842,149	6,574,017
Public works	2,879,592	2,401,806	2,984,549	3,408,672	3,483,247	3,185,301	4,528,670	3,017,789	4,498,365
Health and welfare	101,809	369,378	226,549	235,011	589,719	1,167,991	1,071,237	-	-
Economic development	803,801	864,805	471,703	601,739	1,045,054	1,010,119	1,339,111	1,348,123	1,385,885
Culture and recreation	2,425,268	2,454,485	2,325,676	2,213,640	1,183,697	855,548	786,804	2,185,328	2,055,649
Interest on long-term debt	672,423	697,389	695,554	800,754	765,498	958,981	836,516	410,199	128,508
Total governmental activities expense	16,840,726	16,110,228	15,183,310	15,223,939	15,685,921	14,787,881	20,277,122	18,680,503	18,550,705
Business-type activities									
Water	2,031,144	1,633,638	1,561,283	1,822,438	1,552,498	1,533,991	1,417,619	1,516,152	1,662,809
Sewer	3,152,168	2,816,964	2,744,509	2,487,903	2,428,229	2,344,619	2,381,526	2,656,454	2,809,056
Garbage	1,338,159	1,289,115	1,120,016	1,109,150	1,360,666	1,345,174	1,355,022	1,380,072	-
Total business-type activities expense	6,521,471	5,739,717	5,425,808	5,419,491	5,341,393	5,223,784	5,154,167	5,552,678	4,471,865
Total primary government expenses	\$ 23,362,197	\$ 21,849,945	\$ 20,609,118	\$ 20,643,430	\$ 21,027,314	\$ 20,011,665	\$ 25,431,289	\$ 24,233,181	\$ 23,022,570
Program Revenue									
Governmental activities:									
Charges for services:									
General government	\$ 71,431	\$ 56,431	\$ 76,969	\$ 476,349	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Public safety	776,751	889,961	880,585	770,608	892,431	691,662	720,148	905,061	700,041
Economic development	296,874	281,721	-	-	-	-	-	-	-
Culture and recreation	545,298	474,237	513,294	504,879	477,215	418,209	462,246	424,052	1,549,523
Operating grants and contributions	248,107	634,624	477,929	359,196	619,199	561,808	3,184,488	2,175,376	1,893,903
Capital grants and contributions	1,581,326	983,403	400,069	776,208	2,616,957	3,691,403	5,881,692	4,005,423	138,017
Total governmental activities revenues	3,519,787	3,320,377	2,348,846	2,887,240	4,625,802	5,383,082	10,268,574	7,529,912	4,301,484
Business-type activities:									
Charges for services:									
Water	2,425,109	2,256,803	2,144,576	2,181,566	2,065,583	2,193,325	2,039,150	2,128,887	1,966,474
Sewer	3,225,042	2,926,054	2,873,575	2,728,627	2,714,609	2,756,391	2,538,901	2,486,083	2,570,194
Garbage	1,224,172	1,201,122	1,093,266	1,097,612	1,353,846	1,359,412	1,360,004	1,222,282	-
Capital grants and contributions	-	248,928	75,319	225,191	2,264,285	282,515	1,797,513	2,058,208	391,526
Total business-type activities revenues	6,874,323	6,632,907	6,186,736	6,232,996	8,398,323	6,591,643	7,735,568	7,895,460	4,928,194
Total primary government revenues	\$ 10,394,110	\$ 9,953,284	\$ 8,535,582	\$ 9,120,236	\$ 13,024,125	\$ 11,974,725	\$ 18,004,142	\$ 15,425,372	\$ 9,229,678

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

	Fiscal Year								
	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net (Expense)/Revenue									
Governmental activities	\$ (13,320,939)	\$ (12,789,851)	\$ (12,834,464)	\$ (12,336,699)	\$ (11,060,119)	\$ (9,404,799)	\$ (10,008,548)	\$ (11,150,591)	\$ (14,249,221)
Business-type activities	352,852	893,190	760,928	813,505	3,056,930	1,367,859	2,581,401	2,342,782	456,329
Total primary government net expense	\$ (12,968,087)	\$ (11,896,661)	\$ (12,073,536)	\$ (11,523,194)	\$ (8,003,189)	\$ (8,036,940)	\$ (7,427,147)	\$ (8,807,809)	\$ (13,792,892)
General revenues and other changes in net position									
Governmental activities:									
Taxes:									
Property taxes	\$ 3,873,998	\$ 3,754,437	\$ 3,875,168	\$ 3,848,295	\$ 3,762,291	\$ 3,863,354	\$ 3,996,731	\$ 4,156,976	\$ 3,751,701
Sales, restaurant, and hotel taxes	6,195,830	6,179,410	5,413,560	5,551,490	5,479,966	5,400,907	5,393,867	5,449,842	5,358,395
Franchise taxes	731,292	884,084	869,502	810,308	797,594	848,966	882,162	835,514	850,232
Licenses and permits	-	-	266,946	251,193	173,232	252,962	159,163	236,765	194,522
Intergovernmental	1,379,518	1,414,281	1,373,897	1,374,500	1,019,172	1,435,420	1,159,807	2,138,779	1,235,178
BP settlement	-	615,089	-	-	-	-	-	-	-
Community disaster loan forgiveness	-	-	3,007,123	-	-	328,431	-	-	-
Unallowable FEMA closeout costs	-	-	-	(515,666)	-	-	-	-	-
Investment earnings and misc	161,242	190,973	207,193	184,298	134,787	424,204	394,313	329,268	375,248
Transfers	400,000	500,000	600,000	612,074	600,000	300,000	800,000	368,571	450,000
Total governmental activities	12,741,880	13,538,274	15,613,389	12,116,492	11,967,042	12,854,244	12,786,043	13,515,715	12,215,276
Business-type activities									
Investment earnings and misc	-	-	(2,066)	-	910	5,773	38,427	64,640	49,229
Transfers	(400,000)	(500,000)	(600,000)	(612,074)	(600,000)	(300,000)	(800,000)	(368,571)	(450,000)
Total business-type activities	(400,000)	(500,000)	(602,066)	(612,074)	(599,090)	(294,227)	(761,573)	(303,931)	(400,771)
Total primary government	\$ 12,341,880	\$ 13,038,274	\$ 15,011,323	\$ 11,504,418	\$ 11,367,952	\$ 12,560,017	\$ 12,024,470	\$ 13,211,784	\$ 11,814,505
Change in net position									
Governmental activities	\$ (579,059)	\$ 748,423	\$ 2,778,925	\$ (220,207)	\$ 906,923	\$ 3,449,445	\$ 2,777,495	\$ 2,365,124	\$ (2,033,945)
Business-type activities	(47,148)	393,190	158,862	201,431	2,457,840	1,073,632	1,819,828	2,038,851	55,558
Total primary government	\$ (626,207)	\$ 1,141,613	\$ 2,937,787	\$ (18,776)	\$ 3,364,763	\$ 4,523,077	\$ 4,597,323	\$ 4,403,975	\$ (1,978,387)

See Independent Auditors' Report.

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

	Fiscal Year								
	2016	2015	2014	2013	2012	2011	2010	2009	2008
General fund									
Nonspendable for prepaids	\$ 220,128	\$ 206,381	\$ 232,638	\$ 316,332	\$ 258,476	\$ 187,734	\$ 187,734	\$ 187,734	\$ 187,734
Assigned for:									
Subsequent year appropriations	-	-	-	-	-	669,647	724,090	1,292,860	-
Unassigned	1,710,449	2,813,505	1,261,087	1,441,139	1,364,977	822,898	2,494,834	1,864,373	5,313,814
Total general fund	1,930,577	3,019,886	1,493,725	1,757,471	1,623,453	1,680,279	3,406,658	3,344,967	5,501,548
Other governmental funds									
Restricted for:									
Library support	65,697	57,778	64,054	64,116	70,632	80,206	83,402	45,892	29,827
Debt service	972,736	918,884	1,115,549	1,216,507	1,350,049	1,682,368	1,934,171	702,139	644,165
Economic development	384,165	469,293	210,189	139,239	71,742	2,490,656	2,538,467	9,461,187	492,989
Capital projects	83,716	23,563	68,923	92,755	758,789	723,730	5,794,692	1,629,869	1,973,596
Public safety	99,253	253,047	14,296	78,422	221,095	256,524	190,537	259,669	156,183
Total all other governmental funds	1,605,567	1,722,565	1,473,011	1,591,039	2,472,307	5,233,484	10,541,269	12,098,756	3,296,760
Total governmental funds	\$ 3,536,144	\$ 4,742,451	\$ 2,966,736	\$ 3,348,510	\$ 4,095,760	\$ 6,913,763	\$ 13,947,927	\$ 15,443,723	\$ 8,798,308

See Independent Auditors' Report.

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

	Fiscal Year								
	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues									
Taxes									
Property	\$ 3,873,998	\$ 3,754,437	\$ 3,875,168	\$ 3,848,295	\$ 3,762,291	\$ 3,863,354	\$ 3,996,731	\$ 4,156,976	\$ 3,751,701
Sales, restaurant & hotel	6,195,830	6,294,314	5,413,560	5,551,490	5,479,966	5,130,911	5,393,867	5,449,842	5,358,395
Franchise	731,292	884,084	869,502	810,308	797,594	848,966	882,162	835,514	850,232
Licenses and permits	296,874	281,721	266,946	251,193	173,232	252,962	159,163	236,765	194,522
Intergovernmental	1,379,518	1,299,376	1,373,897	1,374,500	1,019,172	1,705,416	1,159,807	2,138,779	1,235,178
Grants	1,829,433	1,615,927	877,998	1,135,404	3,236,156	4,253,211	9,066,180	6,180,799	2,031,920
Charges for service	616,729	530,668	590,263	981,228	497,215	438,209	482,246	444,052	1,569,523
Fines and forfeits	776,751	892,061	880,585	770,608	892,431	691,662	720,148	905,061	700,041
Miscellaneous	136,487	160,253	171,005	59,273	44,603	216,756	283,735	223,826	323,495
Total revenues	15,836,912	15,712,841	14,318,924	14,782,299	15,902,660	17,401,447	22,144,039	20,571,614	16,015,007
Expenditures									
General government	1,906,137	1,831,556	1,999,380	1,987,041	2,042,570	1,478,459	2,311,907	2,626,926	2,834,718
Public safety	6,347,488	6,363,590	6,141,786	5,909,982	6,376,293	5,796,404	7,829,679	7,665,662	6,349,701
Public works	2,146,857	2,089,360	2,435,682	2,673,807	2,934,660	2,689,716	4,441,925	4,221,372	4,687,049
Health and welfare	101,809	369,378	226,549	239,610	589,719	1,160,155	1,071,237	-	-
Economic development	652,762	508,489	346,546	437,957	962,929	981,749	1,193,852	1,251,395	1,234,439
Culture and recreation	1,918,439	1,695,945	1,923,128	1,803,769	925,385	727,714	778,933	2,527,162	1,415,048
Capital outlay	2,894,510	1,016,386	1,079,716	1,241,449	3,916,899	11,411,835	11,298,371	6,103,359	2,606,790
Debt service									
Principal	851,610	793,669	736,292	739,246	725,188	614,309	1,835,378	122,107	361,164
Interest	652,547	671,049	697,807	718,121	742,951	837,672	651,075	311,476	123,593
Total expenditures	17,472,159	15,339,422	15,586,886	15,750,982	19,216,594	25,698,013	31,412,357	24,829,459	19,612,502
Excess of revenues over (under) expenditures	(1,635,247)	373,419	(1,267,962)	(968,683)	(3,313,934)	(8,296,566)	(9,268,318)	(4,257,845)	(3,597,495)
Other financing sources (uses)									
Proceeds of debt	-	250,000	250,000	-	-	756,954	6,180,231	10,428,946	705,061
Insurance proceeds	24,755	29,862	34,157	109,500	30,721	176,707	65,882	95,155	42,213
Sale of capital assets	4,185	7,345	2,030	15,525	59,463	30,741	44,697	10,587	9,540
BP settlement	-	615,089	-	-	-	-	-	-	-
Unallowable FEMA Costs	-	-	-	(515,666)	-	-	-	-	-
Transfers in	400,000	564,256	608,873	1,317,009	660,905	410,628	1,221,386	1,837,862	1,799,051
Transfers out	-	(64,256)	(8,873)	(704,935)	(60,905)	(110,628)	(421,386)	(1,469,291)	(1,349,051)
Total other financing sources and (uses)	428,940	1,402,296	886,187	221,433	690,184	1,264,402	7,090,810	10,903,259	1,206,814
Net change in fund balance	\$ (1,206,307)	\$ 1,775,715	\$ (381,775)	\$ (747,250)	\$ (2,623,750)	\$ (7,032,164)	\$ (2,177,508)	\$ 6,645,414	\$ (2,390,681)
Debt service as a percentage of noncapital expenditures	11.51%	11.39%	10.97%	11.17%	10.61%	11.31%	14.11%	2.37%	2.93%

See Independent Auditors' Report.

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

Fiscal Year	Real Property (1)		Personal Property		Utilities		Automobiles		Total		Assessed to Actual
	Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value	
2016	138,141	1,009,803	10,176	67,840	11,179	74,527	19,690	65,633	179,186	1,217,803	14.71%
2015	138,329	1,011,177	10,280	68,533	10,260	68,400	20,527	68,423	179,396	1,216,534	14.75%
2014	139,646	1,020,804	10,206	68,040	10,211	68,073	18,591	61,970	178,654	1,218,887	14.66%
2013	139,370	1,018,787	10,191	67,940	9,090	60,600	18,183	60,610	176,834	1,207,937	14.64%
2012	138,120	1,009,649	9,842	65,613	8,888	59,253	16,098	53,660	172,948	1,188,176	14.56%
2011	136,567	998,297	9,910	66,067	9,119	60,793	15,804	52,680	171,400	1,177,837	14.55%
2010	145,007	1,059,993	9,428	62,853	8,982	59,880	17,814	59,380	181,231	1,242,106	14.59%
2009	138,661	1,013,604	9,328	62,187	11,669	77,793	19,299	64,330	178,957	1,217,914	14.69%
2008	106,568	779,006	10,108	67,387	8,854	59,027	30,058	100,193	155,588	1,005,613	15.47%

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

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

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

See Independent Auditors' Report.

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

	Fiscal Years Ending September 30								
Revenues	2016	2015	2014	2013	2012	2011	2010	2009	2008
Ad valorem taxes	\$ 3,298,900	\$ 3,339,928	\$ 3,343,639	\$ 3,278,225	\$ 3,144,617	\$ 3,154,198	\$ 3,421,085	\$ 3,476,723	\$ 3,362,708
Licenses and permits	267,000	278,000	239,000	195,000	203,000	261,000	220,000	209,000	440,000
Franchise fees	890,000	870,000	820,000	920,000	920,000	920,000	905,000	905,000	757,000
Intergovernmental	6,196,670	5,689,000	5,689,000	5,672,500	5,310,627	5,724,627	5,902,336	5,942,705	6,157,000
Federal & state grants	185,000	247,850	247,850	184,000	1,901,006	2,207,571	2,456,868	3,810,946	3,665,364
Charges for services	568,800	634,000	634,000	733,500	607,000	472,500	467,500	1,838,750	1,610,600
Fines & forfeitures	890,000	880,000	880,000	790,000	665,000	730,000	695,000	650,000	487,000
Other	145,000	145,000	120,000	100,000	70,000	180,000	94,650	316,000	507,900
Total revenues	12,441,370	12,083,778	11,973,489	11,873,225	12,821,250	13,649,896	14,162,439	17,149,124	16,987,572
Expenditures									
General Government									
Executive - Mayor	381,648	332,531	340,765	452,084	585,620	572,843	636,211	652,602	599,798
Legislative -Board of Aldermen	260,286	212,467	206,697	203,360	306,941	270,254	469,029	541,910	482,324
Finance	620,148	560,901	555,820	559,931	570,050	572,982	599,480	575,984	625,531
Human Resources	648,355	662,530	654,971	747,334	781,583	715,364	727,065	716,536	881,268
Total General Government	1,910,437	1,768,429	1,758,253	1,962,709	2,244,194	2,131,443	2,431,785	2,487,032	2,588,921
Planning & Community Develop	653,212	544,760	484,552	412,258	679,869	1,144,948	1,574,630	1,758,776	2,345,685
Public Safety	6,389,869	5,842,592	5,734,902	5,815,358	5,988,174	6,062,093	7,095,588	7,225,502	6,083,712
Public Works	2,495,994	2,649,564	2,810,954	2,876,538	3,033,659	3,913,030	4,721,996	6,200,044	5,922,856
Culture & Recreation	1,801,007	1,647,347	1,596,479	1,629,444	1,598,692	1,510,472	1,982,898	2,055,463	2,688,638
Debt Service	-	-	-	-	-	-	-	25,523	25,523
Total expenditures	13,250,519	12,452,692	12,385,140	12,696,307	13,544,588	14,761,986	17,806,897	19,752,340	19,655,335
Excess (deficiency) of revenues over expenditures	(809,149)	(368,914)	(411,651)	(823,082)	(723,338)	(1,112,090)	(3,644,458)	(2,603,216)	(2,667,763)
Other financing sources (uses):									
Issuance of Debt	-	-	-	-	-	-	1,000,000	-	-
Other	30,000	30,000	68,033	65,000	76,000	85,000	80,000	-	-
Transfers in (out)	310,000	500,000	526,000	600,000	207,500	300,000	524,017	1,200,000	1,675,000
Total other financing sources	340,000	530,000	594,033	665,000	283,500	385,000	1,604,017	1,200,000	1,675,000
Net change in fund balances	(469,149)	161,086	182,382	(158,082)	(439,838)	(727,090)	(2,040,441)	(1,403,216)	(992,763)
Fund balances, beginning of year	352,872	191,786	-	580,573	1,282,109	1,661,556	3,385,842	5,092,922	5,831,002
Fund balances, end of year	\$ (116,277)	\$ 352,872	\$ 182,382	\$ 422,491	\$ 842,271	\$ 934,466	\$ 1,345,401	\$ 3,689,706	\$ 4,838,239

See Independent Auditors' Report.

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

	Fiscal Year								
	2016	2015	2014	2013	2012	2011	2010	2009	2008
Debt Limit (15%)	\$ 26,878	\$ 26,909	\$ 26,798	\$ 26,525	\$ 25,942	\$ 25,710	\$ 27,185	\$ 26,844	\$ 23,338
Total net GO debt applicable to limit	3,550	3,634	3,607	3,621	3,692	3,510	3,497	-	-
Legal debt margin	<u>\$ 23,328</u>	<u>\$ 23,275</u>	<u>\$ 23,191</u>	<u>\$ 22,904</u>	<u>\$ 22,250</u>	<u>\$ 22,200</u>	<u>\$ 23,688</u>	<u>\$ 26,844</u>	<u>\$ 23,338</u>
Total net debt applicable to the limit as a percentage of the debt limit	13.21%	13.50%	13.46%	13.65%	14.23%	13.65%	12.86%	0.00%	0.00%

**Legal Debt Margin Calculated
for Fiscal Year 2011**

Assessed Value	\$ 179,186	
Debt limit (15% of assessed value)		26,878
Debt applicable to limit:		
General obligation bonds		(3,630)
Debt service funds available		<u>80</u>
Legal debt margin		<u>\$ 23,328</u>

See Independent Auditors' report

Compliance Section

City of Ocean Springs, 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 Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
Passed Through Mississippi Department of Public Safety: Occupant Protection Grant	20.601	12-OP-316-1	\$ 4,580
Total U.S. Department of Transportation			<u>4,580</u>
Office of National Drug Control Policy			
Passed through Mississippi Bureau of Narcotics High Intensity Drug Trafficking Areas Program	95.001	15PGCP5722	<u>16,171</u>
Total Office of National Drug Control Policy			<u>16,171</u>
Department of the Interior			
Passed Through Mississippi Department of Marine Resources Coastal Impact Assistance Program-Stormwater Outfall-Front Beach	15.668	MS 30-705	493,944
Coastal Impact Assistance Program-Harbor Stormwater Management and Wetlands Restoration	15.668	MS 30-706	<u>694,241</u>
Total passed through Mississippi Dept of Marine Resources			<u>1,188,185</u>
Passed through National Oceanic and Atmospheric Administration Department of Commerce-Sea Grant-Adapting Infrastructure	11.417	USM-GR03925-R	<u>355</u>
Total passed through National Oceanic and Atmospheric Administration		MG/CCCAI-30	<u>355</u>
Total Department of the Interior			<u>1,188,540</u>
Department of Justice			
Equitable Sharing Program	16.922		<u>214,781</u>
Total Department of Justice			<u>214,781</u>
U.S. Department of Defense			
Passed Through U.S. Army Corp of Engineers Mississippi Environmental Infrastructure Section 592-ARRA	12.124		<u>375,043</u>
Total U.S. Department of the Army			<u>375,043</u>
 Total Expenditures of Federal Awards			 <u><u>\$ 1,799,115</u></u>

See Independent Auditors' report

City of Ocean Springs, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ocean Springs and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

NOTE 2. LOAN AGREEMENTS OUTSTANDING

Proceeds of various State Revolving Funds were obtained and expended in prior years for sewer rehabilitation, capital improvements and drinking water system improvements. The State Revolving Funds are financed, at least in part, by the U.S. Environmental Protection Agency. The Community Disaster Loan is financed by the U.S. Department of Homeland Security. The principal balance outstanding on these loans as of September 30, 2016 was:

	Total Loan Balance
State Revolving Loan # SRF-C280752-01-3	\$ 125,204
State Revolving Loan # SRF-C280752-02-2	897,081
Drinking Water Systems Improvement:	
Loan # DWI-H280035-01	248,303
Loan # DWI-H280035-02	602,176
Loan # DWI-H280035-03	1,381,406
Loan # DWI-H280035-04	667,712
Loan # DWI-H280035-05	535,691

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

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

To the Board of Aldermen
City of Ocean Springs, Mississippi

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

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify significant deficiencies in internal control over financial reporting. Please see the Schedule of Findings and Questioned Costs for a detail of the deficiency.

Compliance and Other Matters

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

Purpose of this Report

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

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates
Certified Public Accountants

Gulfport, Mississippi
May 31, 2017

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Aldermen
City of Ocean Springs, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the City of Ocean Springs, Mississippi's (City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit 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). Those standards and the uniform guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Ocean Springs, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Culumber, Harvey & Associates, P.A.

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

Gulfport, Mississippi
May 31, 2017

RECEIVED
JUL 24 2017



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

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

To the Board of Aldermen
City of Ocean Springs, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi as of and for the year ended September 30, 2016, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 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 procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

Culumber, Harvey & Associates, P.A.

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

Gulfport, Mississippi
May 31, 2017

City of Ocean Springs, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

SECTION 1 – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

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

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified? | None reported |
| 5. | Type of auditor’s report issued on compliance for major programs? | Unmodified |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 7. | Identification of major programs: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
16.922	U.S. Department of Justice Equitable Sharing Program
15.668	U.S. Department of Interior Coastal Impact Assistance Program
95.001	Office of National Drug Control Policy High Intensity Drug and Trafficking Areas Program

- | | | |
|----|---|-----------|
| 8. | Dollar threshold used to distinguish between type A and type B programs | \$750,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

City of Ocean Springs, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

SECTION 2 – FINANCIAL STATEMENT FINDINGS

2016-1 Criteria: Inefficient and Ineffective Accounting Software

Significant Deficiency

Efficient and effective software allows for proper system's internal controls and proper recording of transactions.

Condition: During our audit testing, we noted that the accounting software has no field control and is not carrying over outstanding checks to the next period for reconciliation. This was found by the auditor overseeing the input of payroll hours over 40 hours a week. The software did not prompt for an error or authorization of payroll hours that exceeds 40 hours a week. Outstanding checks were missing at the time of bank reconciliations that was required to be inputted again in order for outstanding checks to appear in the accounting software.

Cause: No controls implemented on the software and outstanding checks not carrying over due to outdated software.

Effect: This may cause the city to erroneously pay an employee more than what was worked and can cause problems in the bank reconciliation process.

Recommendation: We recommend that the city update its accounting software to one that is effective and efficient.

City's Response: The city will look into demos to test different accounting software that is effective and efficient in keeping accounting records that the city can possibly upgrade to in the future.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

AUDITEE'S CORRECTIVE ACTION PLAN

1699

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

1018 Porter Avenue
Ocean Springs, MS 39564

PH 228.875.4236
FX 228.875.7249

Connie Moran
Mayor

Bobby Cox
Alderman at Large

John Gill
Alderman Ward 1

Matt McDonnell
Alderman Ward 2

Chic Cody
Alderman Ward 3

Greg Denyer
Alderman Ward 4

Jerry Dalgo
Alderman Ward 5

Michael (Mike) Impey, II
Alderman Ward 6

City Clerk
228.875.4236

Police Chief
228.875.2211

Fire Chief
228.872.4407

Public Works
228.875.3955

**Community
Development and
Planning**
228.875.4415

**Human Resources
and Risk Management**
228.872.3338

**Parks and
Leisure Services**
228.875.8665



City of Ocean Springs

AUDITEE'S CORRECTIVE ACTION PLAN

The City of Ocean Springs, Mississippi has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2016:

Findings

Corrective Action Plan Details

2016-1

Financial Statement Finding

- A. Name of Contact Person Responsible for Corrective Action:
Shelly Ferguson, City Clerk, 228-875-4236
- B. Corrective Action Planned:
The City will look into different demos of accounting software to find one that is cost efficient and is effective.
- C. Anticipated Completion Date: 9/30/17

Sincerely,

Connie Moran
Mayor
City of Ocean Springs, Mississippi

RECEIVED

JUL 24 2017

