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CITY OF BAY ST. LOUIS, MISSISSIPPI

Audited Financial Statements and Special Reports

For the Year Ended September 30, 2017



CITY OF BAY ST. LOUIS, MISSISSIPPI
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For the Year Ended September 30, 2017

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INTRODUCTORY SECTION



ELECTED OFFICIALS

Mayor	Michael Favre
Councilman Ward 1	Doug Seal
Councilman Ward 2	Gene Hoffman
Councilman Ward 3	Jeffery Reed
Councilman Ward 4	Larry Smith
Councilman Ward 5	Buddy Zimmerman
Councilman Ward 6	Josh Desalvo
Councilman Ward At-Large	Gary Knoblock

APPOINTED DEPARTMENT HEADS

City Clerk	Sissy Gonzales
City Attorney	Trent Favre
Police Department	Gary Ponthieux
Fire Department	Monty Strong
Public Works	Kim "Potts" Favre
Harbor Master	Chuck Fortin

FINANCIAL SECTION

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 129

GULFPORT, MISSISSIPPI 39502

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INDEPENDENT AUDITORS' REPORT

September 27, 2018

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

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 City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2017, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bay St. Louis, Mississippi, as of September 30, 2017, and the respective changes in financial position, 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, the Budgetary Comparison Schedule and corresponding notes, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of the City's Contributions, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bay St. Louis, Mississippi's basic financial statements. The Schedule of Surety Bonds is presented for purposes of additional analysis and is not a required part of the basic financial statement and has not been subjected to the auditing procedures applied in the audit of the basic financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018, on our consideration of City of Bay St. Louis, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Bay St. Louis, Mississippi's internal control over financial reporting and compliance.

Other Reporting Required by State of Mississippi

In accordance with the State of Mississippi, we have also issued our report dated September 27, 2018, on our consideration of the City of Bay St. Louis's compliance with state laws and regulations. The purpose of that report is to describe the scope of our testing of internal controls over compliance with state laws and regulations and the result of that testing, and not to provide an opinion on internal controls or compliance. That report is an integral part of an audit performed in accordance with state guidelines in considering the City of Bay St. Louis's internal control over financial reporting and compliance.

Walter Woodworth & Sons

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MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF BAY ST. LOUIS, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017
UNAUDITED



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Bay St. Louis, Mississippi's (the City) Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2017 and 2016. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

City of Bay St. Louis is located on the Mississippi Gulf Coast. According to the United States Census Bureau, the estimated population of City of Bay St. Louis as of July 1, 2017, is 13,043. The median household income is \$40,813 with over 89.6% of persons 25 years or older holding a high school degree or higher.

Government-wide Financial Highlights

- Total net position decreased \$3,889,080, which includes a \$5,180 prior period adjustment, or 3% from 2016 primarily due to increased grant and bond revenues expended in the current year and utility depreciation expense.
- General revenues amounted to \$7,264,845 or 55% of total revenues. This amount increased \$251,279 from 2016. Program revenues amounted to \$6,034,613 or 45% of total revenues, which increased \$483,395 from 2016. This increase was mostly due to an increase in charges for services.
- Capital assets, net of accumulated depreciation, increased by \$477,348 in the governmental activities and decreased \$3,051,206 in the business-type activities during 2017. The increase in governmental capital assets is primarily a result of the new construction projects. The decrease in business-type activities stems from annual depreciation.
- Long-term debt decreased by \$532,777 in the governmental activities primarily due to annual debt repayments. This amount also includes a \$63,633 decrease in compensated absences which represents amounts that would be due to an employee from the City upon termination of employment. Long-term debt decreased by \$675,879 in the business-type activities. The City's total debt outstanding at September 30, 2017 is \$6,079,030 which the liability for compensated absences is \$230,005.

Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$7,740,166 in revenues, which shows an increase of \$1,000,546 from 2016 and \$7,199,945 in expenditures, a decrease of \$478,820 from 2016, in the current year. The General Fund's fund balance increased by \$719,081.
- *Road & Bridge Fund* – This fund is used to account for bond proceeds received for construction and repair of the City's infrastructure. The fund balance of \$283,621 represents resources monies still available for construction and repair.

CITY OF BAY ST. LOUIS, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017
UNAUDITED

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Bay St. Louis as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Bay St. Louis as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. These bases of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

In the Statement of Net Position and the Statement of Activities, the City's activities are reported as governmental and business-type activities, which include all of the City's services including general government, police, fire, public works, community services, water, gas, sewer and solid waste. The City of Bay St. Louis has no component units.

Table 1 and Table 2 provide a summary of the City's net position and changes in net position for 2017 compared to 2016.

CITY OF BAY ST. LOUIS, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017
UNAUDITED

TABLE 1
Condensed Statement of Net Position
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current assets	\$ 5,494,274	6,237,223	2,446,684	2,181,728	7,940,958	8,418,951
Capital assets	54,460,175	53,982,827	66,789,216	69,840,422	121,249,391	123,823,249
Total Assets	59,954,449	60,220,050	69,235,900	72,022,150	129,190,349	132,242,200
Deferred Outflows	470,197	2,011,211	64,118	259,246	534,315	2,270,457
Liabilities						
Current liabilities	1,044,753	2,480,911	559,179	873,543	1,603,932	3,354,454
Non-current liabilities	14,448,561	15,312,277	1,604,505	1,987,643	16,053,066	17,299,920
Total Liabilities	15,493,314	17,793,188	2,163,684	2,861,186	17,656,998	20,654,374
Deferred Inflows	3,371,885	1,186,986	66,566	153,002	3,438,451	1,339,988
Net Position						
Investment in capital assets, net of related debt	48,981,150	48,034,658	66,419,216	68,790,422	115,400,366	116,825,080
Restricted net assets	433,797	4,127,081	356,095	392,369	789,892	4,519,450
Unrestricted	(7,855,500)	(8,910,652)	294,457	84,417	(7,561,043)	(8,826,235)
Total Net Position	\$ 41,559,447	43,251,087	67,069,768	69,267,208	108,629,215	112,518,295

TABLE 2
Condensed Statement of Activities
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues	\$ 1,332,664	1,175,213	4,701,949	4,376,005	6,034,613	5,551,218
General revenues	7,235,475	6,996,925	29,370	16,641	7,264,845	7,013,566
Total revenues	8,568,139	8,172,138	4,731,319	4,392,646	13,299,458	12,564,784
Expenses:						
General government	2,942,511	2,740,183	-	-	2,942,511	2,740,183
Public safety	3,520,271	4,077,090	-	-	3,520,271	4,077,090
Public works	3,653,524	2,990,118	-	-	3,653,524	2,990,118
Culture and recreation	-	718,130	-	-	-	718,130
Interest on long-term debt	155,621	90,825	-	-	155,621	90,825
Utility	-	-	5,806,846	5,554,339	5,806,846	5,554,339
Harbor	-	-	1,104,585	1,015,851	1,104,585	1,015,851
Total expenses	10,271,927	10,616,346	6,911,431	6,570,190	17,183,358	17,186,536
Transfers	-	260,000	-	(260,000)	-	-
Increase (Decrease) in net assets	(1,703,788)	(2,184,208)	(2,180,112)	(2,437,544)	(3,883,900)	(4,621,752)
Net Position - beginning, restated	43,263,234	45,435,295	69,249,880	71,704,752	112,513,114	117,140,047
Net Position - ending	\$ 41,559,446	43,251,087	67,069,768	69,267,208	108,629,214	112,518,295

CITY OF BAY ST. LOUIS, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017
UNAUDITED

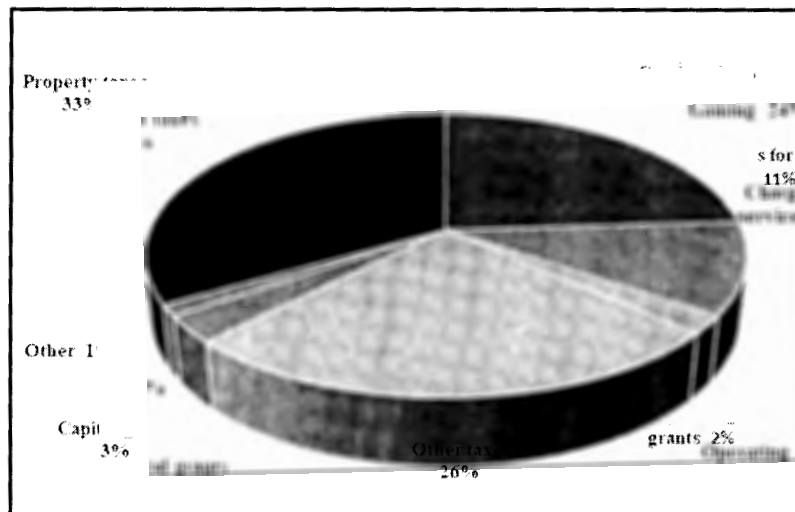
Governmental Activities

Total net position decreased \$1,703,788 as a result primarily due to an increase in grant and bond proceeds revenues spent in the current year.

Under the accrual basis of accounting, general revenues amounted to \$7,235,475 or 84% of total revenues. This amount increased \$238,550 from 2016. Program revenues amounted to \$1,332,664 or 16% of total revenues, which increased \$157,451 from 2016.

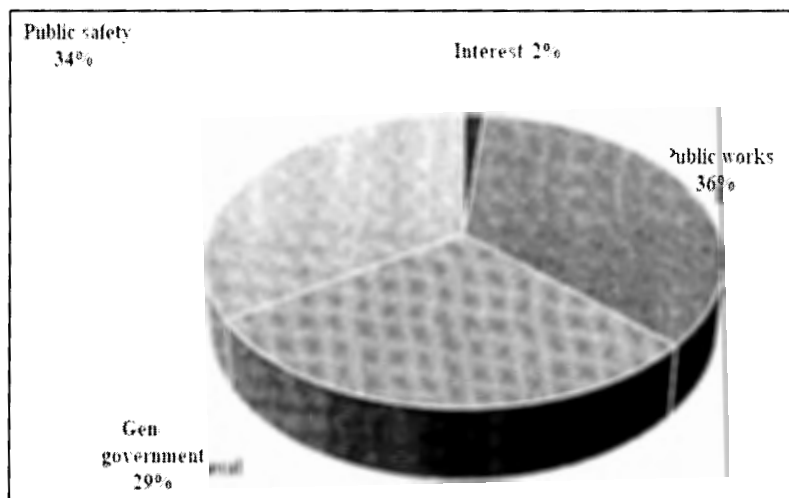
Several revenue sources fund our governmental activities. The following chart shows the City's total general revenues and program income that is used to offset governmental expenses.

Chart 1 – Governmental Revenue Sources



Major governmental expense activities are shown in the following chart.

Chart 2 – Governmental Activities



CITY OF BAY ST. LOUIS, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017
UNAUDITED

Business-type activities

Net position for the business-type activities was \$67,069,768 an increase of \$2,197,440, including a prior period adjustment of \$17,328. Charges for services decreased approximately \$69,568.

Reporting the City of Bay St. Louis's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Bay St. Louis, the City's major funds are the General and Road & Bridge funds.

Governmental Funds

The City's governmental funds focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to the City's residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds

The City's proprietary funds focus on business-type activities conducted by the City. These funds are reported using the accrual method of accounting, which uses an "economic resources" measurement focus. Under the accrual basis of accounting revenues are recognized in the period in which they are earned regardless of when cash flows occur. Expenses are recorded when the recognized when the service is performed or the goods are received regardless of when the invoice is paid. Proprietary Fund information helps you to determine whether business-type activities are self-maintaining or if they are being subsidized by general government revenues. The proprietary funds show operating revenues and expenses that support the primary operations of the fund.

The City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable and nonspendable resources. Such information may be useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use at the end of the fiscal year. These funds are accounted for by using the modified accrual basis of accounting. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

CITY OF BAY ST. LOUIS, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017
UNAUDITED

General Fund Budgeting Highlights

The City's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. Governmental auditing standards require that cities present budgetary comparison schedules as required supplementary information to the financial statements. The most significant budgeted fund is the General Fund.

During the course of 2017, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without board approval. With the General Fund supporting many of our major activities, such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets

Table 3 shows the Changes in Capital Assets for the years ended September 30, 2017 and 2016.

TABLE 3
Schedule of Capital Assets (Net of Accumulated Depreciation)
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 857,633	857,633	-	-	857,633	857,633
Construction in progress	5,290,933	2,413,429	-	22,443	5,290,933	2,435,872
Buildings and Improvements	25,520,951	26,132,005	38,978	39,978	25,559,929	26,171,983
Infrastructure	21,004,957	22,493,473	66,576,740	69,584,455	87,581,697	92,077,928
Machinery & equipment	280,398	515,441	162,795	182,843	443,193	698,284
Mobile equipment	297,209	206,625	10,703	10,703	307,912	217,328
Leased equipment	1,208,094	1,364,221	-	-	1,208,094	1,364,221
Total	\$ 54,460,175	53,982,827	66,789,216	69,840,422	121,249,391	123,823,249

The primary decrease in capital assets occurred due to depreciation.

General Long-term Obligations

At September 30, 2017, the City had \$6,079,030 outstanding debt obligations, which included \$230,005 of compensated absences payable.

TABLE 4
Schedule of Long-term Debt
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 4,177,500	4,430,000	-	-	4,177,500	4,430,000
Refunding Bonds	-	-	370,000	1,050,000	370,000	1,050,000
Notes Payable	17,908	75,688	-	-	17,908	75,688
Capital Leases	1,283,617	1,442,481	-	-	1,283,617	1,442,481
Compensated Absences	192,384	256,017	37,621	33,500	230,005	289,517
Total	\$ 5,671,409	6,204,186	407,621	1,083,500	6,079,030	7,287,686

The compensated absences liability identified above refers to the current balance of what has been earned as a termination benefit that will be paid over time as people leave or retire. This liability refers to vacation pay for employees of the city. See Note 1 to the financial statements for more details.

CITY OF BAY ST. LOUIS, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017
UNAUDITED

Contact the City's Financial Management

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

Sissy Gonzales, City Clerk
City of Bay St. Louis, Mississippi
688 Highway 90
Bay St. Louis, MS 39520
(228) 466-8951

FINANCIAL STATEMENTS

City of Bay St. Louis, Mississippi
Statement of Net Position
September 30, 2017

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current assets			
Cash	\$ 1,213,014	951,784	2,164,798
Taxes receivables	3,445,475	-	3,445,475
Customer accounts receivable (net of allowance)	-	772,905	772,905
Fines receivable (net of allowance)	179,582	-	179,582
Intergovernmental receivables	341,204	24,967	366,171
Other receivable	5,996	-	5,996
Interfund	(2,468)	2,468	-
Prepaid items	107,400	41,556	148,956
Inventory for resale	-	53,713	53,713
Restricted current assets - cash	204,071	599,291	803,362
Total Current Assets	<u>5,494,274</u>	<u>2,446,684</u>	<u>7,940,958</u>
Capital assets			
Land and construction in progress	6,148,566	-	6,148,566
Other capital assets (net of depreciation):			
Buildings and improvements	25,520,951	38,978	25,559,929
Infrastructure	21,004,957	66,543,450	87,548,407
Machinery and equipment	280,398	196,085	476,483
Mobile equipment	297,209	10,703	307,912
Equipment under capital leases	1,208,094	-	1,208,094
Total Capital Assets	<u>54,460,175</u>	<u>66,789,216</u>	<u>121,249,391</u>
Total Assets	<u>\$ 59,954,449</u>	<u>69,235,900</u>	<u>129,190,349</u>
Deferred Outflow of Resources			
Deferred amounts on pension	\$ 470,197	64,118	534,315
Total Deferred Outflow of Resources	<u>\$ 470,197</u>	<u>64,118</u>	<u>534,315</u>
 Total Assets and Deferred Outflow of Resources	 <u>\$ 60,424,646</u>	 <u>69,300,018</u>	 <u>129,724,664</u>

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

City of Bay St. Louis, Mississippi
Statement of Net Position (Continued)
September 30, 2017

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Liabilities			
Current liabilities:			
Claims and wages payable	\$ 866,105	172,394	1,038,499
Accrued interest payable	91,231	1,029	92,260
Revenue not earned	15,224	57,174	72,398
Payable to other governments	44,193	-	44,193
Payable from restricted assets - Customer deposits	28,000	328,582	356,582
Noncurrent Liabilities:			
Net pension liability	8,777,152	1,196,884	9,974,036
Due within one year			
Capital debt	527,088	-	527,088
Noncapital debt	76,954	385,048	462,002
Due in more than one year			
Capital debt	4,951,937	-	4,951,937
Noncapital debt	115,430	22,573	138,003
Total Liabilities	<u>\$ 15,493,314</u>	<u>2,163,684</u>	<u>17,656,998</u>
Deferred Inflows of Resources			
Property tax for future reporting period	\$ 2,883,731	-	2,883,731
Deferred amount on pension	488,154	66,566	554,720
Total Deferred Inflows of Resources	<u>\$ 3,371,885</u>	<u>66,566</u>	<u>3,438,451</u>
Net Position			
Investment in capital assets, net of related debt	\$ 48,981,150	66,419,216	115,400,366
Restricted Net Position:			
Non-expendable	107,400	95,269	202,669
Expendable:			
Restricted for debt service	136,376	260,826	397,202
Restricted for grant/bond purposes	182,817	-	182,817
Restricted for public safety	7,204	-	7,204
Unrestricted	(7,855,500)	294,457	(7,561,043)
Total Net Position	<u>\$ 41,559,447</u>	<u>67,069,768</u>	<u>108,629,215</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 60,424,646</u>	<u>69,300,018</u>	<u>129,724,664</u>

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

City of Bay St. Louis, Mississippi
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 2,942,511	716,333	-	-	\$ (2,226,178)		(2,226,178)
Public safety	3,520,271	183,875	173,301	-	(3,163,095)		(3,163,095)
Public works	3,653,524	-	-	259,155	(3,394,369)		(3,394,369)
Interest on long-term debt	155,621	-	-	-	(155,621)		(155,621)
Total governmental activities	10,271,927	900,208	173,301	259,155	(8,939,263)		(8,939,263)
Business-type activities:							
Utility fund	5,806,846	3,716,770	-	-		(2,090,076)	(2,090,076)
Harbor fund	1,104,585	573,109	-	412,070		(119,406)	(119,406)
Total business-type activities	6,911,431	4,289,879	-	412,070		(2,209,482)	(2,209,482)
Total government	\$ 17,183,358	\$ 5,190,087	\$ 173,301	\$ 671,225		(2,209,482)	(11,148,745)
General Revenues:							
Taxes:							
Property taxes, general					2,202,232	-	2,202,232
Property taxes, debt service					337,803	-	337,803
Property taxes, community support					313,371	-	313,371
General sales taxes					1,550,613	-	1,550,613
Road and bridge privilege taxes					282,112	-	282,112
Franchise taxes					379,549	-	379,549
Gaming fees and taxes					2,058,492	-	2,058,492
Grants and contributions not restricted to a special purpose					65,258	-	65,258
Unrestricted investment earnings					3,458	1,241	4,699
Miscellaneous					42,587	28,129	70,716
Total general revenues					7,235,475	29,370	7,264,845
Changes in net position					(1,703,788)	(2,180,112)	(3,883,900)
Net position - beginning					43,251,087	69,267,208	112,518,295
Prior period adjustment					12,148	(17,328)	(5,180)
Net position - beginning, as restated					43,263,235	69,249,880	112,513,115
Net position - ending					\$ 41,559,447	67,069,768	108,629,215

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

City of Bay St. Louis, Mississippi
Balance Sheet – Governmental Funds
September 30, 2017

	General Fund	Road & Bridge Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 187,492	283,621	741,901	1,213,014
Receivables:				
Property taxes	2,905,708	-	-	2,905,708
General sales taxes	264,093	-	-	264,093
Franchise taxes	107,081	-	-	107,081
Gaming fees and taxes	168,593	-	-	168,593
Intergovernmental	-	-	341,204	341,204
Court fines & fees	179,582	-	-	179,582
Other	5,996	-	-	5,996
Due from other funds	3,849	-	127,216	131,065
Prepaid items	107,400	-	-	107,400
Restricted assets - Cash	198,867	-	5,204	204,071
Total Assets	\$ 4,128,661	283,621	1,215,525	5,627,807
LIABILITIES				
Liabilities:				
Claims payable	\$ 152,491	-	536,427	688,918
Wages and payroll taxes payable	177,187	-	-	177,187
Payable to other governments	44,193	-	-	44,193
Due to other funds	133,533	-	-	133,533
Customer deposits	28,000	-	-	28,000
Grant revenue unearned	15,224	-	-	15,224
Total Liabilities	550,628	-	536,427	1,087,055
DEFERRED INFLOWS OF RESOURCES				
Property taxes for future reporting period	2,883,731	-	-	2,883,731
Unavailable revenue - fines	179,582	-	-	179,582
Total Deferred Inflows of Resources	3,063,313	-	-	3,063,313
FUND BALANCES				
Non-spendable				
Prepaid items	107,400	-	-	107,400
Restricted:				
Capital projects	-	283,621	63,847	347,468
Grant purposes	-	-	182,817	182,817
Public Safety	110,068	-	7,204	117,272
Debt service	-	-	227,607	227,607
Unassigned	297,252	-	197,623	494,875
Total Fund Balances	514,720	283,621	679,098	1,477,439
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,128,661	283,621	1,215,525	5,627,807

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

City of Bay St. Louis, Mississippi
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2017

Total governmental funds balance **\$ 1,477,439**

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

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.

Governmental capital assets	\$ 75,663,366	
Less: accumulated depreciation	<u>(21,203,191)</u>	54,460,175

Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds.

Bonds payable	\$ (4,177,500)	
Capital leases payable	(1,283,617)	
Notes payable	(17,908)	
Compensated absences	<u>(192,384)</u>	(5,671,409)

Other long term assets are not available to pay or current period expenditures and therefore are deferred in the funds.

Court fines receivable	<u>\$ 179,582</u>	179,582
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Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.

Net pension liability		(8,777,152)
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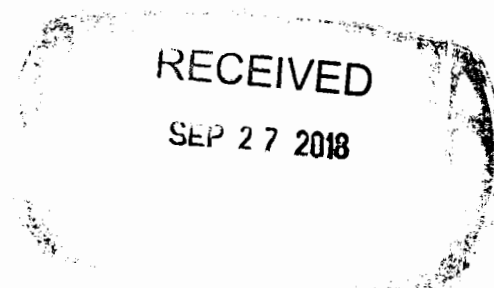
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	\$ 470,197	
Deferred inflows of resources related to pensions	<u>(488,154)</u>	(17,957)

Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds.

(91,231)

Net position of governmental activities		<u>\$ 41,559,447</u>
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The notes to these financial statements are an integral part of this statement.

City of Bay St. Louis, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
For the Fiscal Year Ended September 30, 2017

	General Fund	Road & Bridge Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 2,515,603	-	337,803	2,853,406
General sales taxes	1,550,613	-	-	1,550,613
Franchise fees	379,549	-	-	379,549
Gaming fees and taxes	2,058,492	-	-	2,058,492
Licenses and permit fees	369,820	-	-	369,820
Intergovernmental	316,728	-	463,099	779,827
Charges for services/rentals	154,242	-	-	154,242
Fines and forfeitures	148,871	-	-	148,871
Investment earnings	183	1,232	2,043	3,458
Administrative fees	220,000	-	-	220,000
Miscellaneous	26,065	-	-	26,065
Total Revenues	<u>7,740,166</u>	<u>1,232</u>	<u>802,945</u>	<u>8,544,343</u>
Expenditures:				
General government	2,451,837	780	27,641	2,480,258
Public safety	2,951,144	-	9,630	2,960,774
Public works	1,716,066	-	218,352	1,934,418
Capital outlay	80,898	2,556,507	320,997	2,958,402
Debt service:				
Principal	-	-	545,042	545,042
Interest and other fiscal charges	-	-	140,507	140,507
Total Expenditures	<u>7,199,945</u>	<u>2,557,287</u>	<u>1,262,169</u>	<u>11,019,401</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>540,221</u>	<u>(2,556,055)</u>	<u>(459,224)</u>	<u>(2,475,058)</u>
Other Financing Sources (Uses):				
Proceeds from capital leases	75,898	-	-	75,898
Insurance proceeds	16,522	-	-	16,522
Transfers in	354,858	624,750	268,418	1,248,026
Transfers out	(268,418)	-	(979,608)	(1,248,026)
Total Other Financing Sources (Uses)	<u>178,860</u>	<u>624,750</u>	<u>(711,190)</u>	<u>92,420</u>
Net change in fund balances	<u>719,081</u>	<u>(1,931,305)</u>	<u>(1,170,414)</u>	<u>(2,382,638)</u>
Fund balances - beginning	78,890	2,214,926	1,910,195	4,204,011
Prior period adjustment	(283,251)	-	(60,683)	(343,934)
Fund balance - beginning, restated	<u>(204,361)</u>	<u>2,214,926</u>	<u>1,849,512</u>	<u>3,860,077</u>
Fund balances - ending	<u>\$ 514,720</u>	<u>283,621</u>	<u>679,098</u>	<u>1,477,439</u>

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

City of Bay St. Louis, Mississippi
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended September 30, 2017

Net Change in Fund Balances - total governmental funds **\$ (2,382,638)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 2,958,402	
Depreciation	<u>(2,454,358)</u>	504,044

Proceeds from the sale of capital assets are recorded as other sources of income in the Statement of Revenues, Expenditures and Changes in Fund Balances, however, these proceeds are offset by disposal of assets to show gains or losses from the sale of capital assets. (26,696)

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

Debt retirement	\$ 545,042	
Debt issuance	<u>(75,898)</u>	469,144

Fine revenue and community rental income recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full accrual basis of accounting. 7,274

Pension expense and other related activity do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Pension expense and contributions made after measurement date (323,435)

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

Accrued interest payable		(15,114)
Compensated absences		<u>63,633</u>

Change in net position of governmental activities **\$ (1,703,788)**

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

City of Bay St. Louis, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2017

	Proprietary Funds		
	Utility Fund	Harbor Fund	Total
Assets			
Current assets:			
Cash	\$ 765,517	186,267	951,784
Intergovernmental receivables	-	24,967	24,967
Customer accounts receivable, net	755,444	17,461	772,905
Interfund receivable	6,317	13,616	19,933
Prepaid insurance	36,834	4,722	41,556
Inventory for resale	34,698	19,015	53,713
Restricted current asset - cash	599,291	-	599,291
Total current assets	2,198,101	266,048	2,464,149
Non-current assets			
Capital assets:			
Buildings	118,603	-	118,603
Infrastructure	75,601,623	21,799,671	97,401,294
Mobile equipment	107,051	-	107,051
Machinery and equipment	603,101	-	603,101
Less accumulated depreciation	(29,697,343)	(1,743,490)	(31,440,833)
Total non-current assets	46,733,035	20,056,181	66,789,216
Total Assets	48,931,136	20,322,229	69,253,365
Deferred outflow of resources			
Deferred outflow - pension liability	42,745	21,373	64,118
Total deferred outflow of resources	42,745	21,373	64,118
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	145,282	13,651	158,933
Accrued wages	9,145	4,316	13,461
Interfund payables	13,616	3,849	17,465
Unearned revenue	25,730	31,444	57,174
Accrued interest	1,029	-	1,029
Notes payable	370,000	-	370,000
Customer deposits	326,943	1,639	328,582
Total current liabilities	891,745	54,899	946,644
Non-current liabilities:			
Net pension liability	797,923	398,961	1,196,884
Compensated absences	27,957	9,664	37,621
Total non-current liabilities	825,880	408,625	1,234,505
Total liabilities	1,717,625	463,524	2,181,149
Deferred inflow of resources			
Deferred inflow - pension liability	44,378	22,188	66,566
Total deferred inflow of resources	44,378	22,188	66,566
Net position			
Investment in capital assets, net of related debt	46,363,035	20,056,181	66,419,216
Restricted - Nonexpendable	71,532	23,737	95,269
Restricted - Debt Service	260,826	-	260,826
Unrestricted	516,485	(222,028)	294,457
Total net position	\$ 47,211,878	19,857,890	67,069,768

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

City of Bay St. Louis, Mississippi
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Proprietary Funds		
	Utility Fund	Harbor Fund	Total
Revenues:			
Charges for services	\$ 3,018,586	-	3,018,586
Slip rental fees	-	322,105	322,105
Fuel sales	-	251,004	251,004
Tap and connection fees	20,995	-	20,995
Late payment penalties	84,549	-	84,549
Debt service charges	592,640	-	592,640
Miscellaneous operating revenues	14,327	13,802	28,129
Total operating revenues	<u>3,731,097</u>	<u>586,911</u>	<u>4,318,008</u>
Operating expenses:			
Personal services	467,912	242,372	710,284
Natural gas and fuel purchases	242,764	206,387	449,151
Waste collection and disposal	449,330	-	449,330
Wastewater treatment	1,016,009	-	1,016,009
Other supplies and expenses	205,362	-	205,362
Other contractual	425,800	110,556	536,356
Depreciation	2,981,471	545,270	3,526,741
Total operating expenses	<u>5,788,648</u>	<u>1,104,585</u>	<u>6,893,233</u>
Operating income (loss)	<u>(2,057,551)</u>	<u>(517,674)</u>	<u>(2,575,225)</u>
Non-operating revenues (expenses)			
Interest and investment revenue	1,060	181	1,241
Interest expense	(18,198)	-	(18,198)
Capital grant income	-	412,070	412,070
Total non-operating revenues (expenses)	<u>(17,138)</u>	<u>412,251</u>	<u>395,113</u>
Change in net position	<u>(2,074,689)</u>	<u>(105,423)</u>	<u>(2,180,112)</u>
Net Position - beginning	49,195,381	20,071,827	69,267,208
Prior period adjustment	91,186	(108,514)	(17,328)
Net Position - beginning, restated	<u>49,286,567</u>	<u>19,963,313</u>	<u>69,249,880</u>
Total net position - ending	<u>\$ 47,211,878</u>	<u>19,857,890</u>	<u>67,069,768</u>

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

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City of Bay St. Louis, Mississippi
Statement Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Proprietary Funds		
	Utility Fund	Harbor Fund	Total
Cash Flows From Operating Activities			
Cash received from customers	\$ 3,697,204	620,497	4,317,701
Cash paid to employees	(431,774)	(228,394)	(660,168)
Cash paid to suppliers	(202,744)	(231,577)	(434,321)
Cash paid to contractors	(2,156,855)	(110,556)	(2,267,411)
Net cash provided by (used in) operating activities	905,831	49,970	955,801
Cash Flows From Non-Capital Financing Activities			
Advances from (to) other funds	(174,777)	25,887	(148,890)
Net cash flows from non-capital financing activities	(174,777)	25,887	(148,890)
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	-	(475,535)	(475,535)
Non-operating receipts for capital expenditures	-	387,103	387,103
Repayment of notes payable	(680,000)	-	(680,000)
Interest and amortization on debt	(25,346)	-	(25,346)
Net cash used in capital and related financing activities	(705,346)	(88,432)	(793,778)
Cash Flows From Investing Activities			
Interest received	1,060	181	1,241
Net cash flows from investing activities	1,060	181	1,241
Net increase (decrease) in cash	26,768	(12,394)	14,374
Cash - October 1	1,338,040	198,661	1,536,701
Cash - September 30	\$ 1,364,808	186,267	1,551,075

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

City of Bay St. Louis, Mississippi
Statement Cash Flows
Proprietary Funds (continued)
For the Fiscal Year Ended September 30, 2017

	Utility Fund	Harbor Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash			
Provided by (Used In) Operating Activities:			
Operating income (loss)	\$ (2,057,551)	(517,674)	(2,575,225)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,981,471	545,270	3,526,741
Pension deferrals and liability	29,402	14,703	44,105
(Increase) decrease in assets:			-
Accounts receivable	(61,861)	503	(61,358)
Inventory	2,618	1,795	4,413
Prepaid expenses	(15,058)	(4,722)	(19,780)
Increase (decrease) in liabilities:			-
Claims and wages payable	(21,476)	(21,849)	(43,325)
Customer deposits payable	17,296	1,639	18,935
Unearned revenue	25,730	31,444	57,174
Compensated absences	5,260	(1,139)	4,121
Net cash provided by (used in) operating activities	\$ 905,831	49,970	955,801

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

NOTES TO THE FINANCIAL STATEMENTS

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies

The City of Bay St. Louis, Mississippi, (the "City") was incorporated January 21, 1818, under the laws of the State of Mississippi. The City operates under a Mayor-Council form of government, which provides for an elected mayor and a seven-member council. The following services are authorized by the City's charter: Public Safety (Police, Fire, Civil Defense and Protection Inspection), Street Maintenance and Sanitation, Garbage Collection, Water, Sewer and Gas Services, Public Improvements, Planning and Zoning, and General Administrative Services. The accounting and reporting policies of the City relating to the funds and accounts groups included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the City's governing board. As defined by accounting principles generally accepted in the United States of America, the City is considered a "primary government." The City is governed by a seven member council in which six members were elected by the citizens of each defined ward and one member elected at-large.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in Accounting Principles Generally Accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity. Based upon the application of these criteria, the City has no component units.

Hancock County Utility Authority and Hancock County Solid Waste Authority

These potential component units were established by State Code and their governing boards are appointed jointly by the area governments' governing bodies. These are independent units that select management staff, set user charges, establish budgets and controls all aspects of their daily activities. These Authorities have been determined to be a joint ventures of the participating agencies. See Note 12 for details.

B. Basis of Presentation.

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

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City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City as a whole. The statements include all non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

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

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column as Other Governmental Funds.

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

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

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

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City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

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

The City reports the following major Governmental Funds:

General Fund - This is the City's primary operating fund. It is used to account for all activities of the general government for which a separate fund has not been established.

Road and Bridge Fund - This fund, along with others, is used to account for the City's revenues and expenditures restricted, committed or assigned to the construction and maintenance of public roads and bridges of the City.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including acquisition or construction of capital facilities and other assets.

PROPRIETARY FUNDS

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

It is the intent of the City Council that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges and that periodic determination of revenues earned, expenses incurred, and net income be identified for capital maintenance, public policy, management control, account ability, or other purposes.

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers' Association.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

K. 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 and so will not be recognized as an outflow of resources 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 and so will not be recognized as an inflow of resources until that time.

Deferred amounts on pensions – Deferred outflows and inflows of resources should be reported when to show the City's proportionate share of amounts of the effects of actuarial differences and changes in assumptions to economic or demographic factors and differences between actual and projected earnings of multi-employer pension plan. In addition, a deferred inflow should be reported for employer contributions to the pension plan made subsequent to the measurement date.

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed non-exchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue – fines – When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

L. 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 of Mississippi (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, 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.

M. Long-term Liabilities

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and the Proprietary Fund financial information, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business activities Statement of Net Position.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

N. Compensated Absences

The City has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured.

An employee may accumulate unused vacation leave hours without limitation, however, cash payments upon employee termination or retirement are limited to a maximum of 30 days of a accumulated leave of pay. Employees have no claim for accumulated sick leave at termination, for retirement, lay-off, or cause. As such, no provision for unused sick leave has been provided in the financial statements. Unused vacation and sick leave balances may be credited to the Public Employee's Retirement System (PERS) as time worked.

O. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance into classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purpose for which amount in those funds can be spent. The classifications of fund balance are Non-spendable, Restricted, Committed, Assigned, and Unassigned. The following are descriptions of fund classifications used by the City:

Non-spendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City's highest level of decision-making authority. This formal action is an order of the City Council as approved in the board minutes.

Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as non-spendable and is neither restricted nor committed. Assignments of fund balance are created by management pursuant to authorization established by the Council.

Unassigned fund balance is the residual classification for the general fund. This classification represents 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 if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

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

The City reports the following major Governmental Funds:

General Fund - This is the City's primary operating fund. It is used to account for all activities of the general government for which a separate fund has not been established.

Road and Bridge Fund - This fund, along with others, is used to account for the City's revenues and expenditures restricted, committed or assigned to the construction and maintenance of public roads and bridges of the City.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including acquisition or construction of capital facilities and other assets.

PROPRIETARY FUNDS

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

It is the intent of the City Council that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges and that periodic determination of revenues earned, expenses incurred, and net income be identified for capital maintenance, public policy, management control, account ability, or other purposes.

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers' Association.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

E. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers' Association.

F. Deposits and Investments

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any City, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, and all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the City had an investment that included governmental bonds during the fiscal year.

G. Receivables

All trade receivables are shown net of an allowance for uncollectibles. Miss. Code Ann. (1972) does not allow for write-off of debt owed to municipalities. The amount represented on the financial statements is conclusive of all bad debts owed by customers of the water and sewer department since the City started providing these services to citizens. The allowances are based on trade receivables in excess of 120 days outstanding.

H. Inter-Fund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of inter-fund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a non-spendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed, or assigned.

Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Any outstanding balances between fiduciary funds and the government-wide activities of the government are reported as Intra-entity balances and included in intergovernmental receivables on the Statement of Net Position.

I. 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.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

J. Capital Assets

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allowed governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. The City meets these criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. However, as of September 30, 2017, the City has not systematically reported capital assets in accordance with generally accepted accounting principles.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because non-capitalization of interest does not have a material effect on the City's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year.

The following schedule details those thresholds, estimated useful lives and salvage value percentage of cost:

	Capitalization Threshold	Estimated Useful Life	Salvage Value (% of Cost)
Land	\$ -	N/A	N/A
Infrastructure	-	20-60 years	30%
Buildings	50,000	40-50 years	20%
Improvements	25,000	40-50 years	20%
Machinery & equipment	5,000	3-15 years	10%
Property under capital leases	*	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

K. Deferred Outflows/Inflows of Resources

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City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

N. Compensated Absences

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O. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance into classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purpose for which amount in those funds can be spent. The classifications of fund balance are Non-spendable, Restricted, Committed, Assigned, and Unassigned. The following are descriptions of fund classifications used by the City:

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City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed would be considered spent first (if available), followed by assigned (if available), and then unassigned amounts.

P. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

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

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

Unrestricted net position - All other net position not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

Q. Intergovernmental Revenues in Governmental Funds

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

R. Property Tax Revenues

Numerous statutes exist under which the City Council may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The City Council, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

S. Use of Estimates

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

T. Change in Accounting Standard

The City implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 77, Tax Abatement Disclosures and GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73. The provisions of these standards have been incorporated into the financial statements and notes.

Note 2 – Cash

The carrying amount of the city's total deposits with financial institutions at September 30, 2017, was \$2,965,560 and the bank balance was \$3,057,268. Of this amount \$803,362 is restricted for unemployment trust, debt service and utility customer's deposits. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

A summary of cash at September 30, 2017, is as follows:

	Deposits with Financial Institutions		Cash on Hand	Total
	Unrestricted	Restricted		
Governmental-type activities				
General Fund	\$ 187,292	198,867	200	386,359
Road and Bridge fund	283,621	-	-	283,621
Other Governmental Funds	739,901	5,204	2,000	747,105
Total governmental activities	1,210,814	204,071	2,200	1,417,085
Business-type activities				
Utility Fund	765,317	599,291	200	1,364,808
Harbor Fund	186,067	-	200	186,267
Total business-type activities	951,384	599,291	400	1,551,075
Total cash	\$ 2,162,198	803,362	2,600	2,968,160

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 3 – Receivables

A. Governmental Activities

Receivables in the governmental activities at September 30, 2017, consisted of the following:

Taxes Receivables	
Property taxes	
Current	\$ 21,977
For future reporting period	2,883,731
Property taxes receivable	<u>2,905,708</u>
Sales taxes	264,093
Franchise taxes	107,081
Gaming fees and taxes	<u>168,593</u>
Total taxes receivable	<u>3,445,475</u>
Court fines receivable	718,326
Less: allowance for doubtful accounts	<u>(538,744)</u>
Total court fines receivable, net	<u>179,582</u>
Intergovernmental receivables	
Federal grants	168,005
State grants and contributions	<u>173,199</u>
Total other taxes and grants	<u>341,204</u>
NSF Checks receivable	<u>5,996</u>
Total receivable - governmental activities	<u>\$ 3,972,257</u>

B. Business-type Activities

Receivable in the business-type activities at September 30, 2017, consisted of the following:

Customer accounts receivable:	
Customer utility charges (billed)	\$ 1,719,996
Customer slip rental charges (billed)	26,271
Customer accounts, earned but unbilled	392,176
Less: allowance for doubtful accounts	<u>(1,365,538)</u>
Total customer accounts receivable, net	<u>772,905</u>
Total receivable - business-type activities	<u>\$ 772,905</u>

All trade receivables are shown net of an allowance for bad debt. An allowance in the amount of \$1,356,728 at September 30, 2017, has been provided in the Utility fund and \$8,810 in the Harbor fund for estimated uncollectible utility and slip charges.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 4 – Interfund Transactions and Balances

Government-wide Financial Statements

A. Internal Balances

At September 30, 2017, the City had the following interfund loans:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Business-type Activities	Governmental Activities	\$ 2,468

These amounts represent residual monies loaned from the business-type activities to the governmental activities.

Fund Financial Statements

A. Due From/To Other Funds:

During the course of the year, certain expenditures were paid on a reimbursement basis requiring the City to borrow monies at year-end from the general fund in order to prevent a deficit cash balance in certain funds. Allocation percentages of federal reimbursement for construction projects caused expenditures to be paid from the wrong fund requiring many “due to/due from” transactions requiring cash transfer after year end.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Harbor Fund	\$ 3,849
Other Governmental Funds	General Fund	127,216
Utility Fund	General Fund	6,317
Harbor Fund	Utility Fund	13,616
Total		<u>\$ 150,998</u>

B. Transfers In/Out:

Transfers were made in the course of the year for loans to various funds. Other transfers were made to reimburse the various funds for expenditures made on the behalf of other fund purposes.

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 354,858
Road & Bridge Fund	Other Governmental Funds	624,750
Other Governmental Funds	General Fund	268,418
Total		<u>\$ 1,248,026</u>

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 5 – Capital assets

A. Governmental Activities

The following is a summary of governmental capital assets activity for the year ended September 30, 2017:

	Balance 9/30/2016	Additions	Adjustments/ Disposals	Balance 9/30/2017
Capital assets not being Depreciated:				
Land	\$ 857,633	-	-	857,633
Construction in Progress	2,413,429	2,877,504	-	5,290,933
Total capital assets not being depreciated	<u>3,271,062</u>	<u>2,877,504</u>	<u>-</u>	<u>6,148,566</u>
Capital assets being depreciated:				
Buildings & Improvements	29,578,279	-	-	29,578,279
Infrastructure	33,532,562	-	-	33,532,562
Machinery & Equipment	2,440,809	-	(233,197)	2,207,612
Mobile Equipment	2,380,717	5,000	92,527	2,478,244
Equipment under Capital Leases	1,642,205	75,898	-	1,718,103
Total capital assets being depreciated	<u>69,574,572</u>	<u>80,898</u>	<u>(140,670)</u>	<u>69,514,800</u>
Less accumulated depreciation for:				
Buildings & improvements	3,446,274	611,054	-	4,057,328
Infrastructure	11,039,089	1,488,516	-	12,527,605
Machinery & Equipment	1,925,368	37,712	(35,866)	1,927,214
Mobile Equipment	2,174,092	85,051	(78,108)	2,181,035
Equipment under Capital Leases	277,984	232,025	-	510,009
Total accumulated depreciation	<u>18,862,807</u>	<u>2,454,358</u>	<u>(113,974)</u>	<u>21,203,191</u>
Total Capital assets being depreciated, net	<u>50,711,765</u>	<u>(2,373,460)</u>	<u>(26,696)</u>	<u>48,311,609</u>
Total governmental activities capital assets, net	<u>\$ 53,982,827</u>	<u>504,044</u>	<u>(26,696)</u>	<u>54,460,175</u>

Depreciation expense was charged to the following governmental functions:

General Government	\$ 364,961
Public Safety	417,709
Public Works	1,671,688
	<u>\$ 2,454,358</u>

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 5 – Capital assets (continued)

B. Business-type Activities

The following is a summary of business-type capital assets activity for the year ended September 30, 2017:

	Balance 10/1/2016	Additions	Adjustments/ Sales	Balance 9/30/2017
Capital assets not being Depreciated:				
Construction in Progress	\$ 22,443	442,245	(464,688)	-
Total capital assets not being depreciated	<u>22,443</u>	<u>442,245</u>	<u>(464,688)</u>	<u>-</u>
Capital assets being depreciated:				
Building and Improvements	118,603	-	-	118,603
Water, Sewer & Gas Systems	75,601,623	-	-	75,601,623
Harbor Infrastructure	21,301,693	33,290	464,688	21,799,671
Machinery & Equipment	603,101	-	-	603,101
Mobile Equipment	107,051	-	-	107,051
Total capital assets being depreciated	<u>97,732,071</u>	<u>33,290</u>	<u>464,688</u>	<u>98,230,049</u>
Less accumulated depreciation for:				
Building and Improvements	78,625	1,000	-	79,625
Water, Sewer & Gas Systems	26,120,641	2,960,423	-	29,081,064
Harbor Infrastructure	1,198,220	545,270	-	1,743,490
Machinery & Equipment	420,258	20,048	-	440,306
Mobile Equipment	96,348	-	-	96,348
Total accumulated depreciation	<u>27,914,092</u>	<u>3,526,741</u>	<u>-</u>	<u>31,440,833</u>
Total Capital assets being depreciated, net	<u>69,817,979</u>	<u>(3,493,451)</u>	<u>464,688</u>	<u>66,789,216</u>
Total business-type activities capital assets, net	<u>\$ 69,840,422</u>	<u>(3,051,206)</u>	<u>-</u>	<u>66,789,216</u>

Depreciation expense was charged to the following governmental functions:

Utility Fund	\$ 2,981,471
Harbor Fund	545,270
Total depreciation - business-type activities	<u>\$ 3,526,741</u>

C. Net Investment in Capital Assets/Net Position

	Governmental Activities	Business-type Activities
Land	\$ 857,633	-
Construction in progress	5,290,933	-
Other capital assets, net of accumulated depreciation	48,311,609	66,789,216
Less: related long-term debt outstanding - spent	<u>(5,479,025)</u>	<u>(370,000)</u>
	<u>\$ 48,981,150</u>	<u>66,419,216</u>

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 6 – Capital Leases

In prior fiscal years, the City has obtained lease financing for the purchase of mobile equipment and other machinery and equipment. 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 leasing arrangements. The following is a schedule of the City's capital leases as of September 30, 2017:

	Stated Interest Rate	Present Value of Remaining Payments as of 09/30/2017
Ferrera Fire Ladder Truck	2.82%	\$ 419,489
John Deere Tractor	1.96%	19,933
11 Dodge Chargers	2.71%	271,238
Kubota Tractor	2.14%	50,289
Ferrara Pumper	2.31%	447,961
Kubota Tractor	2.41%	74,707
Total capital lease obligations		<u>\$ 1,283,617</u>

Equipment and related accumulated amortization under capital lease are as follows:

Governmental activities:	
Vehicles	\$ 419,638
Fire trucks	1,075,463
Tractors	223,004
Less: accumulated amortization	(510,011)
Net value	<u>\$ 1,208,094</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

The following is a schedule by years of the total payments due as of September 30, 2017:

September 30,	Principal	Interest	Total
2017	\$ 251,680	32,292	283,972
2018	243,214	24,766	267,980
2019	188,833	18,635	207,468
2020	135,255	14,804	150,059
2021	125,818	11,557	137,375
2022-2026	338,817	17,774	356,591
	<u>\$ 1,283,617</u>	<u>119,828</u>	<u>1,403,445</u>

Note 7 – Court Fines Receivable/Deferred Inflows of Resources

Court fines receivables are recorded as deferred inflow of sources in the fund financial statements due to the funds using modified accrual basis. However, revenues received during the year are recorded in the government-wide financial statements on the full-accrual basis of accounting. Miss. Code Ann. (1972) does not allow for write-off of debt owed to municipalities. The amount represented on the financial statements is conclusive of all bad debts owed by citizens to the municipal courts since the City started providing court services. Court fines receivable at September 30, 2017, were \$718,326, of which an allowance of \$538,744 has been determined as uncollectible with \$179,582 deemed collectible.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 8 – Retirement Plans

A. Defined Benefit Pension Plan

The City contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature.

Plan Description and Provisions

Substantially all of the City's full-time employees participate in PERS, a multi-employer, cost-sharing, defined benefit public employee pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits Provided

Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public cities. 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.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 8 – Retirement Plans (continued)

A. Defined Benefit Pension Plan (continued)

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 September 30, 2017, was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature.

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

At September 30, 2017, the City reported a liability of \$8,777,152 in the governmental activities and \$1,196,884 in the business-type activities for its proportionate share of the PERS 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 PERS net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was .060%. For the year ended September 30, 2017, the City recognized \$858,425 of PERS pension expense for governmental activities and \$117,058 for the business-type activities.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		
	Governmental Activities	Business-Type Activities	Total
Differences between expected and actual experience	\$ 126,100	17,195	143,295
Changes of assumptions	195,081	26,603	221,684
Net difference between projected and actual earnings on pension plan investments	-	-	-
City's contributions subsequent to the measurement date	149,016	20,320	169,336
Total	\$ 470,197	64,118	534,315

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 8 – Retirement Plans (continued)

A. Defined Benefit Pension Plan (continued)

At September 30, 2017, the City reported deferred inflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources		
	Governmental Activities	Business-Type Activities	Total
Differences between expected and actual experience	\$ 64,045	8,733	72,778
Changes of assumptions	14,956	2,039	16,995
Net difference between projected and actual earnings on pension plan investments	112,692	15,367	128,059
Differences between City contributions and proportionate share on contributions	296,461	40,427	336,888
Total	<u>\$ 488,154</u>	<u>66,566</u>	<u>554,720</u>

Within the deferred outflows, a net amount of \$169,336 of deferred outflows of resources is related to pensions resulting from the City's contributions subsequent to the measurement date and will be recognized as a reduction to the net pension liability in the year ended September 30, 2017.

The remaining amounts reported as deferred outflows of resources related to pensions of \$364,979 and deferred inflows of resources related to pensions of \$554,720 netting to (\$189,741) will be recognized in pension expense as follows:

Year Ending September 30,	
2018	\$ 121,209
2019	(22,026)
2020	(96,261)
2021	(192,663)
	<u>\$ (189,741)</u>

Actuarial assumptions

The total pension liabilities in the June 30, 2017, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.75 - 19.0 percent, including inflation
Investment rate of return	7.75 percent (net of pension plan investment expense, including inflation)

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 8 – Retirement Plans (continued)

A. Defined Benefit Pension Plan (continued)

The table for post-retirement mortality rates used in evaluating allowances to be paid was the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2017 with male rates set forward one year. The RP-Disabled Retiree Table set forward five years for males and four years for females, was used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the four year period ending June 30, 2014. The experience report is dated May 4, 2016.

The long-term expected rate of return on the 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 the plans' investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate 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:

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

Discount rate

The discount rate used to measure the total pension liability was 7.75 percent, which was based on the future long-term expected rate of return of 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions for PERS will be made at rates set in the Board's Funding Policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return investments was applied to all periods of projected benefit payments to determine the plan's total pension liability.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 8 – Retirement Plans (continued)

A. Defined Benefit Pension Plan (continued)

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate

The following table 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 one percentage-point lower (6.75 percent) or one percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1 % Increase (8.75%)
City's Proportionate share of PERS	\$ 13,081,615	\$ 9,974,036	\$ 7,394,071

Pension plan fiduciary net position

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

Three-year Trend Information

The following table provides the employer contribution to PERS for the last three fiscal years:

Fiscal Years Ending	Employer Contributions
2017	\$ 618,402
2016	571,586
2015	614,636

B. Deferred Compensation Plan

The City 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 Great-West Life & Annuity Insurance Company, permits employees to defer a portion of their salary until future years. All plan assets are held by Great West Life & Annuity Insurance Company for the exclusive benefit of the participants and their beneficiaries and are not subject to the claims of the City's general creditors.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 9 – Long-term Debt

Bonds, notes and other long-term debt payable at September 30, 2017, are comprised of the following:

	Matures	Original Issue	Interest Rate	Amount Outstanding
Governmental Activities:				
General Obligation Bonds				
GO Katrina Loan Refunding Bonds, Series 2010	March 2020	\$ 1,075,000	2.47%	\$ 322,500
GO Road and Construction Bonds, Series 2016	March 2036	4,000,000	2.50%	3,855,000
Total General Obligation Bonds				<u>4,177,500</u>
Notes Payable				
First Bank (5 Dodge Chargers)	January 2018	186,732	3.04%	16,317
First Bank (Toyota Tundra)	November 2017	36,462	2.18%	1,591
Total Notes Payable				<u>17,908</u>
Capital Leases Payable - See Note 7				
Suntrust Leasing - (Ferrera Fire Ladder Truck)	November 2023	579,947	2.82%	419,489
BancorpSouth (John Deere Tractor)	November 2018	82,310	1.96%	19,933
Kansas State First (11 Dodge Chargers)	August 2020	419,638	2.71%	271,238
BancorpSouth (Kubota Tractor)	July 2021	64,794	2.14%	50,289
Wells Fargo (Ferrera Pumper)	April 2026	495,516	2.31%	447,961
BancorpSouth (Kubota Tractor)	August 2022	75,898	2.41%	74,707
Total Capital Leases Payable				<u>1,283,617</u>
Total Bonds, Notes and Capital Leases Payable				<u>5,479,025</u>
Compensated Absences Payable				<u>192,384</u>
Total Governmental Activities Debt				<u>\$ 5,671,409</u>
Business-type Activities:				
General Obligation Bonds				
Refunding Bonds, Series 2014	June 2019	1,700,000	2.67%	\$ 370,000
Total Bonds Payable				<u>370,000</u>
Compensated Absences Payable				<u>37,621</u>
Total Business-type Activities Outstanding Debt				<u>\$ 407,621</u>
Total Government-wide Outstanding Debt				<u>\$ 6,079,030</u>

A. Governmental Activities

Transactions for the year ended September 30, 2017, are summarized as follows:

	Balance 10/1/2016	Additions	Retirements	Balance 9/30/2017	Within one Year
General Obligation Bonds	\$ 4,430,000	-	(252,500)	4,177,500	257,500
Notes Payable	75,688	-	(57,780)	17,908	17,908
Capital Leases	1,442,481	75,898	(234,762)	1,283,617	251,680
Compensated Absences	256,017	-	(63,633)	192,384	76,954
	<u>\$ 6,204,186</u>	<u>75,898</u>	<u>(608,675)</u>	<u>5,671,409</u>	<u>604,042</u>

General Obligation Bonds, Series 2016 – In 2016, the City issued \$4,000,000 in general obligation bonds to be used for road and construction improvements in the City. The bond is to be repaid over 20 years, maturing in March 2036 and carries an interest rate of 2.5%. Payment on this bond will be made from general ad valorem tax collections.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 9 – Long-term Debt (continued)

A. Governmental Activities (continued)

General Obligation – Katrina Loan Refunding Bond, Series 2010 – In 2010, the City issued \$1,075,000 in general obligation refunding bonds to be used to cover the costs associated with Hurricane Katrina for public improvements and repairs in the City. The bond is to be repaid over 10 years, maturing in 2020, and carries a fixed interest rate of 2.47%. Payment on this bond will be made from general ad valorem tax collections.

Annual debt service requirements to maturity for these bonds payable are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 257,500	131,978	389,478
2019	262,500	124,396	386,896
2020	267,500	116,703	384,203
2021	165,000	110,125	275,125
2022	170,000	104,812	274,812
2023-2027	940,000	437,449	1,377,449
2028-2032	1,100,000	273,462	1,373,462
2023-2036	1,015,000	84,849	1,099,849
	<u>\$ 4,177,500</u>	<u>1,383,774</u>	<u>5,561,274</u>

Notes Payable – In 2013, the City financed five vehicles for \$186,732 with The First Bank. The note is to be repaid over 4 years, maturing in 2018 and carries a fixed interest rate of 3.04%. In addition, in 2014 the City financed a truck with The First Bank for \$36,462. This note is to be repaid over 4 years and matures in November 2017. Payment on these loans will be made from general ad valorem tax collections.

Annual debt service requirements to maturity for these notes payable are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 17,908	97	18,005
	<u>\$ 17,908</u>	<u>97</u>	<u>18,005</u>

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 9– Long-term Debt (continued)

B. Business-type Activities

Transactions for the year ended September 30, 2017, are summarized as follows:

	Balance 10/1/2016	Additions	Retirements	Balance 9/30/2017	Due Within one Year
Revenue Refunding Bonds	\$ 1,050,000	-	(680,000)	370,000	370,000
Compensated Absences	33,500	4,121	-	37,621	15,048
Total business-type activities	<u>\$ 1,083,500</u>	<u>4,121</u>	<u>(680,000)</u>	<u>407,621</u>	<u>385,048</u>

Water & Sewer Revenue Refunding Bonds, Series 2014 – In 2014, the City issued \$1,700,000 in refunding bonds. These bonds were issued to refund the GO Water, Sewer and Gas System Refunding Bonds, Series 2005 issued in April 2005. This bond requires the establishment of a Bond Fund (account) which consists of funds sufficient for the purpose of paying the next due payment on the bonds.

Annual debt service requirements to maturity for this bond payable is as follows:

September 30,	Principal	Interest	Total
2018	\$ 370,000	4,940	374,940
	<u>\$ 370,000</u>	<u>4,940</u>	<u>374,940</u>

C. Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2017, the amount of outstanding debt was equal to 11.9% of the latest property assessments.

D. Compensated Absences

Compensated absences will be paid from the funds from which the employees' salaries were paid.

Note 10 – Property, Sales and Gaming Taxes Revenue

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 information extracted from the City assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1. Taxes on real and personal property are levied by the City Council at the first regular meeting in September.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 10 – Property, Sales and Gaming Taxes Revenue (continued)

In accordance with the Mississippi Code of 1972, as amended, the City Council may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding ten years or a minimum of 20 mills. 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.

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt but exclusive of school bond and interest for the year ended September 30, 2017, was 22.75 mills or \$22.75 per \$1,000 of assessed valuation.

Property taxes at the fund level are recorded as receivables and deferred inflow of resources at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected including those collected 60 days after year-end. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with GAAP have been recognized as revenue.

B. General Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Bay St. Louis) back to the City monthly. General sales tax revenue reported in the General Fund was \$1,550,613.

C. Gaming Fees and Taxes Revenue

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

Gross Revenue Gaming Tax and Gaming Device Tax

The gross revenue gaming tax is imposed and collected by the State of Mississippi which is similar to sales tax and is remitted to the City. The gaming device tax is similar to a personal property tax and is assessed on all gaming devices maintained by the casino; this tax is also collected by the State of Mississippi. The amount of tax recognized as gaming revenue and gaming devices is \$108,742 and 112,100 respectively.

Boarding Fees

The City has negotiated a contractual amount of boarding fees to be paid directly to the City on a monthly basis and is based on gross gaming revenues. In the year ended September 30, 2017, the City collected \$1,837,650 in boarding fees.

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City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 11 – Risk Management and Contingencies

The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through, public entity risk pools.

Worker's Compensation Fund – The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2017, to January 1, 2017. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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

Claims and Judgments – The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Federal Grants – The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provision for any liability that may result has been recognized in the City's financial statements.

Litigation – The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel has advised us that the possibility exists of a liability resulting from these lawsuits. These lawsuits may have a material adverse effect on the financial condition of the City in the future. No liability has been recorded for this contingency, in that an amount is indeterminable.

Note 12 – Commitments and Contingencies

A. Joint Ventures

A joint venture is a legal entity or other organization that results from contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or on 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 Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 12 – Commitments and Contingencies (continued)

A. Joint Ventures (continued)

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.

Hancock County Regional Solid Waste Management Authority

The Hancock County Regional Solid Waste Management Authority (the Authority) is a governmental entity originally formed by an agreement between the City of Bay St. Louis, Mississippi, the City of Waveland, Mississippi and Hancock County, Mississippi pursuant to the Interlocal Cooperation Act of 1974. The Authority was officially incorporated in March 1998 pursuant to incorporation agreement entered into in December 1997. The Authority is to function for purposes of solid waste management for the participating units of local government, the Cities of Bay St. Louis, Waveland, Diamondhead and Hancock County, Mississippi, in fulfilling their obligations to establish, operate and maintain a garbage collections and disposal system.

The Authority is governed by a Board of Commissioners composed of eight commissioners two appointed by Hancock County Board of Supervisors and the remaining appointed by the member units of local government pursuant to the Act.

Pursuant to the terms of the agreement with the Authority, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facilities. The costs associated with this contract totaled \$449,330 for the year.

A complete copy of the 2017 financial statements should be on file at the administrative offices of the Authority which are located at 854 US Highway 90, Bay St. Louis, MS 39520 or may be obtained by calling (228) 549-2052.

Hancock County Utility Authority

City of Bay St. Louis contracts with the Hancock County Utility Authority (the "Utility Authority"), whereby the Utility Authority disposes of the City's wastewater in compliance with water quality standards established by the Mississippi Air and Water Pollution Control law and the Federal Water Pollution Control Act.

The Authority provides for the operation and maintenance of the sewer treatment plants on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facilities. The costs associated with this contract totaled \$1,016,009 for the year.

A complete copy of the 2017 financial statements should be on file at the administrative offices of the Authority which are located at 401 Gulfside Street, Waveland, MS 39576 or may be obtained by calling (228) 467-3702.

City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 12 – Commitments and Contingencies (continued)

B. Construction Contract Commitments

The City has one contract listed as construction in progress in Note 5. The remaining balance of the commitment as of September 30, 2017, is \$55,618.

Note 13 – Prior Period Adjustments

A summary of the significant net position/fund balance adjustment(s) is as follows:

Statement of Activities – Governmental Activities

<u>Explanation</u>	<u>Amount</u>
Current revenue booked as receivable in PY	\$ (116,375)
Cash as overstated in PY	(166,876)
Accounts payable to other government incurred in PY	(60,683)
Net pension liability overstated in prior years	356,082
Total prior period adjustment - Statement of Activities Governmental Activities	<u>\$ 12,148</u>

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

<u>Explanation</u>	<u>Amount</u>
Current revenue booked as receivable in PY	\$ (116,375)
Cash as overstated in PY	(166,876)
Total prior period adjustment - General Fund	(283,251)
Accounts payable to other government incurred in PY	(60,683)
Total prior period adjustment - Other governmental funds	(60,683)
Total prior period adjustment - Governmental Funds	<u>\$ (343,934)</u>

Statement of Activities – Business-type Activities and

Statement of Revenues, Expenses and Changes in Net Position – Business-type Activities

<u>Explanation</u>	<u>Amount</u>
Net pension liability overstated in prior years	\$ 91,186
Total prior period adjustment - Utility Fund	<u>\$ 91,186</u>
Net pension liability understated in prior years	\$ (108,514)
Total prior period adjustment - Harbor Fund	<u>\$ (108,514)</u>
Total prior period adjustment - Statement of Activities Business-type activities	<u>\$ (17,328)</u>

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City of Bay St. Louis, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 14– 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 evaluated the activity of the City through September 27, 2018, (the date the financial statements were available to be issued), and determined that the no significant subsequent events have occurred requiring disclosure in the notes to the financial statement.

REQUIRED SUPPLEMENTARY INFORMATION

City of Bay St. Louis, Mississippi
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund
Budget to Actual - (Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

	Budgeted Amounts		Actual Budgetary Basis	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Taxes	4,932,030	4,934,672	4,947,450	2,642	12,778
Licenses and permits	306,437	328,100	335,280	21,663	7,180
Fines and Fees	188,000	165,100	159,429	(22,900)	(5,671)
Gaming	2,097,089	2,072,100	2,058,109	(24,989)	(13,991)
Grants	62,672	43,359	157,888	(19,313)	114,529
Interest	500	1,400	56	900	(1,344)
Other	601,305	999,201	94,161	397,896	(905,040)
Total Revenues	8,188,033	8,543,932	7,752,373	355,899	(791,559)
Expenditures:					
General government:					
Personnel services	1,357,028	1,309,267	1,287,361	47,761	21,906
Supplies	32,809	38,134	27,192	(5,325)	10,942
Other services and charges	1,664,474	2,375,187	818,166	(710,713)	1,557,021
Total general government	3,054,311	3,722,588	2,132,719	(668,277)	1,589,869
Public safety:					
Personnel services	2,999,444	2,801,997	2,784,369	197,447	17,628
Supplies	86,449	97,862	18,336	(11,413)	79,526
Other services and charges	135,158	154,616	130,212	(19,458)	24,404
Capital outlay	29,000	62,594	23,680	(33,594)	38,914
Total public safety	3,250,051	3,117,069	2,956,597	132,982	160,472
Public works:					
Personnel services	1,078,772	920,257	927,068	158,515	(6,811)
Supplies	101,500	101,472	96,814	28	4,658
Other services and charges	700,650	764,380	737,038	(63,730)	27,342
Capital outlay	-	92,680	-	(92,680)	92,680
Total public works	1,880,922	1,878,789	1,760,920	2,133	117,869
Total Expenditures	8,185,284	8,718,446	6,850,236	(533,162)	1,868,210
Excess (Deficiency) of Revenues					
Over Expenditures	2,749	(174,514)	902,137	(177,263)	1,076,651
Other Financing Sources (Uses):					
Transfers in	117,359	273,487	309,000	156,128	35,513
Total Other Financing Sources (Uses)	117,359	273,487	309,000	156,128	35,513
Net Change in fund balance -					
Budget-Cash Basis	120,108	98,973	1,211,137	(21,135)	1,112,164

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

City of Bay St. Louis, Mississippi
Notes to the Required
Supplementary Information-Budgetary Schedules
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

A. Budgetary Information.

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 capital outlay, election expense and emergency warrants.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

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

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

Net Change in fund balance - Budget-Cash Basis		\$ 1,211,137
Revenues/Transfers per Cash-basis Budget	\$ 8,061,373	
Additional accrued revenues	<u>33,651</u>	33,651
Revenues/Transfers per Fund Financial Statements	<u>\$ 8,095,024</u>	
Expenditures/Transfers per Cash-basis Budget	\$ 6,850,236	
Additional accrued expenses	<u>618,127</u>	(618,127)
Expenditures/Transfers per Fund Financial Statement	<u>\$ 7,468,363</u>	
Lease/Insurance proceeds not budgeted	<u>\$ 92,420</u>	<u>92,420</u>
Net Change in fund balance - Fund Financials		<u><u>\$ 719,081</u></u>

City of Bay St. Louis, Mississippi
Notes to the Required
Supplementary Information-Budgetary Schedules
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

D. Budgetary Data

The procedures used by the City in establishing budget are mandated by Mississippi State law. A brief summary of the City's policies for recording budgetary data in the financial statements are as follows:

1. Prior to August 1, the Mayor submits to the Council 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. No later than September 15, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental and proprietary funds.
5. Budgets for the governmental and proprietary funds are adopted on a cash basis except for expenditures which include those paid within 30 days of the fiscal year end as required by state statute.

City of Bay St. Louis, Mississippi
Schedule of the City's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.600%	0.061%	0.064%
City's proportionate share of the net pension liability (asset)	\$ 9,974,036	10,896,124	9,893,138
City's covered payroll	\$ 3,859,956	3,927,149	3,949,302
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	258.40%	277.46%	250.50%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until a full 10 year trend is compiled, the City has only presented information for the years in which information is available.

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

City of Bay St. Louis, Mississippi
Schedule of the City's Contributions
Last 10 Fiscal Years*
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 618,402	571,586	614,636
Contributions in relation to the contractually required contribution	<u>618,402</u>	<u>571,586</u>	<u>614,636</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 3,926,362	3,629,117	3,902,451
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until, a full 10 year trend is compiled, the City has only presented information for the years in which information is available.

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

City of Bay St. Louis, Mississippi
Notes to the Required Supplementary Information – Pension Schedules
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

Pension Schedules

A. Changes of assumptions.

2017

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.
- The wage inflation assumption was reduced from 3.75% to 3.25%.
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
- The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

2016

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

2015

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

B. Changes in benefit provisions.

2016

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

SUPPLEMENTAL INFORMATION

City of Bay St. Louis, Mississippi
Schedule of Surety Bonds
(Required by State of Mississippi)
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

Position	Name	Bond
Mayor	Michael Favre	\$ 100,000
Councilman at Large	Gary Knoblock	100,000
Councilmember	Phillip D Seal Jr	100,000
Councilmember	Joshua Martin DeSalvo	100,000
Councilmember	William Zimmerman	100,000
Councilmember	Larry Smith	100,000
Councilmember	Eugene Hoffman	100,000
Councilmember	Jeffery Reed	100,000
City Clerk/Comptroller	Sissy Gonzales	100,000
Harbor Master	Charles Fortin	50,000
Deputy Harbor Master	Duane Caughlin	50,000
Clerk of Council	Lisa Tilley	50,000
Deputy Council Clerk	Linda Garcia	50,000
Police Chief	Gary Ponthieux	50,000
Police Clerk	Tammy Brady	50,000
Police Clerk	Chenea Cardinale	50,000
Police Clerk	Peggy Averhart	50,000
Human Resources Officer	Jamie Favre	50,000
Assistant Police Chief	Alvin Kinston	50,000
Deputy City Clerk	Dana Feuerstein	50,000
Court Clerk	Clementine Sheppard	50,000
Deputy Court Clerk	Rachel Smith	50,000
Deputy Court Clerk	Mary Ann Bremer	50,000
Utility Supervisor (Retired March 2018)	Candee Breaux	50,000
Utility Clerk	Katie Stewart	50,000
Inventory Clerk	Caitlin Thompson	50,000
Departmental	Police Department	50,000
NTF Officer	E J Taylor Jr	50,000
Harbor Security	Derek White	50,000

SPECIAL REPORTS

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

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

September 27, 2018

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay St. Louis, Mississippi (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 27, 2018.

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 procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2017-001

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies: 2017-002 through 2017-006.

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Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City in the Limited Internal Control and Compliance Review Management Report dated September 27, 2018, included within this document.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Walter Wadsworth * *[Signature]*

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

September 27, 2018

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

In planning and performing our audit of the financial statements of the City of Bay St. Louis, Mississippi for the year ended September 30, 2017, we considered the City's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to the City of Bay St. Louis, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated September 27, 2018, on the financial statements of the City of Bay St. Louis, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses.

The results of our review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

1.	Council Minutes
Criteria	MS Section 21-35-13 requires the City Clerk to present the Council with a monthly report of various financial information for the preceding month. This report is to be presented at the regular meeting of the Council.
Condition	This information is being sent on a monthly basis to the Council; the minutes do not reflect the receipt of the report.
Cause	Monthly report filed but not documented in minutes.

Effect	The City is not in compliance with state law.
Recommendation	The Council Clerk should include acknowledgment of the monthly report in the minutes of the meeting when submitted.
Views of Responsible Officials	The Council Clerk will comply with the recommendation.

2. Inventory Asset Tags

Criteria	Assets meeting the criteria as outlined in the MS Municipal Fixed Assets Management Manual should be physically tagged.
----------	---

Condition	Assets were not being physically tagged as required.
-----------	--

Cause	Employee turnover and lack of training for employees assuming the duties of the Fixed Assets Control Clerk.
-------	---

Effect	Failure to properly tag assets can lead to the inability to identify lost or stolen assets in a timely manner. The lack of an asset tag can also allow for easier theft of the asset.
--------	---

Recommendation	We recommend the city follow the requirement for asset tagging as outlined in the MS Municipal Fixed Assets Management Manual.
----------------	--

View of Responsible Official	<p>The Admin/Finance department had a Purchasing Clerk/ Fixed Asset Clerk for many years prior to 2015, however, this position was eliminated for budgetary reasons. The city reinstated the Fixed Asset Clerk's position from January 2017 until September 2017 at which time that person was transferred to another office. The Fixed asset clerk was in the process of catching up the Fixed Assets inventory system until she was transferred in September 2017, however, she did not complete this project before her transfer. Also, due to the retirements, transfers, or resignations of 6 people from 2016 to 2018 in the admin/finance departments, the finance dept has had to take on increased job duties and responsibilities from these 6 people among the 4.5 remaining staff members. Inventory tags not being timely attached to assets is a direct result of decreased staff and increased workloads. Everything required cannot be done timely with limited staff.</p>
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The City of Bay St. Louis, Mississippi responses to the findings included with this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.

Walter Wood 7th St. # 1

**CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

Section 1: Summary of Auditors' Results

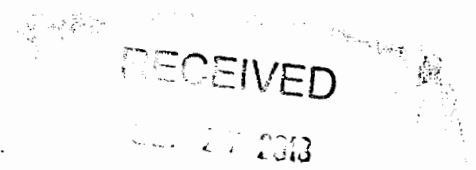
Financial Statements:

- | | | |
|----|--|------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental Activities | Unmodified |
| | General Fund | Unmodified |
| | Other major funds | Unmodified |
| | Aggregate remaining fund information | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiency identified that is not considered to be a material weakness? | Yes |
| 3. | Noncompliance related to the financial statement noted? | No |

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Material Weakness

2017-001	Employee Termination or Resignation Controls
Repeat Finding`	Yes 2016-001
Criteria	The City termination policy is that any employee termination or resignation has to be reported by the department head to the payroll department. The payroll department then reports the termination or resignation to the human resources department.
Condition	Time cards on terminated employees can be submitted to the payroll department.
Cause	The payroll department can continue to pay terminated employees no longer employed by the city.
Effect	Potential overstatement of salaries and payroll taxes can result.
Recommendation	We recommend that the City randomly distribute payroll check stubs to employees of each department in order to detect if department heads are colluding with employees and that all terminations or resignations go straight to human resources instead of department heads.



**CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Significant Deficiency

2017-002	Building Permits
Repeat Finding	Yes 2016-002
Criteria	The City's ordinances require that all new building construction and remodels have a valid building permit, and if necessary, the permits may need to be renewed once they expire. Each file should contain documentation to support fees charged, inspections performed, and any other items to ensure compliance with City ordinances.
Condition	We noted that permit applications were incomplete and not signed by the applicant or by a city official. Most of the files reviewed were missing inspection documentation, certificates of occupancy, and other documents to ensure compliance with City ordinances. In some instances, the building permit software miscalculated permit fees.
Cause	The permit department did not follow up on construction projects in progress and once completed, they did not verify or document that previous issues had been addressed.
Effect	Some building projects were noncompliant due to lack of documents, follow-up, final inspection, and/or certificates of occupancy, and a loss of revenue due to incorrect assessments and calculations could occur.
Recommendation	We recommend that all building projects have a completed and signed application on file with all applicable fees assessed and collected. All permit fees should be paid in full prior to the issuance of permits. The city should implement policies and procedures to ensure that all building projects are inspected throughout the building process, and all projects should have a final inspection conducted. Project files should contain all necessary documentation to ensure compliance with City ordinances. The ordinance for building permit fees needs to be reviewed and changed to reflect the calculations made by the building permit software.

Significant Deficiency

2017-003	Court Fines and Related Assessments
Repeat Finding	Yes 2016-003
Criteria	Proper accounting for court fine revenue is required to accurately determine court assessments due to other agencies and to determine the court fines receivable for each court case. The City is required to submit monthly court assessment reports detailing the amount of funds collected that are to be paid to various agencies and the State.
Condition	There were months throughout the year that the City failed to remit court assessment to the State. Remittance is required once a month for the previous month's court collections. Improper reports for accounts receivable were run on September 30, 2017.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Cause The City's court department was not running an accounts receivable report at the end of each month and reconciling this report in order to determine accounts receivable. The finance department was not timely remitting the court assessments to the State.

Effect Inadequate review, late remittances, and untimely generation of reports can result in noncompliance with court orders and state regulations and cause inaccuracies in financial reporting. The failure to remit court assessments timely can lead to penalty and interest charges for the City.

Recommendation The accounts receivable, cash bonds and restitution reports should be printed and reviewed monthly to ensure correct classifications and financial reporting of the receipts. The monthly court assessment remittance should be made each month in a timely manner.

Significant Deficiency

2017-004 Pooled Cash Reconciliations

Repeat Finding Yes 2016-008

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

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

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

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

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

Significant Deficiency

2017-005 Utility Fund

Repeat Finding No

Criteria Customer billings should be reviewed for accuracy prior to mailing. Controls would be strengthened if the utility department ran monthly reports in order to research

**CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Condition	<p>discrepancies.</p> <p>In most instances, "roll over bills" were not reviewed before they were sent out to customers. The Incode system will incorrectly roll a customer's bill backwards when a new customer occupies the residence and sets up utilities in their name at the same address. Per discussion with the utility clerk, the Incode system provides prompts to alert the department to the "roll over bills".</p> <p>The Utility Department does not currently generate monthly billing reports, transaction reports, customer balance reports, etc.</p>
Cause	The Utility department is not paying attention to the Incode system prompts. Utility department does not generate or keep any monthly records on hand. Both issues are a result of inadequate staffing, employee turnover and poor transitional training.
Effect	Failure to monitor the Incode system can create large adjustments that negatively affect the utility revenue and can cause tense relationships between customers and the City. Improper documentation and untimely generation of reports can result in inaccuracies in financial reporting.
Recommendation	We recommend that the Utility department pay close attention to the Incode system and respond to every prompt when dealing with a "roll over bill". The Utility department should discuss with Incode on how to keep the system from incorrectly rolling over when an account changes hands. The utility department should also generate monthly reports and establish a system of keeping up with monthly revenue totals, adjustment totals, expense totals, etc.
Significant Deficiency	
2017-006	Harbor Accounts Receivable/Unapplied Credits
Repeat Finding	No
Criteria	Harbor slip revenue, accounts receivable and unapplied credit reports should be run and reviewed monthly to determine accuracy.
Condition	The accounts receivable and unapplied credits accounts do not appear to be accurate. Corrupt data from a software failure in prior years has never been cleaned from system.
Cause	City personnel are not reconciling the aged accounts receivable report to the general ledger and to the boats in the slips on a monthly basis.
Effect	Failure to accurately record accounts receivables can create a decrease in cash collections and can overstate harbor slip revenue.
Recommendation	We recommend that a thorough analysis be performed on all customer accounts to determine any amount due to or owed by the city. Once an amount has been established, a monthly reconciliation to the general ledger should be done.

AUDITEE'S CORRECTIVE ACTION PLAN

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**Corrective Action Plan
For the Year Ended September 30, 2017**

2017-001 Employee Termination or Resignation Controls

(Prior Year Audit Finding)

Response: A memo from Human Resources will be given to each City employee stating that each employee MUST see Human Resources when resigning and that a written resignation must be submitted to put in personnel file.

HR/Payroll will also randomly distribute HR/Payroll related correspondence, such as W-2's, Open Enrollment mandatory meetings or possibly payroll stubs.

The city has had many years of payroll findings. Late tax remittances, health insurance remittance issues, garnishments and child support, over and under withholdings, penalties due to late filing or non-filing of monthly and quarterly reports, mis-reported retirement wages, incorrectly calculated paychecks, etc. In Fall 2017, after the September 2016 audit was finalized and the material payroll finding of fraud was delivered, the Comptroller requested the former payroll clerk to set up meetings with various payroll companies to evaluate ways to improve our payroll processes. These meetings were never set up. During early 2018, the Comptroller requested the HR Benefits and Insurance clerk to set up these same meetings, we then started meeting with several vendors to evaluate the options that would streamline and bring more controls to the payroll process. A presentation was made to City council in March 2018 and again in April 2018. On May 8, 2018, the city council approved to transfer payroll processing to Paylocity. The first phase of the system was implemented on July 20, 2018. Completion of the process is expected by the October/November 2018 time frame. The Paylocity system allows for geofencing of employee time punches, multiple approval levels of time sheets beginning at the employee level. The Paylocity system will reduce the opportunity for fraudulent time sheets since all time sheets will be initiated by the employee using their own log in IDs and passwords. The City has also implemented a policy in September 2018 after consultation with the auditors; of a new termination and resignation policy whereby all resignations are to be initiated by the employee directly with the HR Benefits and Insurance clerk. All employees have also been individually given a memo instructing them that separation of employment for any reason should be handled directly with HR individually immediately upon separation. Statutory and tax reporting has been transferred to Paylocity with this process, thereby minimizing the city's exposure for late or missing filings.

2017-002

Building Permits

(Prior Year Audit Finding)

Response:

The building department will contact the software company, Incode, in asking for their assistance in correcting the fee codes due to incorrect assessments and calculations.

The building department personnel will be held more accountable for maintaining all files with accurate documentation and assuring that permits are signed by both the owner/agent and city official. A procedure will be implemented immediately within the appropriate departments in reviewing files for the required documents to include but not limited to final inspections and certificates of occupancy for accuracy and completeness.

2017-003

Court Fines and Related Assessments

(Prior Year Audit Finding)

Response:

Adjudicated report for the Judge will be run monthly and on September 30th of each year. Accounts receivable, cash bonds, and restitution reports will also be run on a monthly basis.

2017-004

Pooled Cash Reconciliations

(Prior Year Audit Finding)

Response:

Monthly bank statements for the pooled cash account (Operating cash balance) are being reconciled to the general ledger. However, the Claim on Pooled accounts (offsetting liability) have not balanced since the September 2013 audit. After doing a partial analysis during September 2018, it appears that during the 2014, 2015 and 2016 audit years, journal entry errors occurred in the Claim on Pooled accounts. It appears that some general ledger entries for harbor disbursements related to accounts payable and payroll were set up in the system incorrectly. This mapping was corrected in the summer/fall of 2016. The auditors that were hired to assist during the 2015 audit further compounded the issue by making journal entries directly to the General Fund's Claim on Pooled account that caused it to become further out of balance. A complete analysis of the Claim on Pooled accounts will be completed during September and October 2018 and adjustments will be made to correct the offsetting liability.

2017-005

Utility Fund

Response:

Since April 2018, when the previous utility supervisor retired, these bills have been corrected before they were generated and mailed. Incode supplies prompts to warn you of these bills.

Previously if bills were generated and mailed out with these errors (rollover bills), the previous utility supervisor/administrator would correct these bills after they were mailed. The corrections were in the form of an adjustment back to the account.

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Since the retirement of the previous utility supervisor, the department has began consistently archiving all monthly billing calculations, monthly bills, monthly penalty registry, and monthly cutoffs. In addition to archiving all of these reports, adjustment sheets have been completed properly and the city clerk signs off on any adjustments. These adjustments are filed in the homeowners file in the utility department.

These new processes were brought to the auditor's attention when the department was being questioned about reports and adjustments. The department brought the rollover billing issue to the auditor's attention and the department also stated that they have been correcting this problem for the past few months before bills are generated and mailed.

2017-006

Harbor Accounts Receivable/Unapplied Credits

Response:

A thorough analysis of all customer accounts has been completed by the Harbormaster. The results of the analysis have been forwarded to the audit team. Beginning in September 2018, a monthly reconciliation of the customer account balances will be done between the subledger balances and the general ledger balances. Any discrepancies will be further analyzed and corrected on a timely basis.