



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

CITY OF OCEAN SPRINGS, MISSISSIPPI
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2017

RECEIVED

NOV 29 2018



**CITY OF OCEAN SPRINGS, MISSISSIPPI
TABLE OF CONTENTS
SEPTEMBER 30, 2017**

	<u>Page (s)</u>
INTRODUCTORY SECTION	
Listing of City Officials	1
INDEPENDENT AUDITORS' REPORT	2 – 4
FINANCIAL SECTION	
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Exhibit A Statement of Net Position	5
Exhibit B Statement of Activities	6
Fund Financial Statements:	
Governmental Funds Financial Statements:	
Exhibit C Balance Sheet	7
Exhibit C-1 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	8
Exhibit D Statement of Revenues, Expenditures, and Changes in Fund Balances	9
Exhibit D-1 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Proprietary Funds Financial Statements:	
Exhibit E Statement of Net Position	11
Exhibit F Statement of Revenues, Expenditures, and Changes in Fund Net Position	12
Exhibit G Statement of Cash Flows	13
NOTES TO FINANCIAL STATEMENTS	14 – 39
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule 1 Schedule of City's Proportionate Share of Net Pension Liability	40
Schedule 2 Schedule of City's Contributions	41
Notes to Required Supplementary Information	42
COMBINING FINANCIAL STATEMENTS	
Non-Major Governmental Funds	
Balance Sheet	43
Statement of Revenues, Expenditures, and Changes in Fund Balances	44

NOV 29 2016

**CITY OF OCEAN SPRINGS, MISSISSIPPI
TABLE OF CONTENTS (Continued)
SEPTEMBER 30, 2017**

	<u>Page(s)</u>
 OTHER SUPPLEMENTARY INFORMATION	
Schedule of Surety Bonds for City Officials	45
 REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46 – 47
Independent Auditors' Report on Compliance with Mississippi State Laws and Regulations	48 – 49

INTRODUCTORY SECTION

NOV 29 2018

**CITY OF OCEAN SPRINGS, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2017**

ELECTED OFFICIALS

Mayor	Shea Dobson (Current) Connie Moran (Former)
Alderman – Ward 1	John Gill
Alderman – Ward 2	Rickey Authement (Current) Matt McDonald (Former)
Alderman – Ward 3	Joseph Bellman Jr. (Current) Frederick Cody Jr. (Former)
Alderman – Ward 4	Ken Papania (Current) Greg Denyer (Former)
Alderman – Ward 5	Robert Blackman (Current) Jerry Dalgo (Former)
Alderman – Ward 6	Michael Impey
Alderman – At Large	Robert Cox

APPOINTED DEPARTMENT HEADS

City Clerk	Shelly Ferguson (through July 2018) Patty Gaston (Interim)
City Attorney	Kevin Melchi
Police Department	Mark Dunston
Fire Department	Jeffrey Ponson
Public Works	John Russell
Parks and Recreation	Geri Straight
Human Resources	Mindy McDowell

INDEPENDENT AUDITORS' REPORT



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

INDEPENDENT AUDITORS' REPORT

November 16, 2018

Honorable Mayor and Members of the
Board of Aldermen
City of Ocean Springs
Ocean Springs, 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 the City of Ocean Springs, Mississippi, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Ocean Springs, Mississippi'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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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.

Honorable Mayor and Members of the
Board of Aldermen
City of Ocean Springs
November 16, 2018

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and net pension liability and 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 net pension and contributions required supplementary information on pages 40 through 42, 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.

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ocean Springs, Mississippi's basic financial statements. The introductory section on page 1 and the combining non-major governmental fund statements on pages 43 through 44 are presented for purposes of additional analysis and are not required as part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Honorable Mayor and Members of the
Board of Aldermen
City of Ocean Springs
November 16, 2018

In addition, the State of Mississippi requires that municipalities submit a schedule of surety bonds maintained for city personnel in compliance with § 21-17-5 of Mississippi Code of 1972. This schedule has been presented on page 45. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of surety bonds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the City of Ocean Springs, 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 the City of Ocean Springs, Mississippi's internal control over financial reporting and compliance.

Alexander. Van loon. Sloan. Levens. & Favre, PLLC

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

RECEIVED
JUN 29 2018

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,645,275	\$ 470,215	\$ 2,115,490
Receivables, net	578,890	763,874	1,342,764
Due from other governmental agencies	1,121,356	483,811	1,605,167
Prepaid expenses	206,740	-	206,740
Restricted assets:			
Cash and cash equivalents	737,040	519,383	1,256,423
Investments, bond reserve	9,271,522	-	9,271,522
Capital assets			
Nondepreciable assets	10,559,036	63,008	10,622,044
Depreciable assets, net of depreciation	37,458,376	21,234,078	58,692,454
Total capital assets	<u>48,017,412</u>	<u>21,297,086</u>	<u>69,314,498</u>
Total assets	<u>61,578,235</u>	<u>23,534,369</u>	<u>85,112,604</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows on pension liability	<u>839,290</u>	<u>134,342</u>	<u>973,632</u>
LIABILITIES			
Accounts payable	432,400	316,440	748,840
Accrued liabilities	477,931	19,113	497,044
Retainage payable	47,050	5,406	52,456
Deferred revenues	200,000	-	200,000
Customer deposits	-	519,383	519,383
Long-term liabilities:			
Due within one year			
Bonds, notes payable, and capital leases	888,497	427,553	1,316,050
Accrued interest	192,331	-	192,331
Compensated absences	551,205	97,786	648,991
Due in more than one year			
Bonds, notes payable, and capital leases	21,720,998	3,995,136	25,716,134
Proportionate share of collective net pension liability	15,870,532	2,415,200	18,285,732
Total liabilities	<u>40,380,944</u>	<u>7,796,017</u>	<u>48,176,961</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows on pension liability	<u>577,386</u>	<u>90,705</u>	<u>668,091</u>
NET POSITION			
Invested in capital assets, net of related debt	25,360,867	16,868,991	42,229,858
Restricted for:			
Capital improvements	84,255	-	84,255
Unrestricted	<u>(3,985,927)</u>	<u>(1,087,002)</u>	<u>(5,072,929)</u>
Total net position	<u>\$ 21,459,195</u>	<u>\$ 15,781,989</u>	<u>\$ 37,241,184</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Exhibit B

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 4,819,240	\$ 23,050	\$ 272,035	\$ 554,887	\$ (3,969,268)	\$ -	\$ (3,969,268)
Culture and recreation	2,090,044	695,225	-	20,450	(1,374,369)	-	(1,374,369)
Public safety	6,458,005	603,490	208,311	-	(5,646,204)	-	(5,646,204)
Public works	2,037,455	-	81,513	75,498	(1,880,444)	-	(1,880,444)
Economic development	473,904	336,480	-	-	(137,424)	-	(137,424)
Interest on long-term debt	761,664	-	-	-	(761,664)	-	(761,664)
Total governmental activities	<u>16,640,312</u>	<u>1,658,245</u>	<u>561,859</u>	<u>650,835</u>	<u>(13,769,373)</u>	<u>-</u>	<u>(13,769,373)</u>
Business-type activities							
Water and Sewer	6,201,473	6,780,023	-	26,522	-	605,072	605,072
Total primary government	<u>\$ 22,841,785</u>	<u>\$ 8,438,268</u>	<u>\$ 561,859</u>	<u>\$ 677,357</u>	<u>(13,769,373)</u>	<u>605,072</u>	<u>(13,164,301)</u>
General revenues:							
Property taxes, levied for general purposes					4,605,870	-	4,605,870
Sales, restaurant, and hotel taxes					6,447,441	-	6,447,441
Franchise and utility taxes					760,054	-	760,054
Other taxes					755,773	-	755,773
Interest earnings					70,832	-	70,832
Miscellaneous					113,192	-	113,192
Sale of assets					3,213	-	3,213
Transfers					400,000	(400,000)	-
Total general revenues and transfers					<u>13,156,375</u>	<u>(400,000)</u>	<u>12,756,375</u>
Change in net position					(612,998)	205,072	(407,926)
Net position - beginning, as previously reported					21,356,417	15,124,902	36,481,319
Prior period adjustments					715,776	452,015	1,167,791
Net position - beginning, as restated					<u>22,072,193</u>	<u>15,576,917</u>	<u>37,649,110</u>
Net position - ending					<u>\$ 21,459,195</u>	<u>\$ 15,781,989</u>	<u>\$ 37,241,184</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

APPROVED
NOV 29 2018

**CITY OF OCEAN SPRINGS, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	General Fund	Food and Beverage	General Obligation	Other Non- Major Government Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,529,433	\$ -	\$ -	\$ 115,842	\$ 1,645,275
Restricted Assets:					
Cash and cash equivalents	318,135	296,173	122,732	-	737,040
Investments-bond reserve	-	1,104,176	-	-	1,104,176
Escrow	-	8,167,346	-	-	8,167,346
Receivables, net					
Taxes	329,362	-	17,474	10,415	357,251
Other	42,436	-	-	-	42,436
Due from other governments	888,599	221,787	-	10,970	1,121,356
Prepaid expenses	206,740	-	-	-	206,740
Total assets	\$ 3,314,705	\$ 9,789,482	\$ 140,206	\$ 137,227	\$ 13,381,620
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued liabilities	\$ 885,574	\$ 60,497	\$ -	\$ 11,310	\$ 957,381
Deferred revenue	233,422	-	-	-	233,422
Total liabilities	1,118,996	60,497	-	11,310	1,190,803
Fund balances:					
Nonspendable for prepaids	-	-	-	-	-
Prepaids	206,740	-	-	-	206,740
Restricted					
Debt service	-	9,567,695	122,732	-	9,690,427
Committed					
Capital improvements	84,255	-	-	-	84,255
Assigned					
Other purposes	400,967	-	-	-	400,967
Unassigned	1,503,747	161,290	17,474	125,917	1,808,428
Total fund balances	2,195,709	9,728,985	140,206	125,917	12,190,817
Total liabilities and fund balances	\$ 3,314,705	\$ 9,789,482	\$ 140,206	\$ 137,227	\$ 13,381,620

The accompanying notes are an integral part of these financial statements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Total fund balance, governmental funds	\$ 12,190,817
--	---------------

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	48,017,412
---	------------

Certain other long-term assets are not available to pay current period expenditures and, therefore, are not reported in the funds	179,203
---	---------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(23,160,700)
--	--------------

Governmental funds do not report a liability for accrued interest until it is due and payable. Accrued interest must be reported as a liability in the government-wide financial statements.	(192,331)
--	-----------

Unavailable revenues that provide current financial resources for governmental activities.	33,422
--	--------

Net pension liability is not due and payable in the current period; deferred outflows related to pensions are not current assets or financial resources; and deferred inflows related to pensions are not due and payable in the current period and are therefore not reported in the governmental funds.	(15,608,628)
---	--------------

Net Position of Governmental Activities in the Statement of Net Position (Exhibit A)	\$ 21,459,195
--	---------------

The accompanying notes are an integral part of these financial statements.

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Food and Beverage	General Obligation	Other Non- Major Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes					
Property taxes	\$ 3,623,562	\$ -	\$ 519,035	\$ 189,279	\$ 4,331,876
Franchise taxes	760,054	-	-	-	760,054
Licenses and permits	336,480	-	-	-	336,480
Fees and fines	603,008	-	-	35,761	638,769
Intergovernmental	6,447,196	1,350,999	-	197,570	7,995,765
Charges for services	718,275	-	-	-	718,275
Grants	627,978	-	-	-	627,978
Miscellaneous - other	159,024	21,974	-	-	180,998
Total revenues	13,275,577	1,372,973	519,035	422,610	15,590,195
EXPENDITURES					
Current:					
General government	1,833,022	-	-	-	1,833,022
Public safety	6,688,541	157,500	-	35,242	6,881,283
Public works	2,156,600	-	-	-	2,156,600
Health and welfare	430,497	-	-	-	430,497
Cultural and recreation	1,817,718	39,912	-	205,447	2,063,077
Economic development	302,495	129,588	-	44,952	477,035
Capital outlay					
General government	6,055	-	-	-	6,055
Public safety	-	-	-	96,895	96,895
Public works	204,892	-	-	-	204,892
Economic development	47,706	-	-	-	47,706
Culture and recreation	725,857	265,286	-	50,493	1,041,636
Debt service:					
Principal retirement	-	421,679	316,294	32,126	770,099
Interest and agent fees	-	597,559	143,151	6,983	747,693
Total expenditures	14,213,383	1,611,524	459,445	472,138	16,756,490
Excess of revenues over expenditures	(937,806)	(238,551)	59,590	(49,528)	(1,166,295)
OTHER FINANCING SOURCES					
Proceeds from long-term debt, net	365,103	8,987,000	-	-	9,352,103
Proceeds from sale of assets	16,037	-	-	-	16,037
Bond issuance cost	-	(287,752)	-	-	(287,752)
Transfers in	400,000	-	-	735	400,735
Transfers out	(735)	-	-	-	(735)
Total other financing sources and uses	780,405	8,699,248	-	735	9,480,388
Net change in fund balances	(157,401)	8,460,697	59,590	(48,793)	8,314,093
Fund balances - beginning, as previously reported	1,930,577	1,269,780	80,616	212,287	3,493,260
Prior period adjustments	422,533	(1,492)	-	(37,577)	383,464
Fund balances - beginning, as restated	2,353,110	1,268,288	80,616	174,710	3,876,724
Fund balances - ending	\$ 2,195,709	\$ 9,728,985	\$ 140,206	\$ 125,917	\$ 12,190,817

The accompanying notes are an integral part of these financial statements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Net change in fund balances - total governmental funds:	\$ 8,314,093
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures; however, in the Statement of Activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,885,747) exceeds depreciation (\$1,697,651) in the current period.	188,096
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.	(12,824)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	33,904
Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces the liabilities in the Statement of Net Position. Proceeds from long-term debt are reported as current financial resources in governmental funds, but are treated as a liability in the Statement of Activities. This is the amount by which proceeds (\$9,352,103) exceed repayments (\$775,399).	(8,576,704)
In the Statement of Activities, interest is accrued on outstanding bonds; whereas in governmental funds interest expenditures are reported when due. This is the net amount between prior and current year.	(210,390)
Pension expense recorded in the Statement of Activities does not require the use of current financial resources.	(349,173)
Change in net position of governmental activities (Exhibit B)	<u>\$ (612,998)</u>

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2017

	<u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 470,215
Accounts receivable, net	
Customer accounts	763,874
Due from other governments	<u>483,811</u>
Total current assets	<u>1,717,900</u>
Non-current assets:	
Restricted Assets:	
Cash and cash equivalents	519,383
Capital Assets:	
Land and construction in progress	63,008
Infrastructure	38,545,067
Utility system	2,449,545
Buildings and improvements	35,390
Machinery and equipment	1,640,269
Less: accumulated depreciation	<u>(21,436,193)</u>
Total non-current assets	<u>21,816,469</u>
Deferred outflows of resources	
Deferred outflows on pension liability	<u>134,342</u>
Total assets	<u><u>\$ 23,668,711</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 340,959
Compensated absences	97,786
Bonds, capital leases, and notes payable	427,553
Payable from restricted assets:	
Customer deposits payable from restricted assets	<u>519,383</u>
Total current liabilities	<u>1,385,681</u>
Non-current liabilities:	
Net pension obligation	2,415,200
Bonds, capital leases, and notes payable, non-current	<u>3,995,136</u>
Total non-current liabilities	<u>6,410,336</u>
Deferred inflows of resources	
Deferred inflows on pension liability	<u>90,705</u>
Total liabilities	<u>7,886,722</u>
NET POSITION	
Invested in capital assets, net of related debt	16,868,991
Unrestricted	<u>(1,087,002)</u>
Total net position	<u><u>\$ 15,781,989</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

REVENUES	Water and Sewer
Charges for services	<u>\$ 6,780,023</u>
Total operating revenues	<u>6,780,023</u>
 OPERATING EXPENSES	
Personnel services	1,408,830
Supplies and materials	621,069
Contractual services	3,131,022
Other services, charges, supplies and expenses	315,028
Depreciation expense	<u>619,664</u>
Total operating expenses	<u>6,095,613</u>
Operating Income	<u>684,410</u>
 NON-OPERATING REVENUES (EXPENSES)	
Interest expense	<u>(105,860)</u>
Total non-operating revenue (expenses)	<u>(105,860)</u>
 INCOME BEFORE TRANSFERS AND SPECIAL ITEM	 578,550
Capital contributions	26,522
Transfers out	<u>(400,000)</u>
 CHANGE IN NET POSITION	 205,072
 TOTAL NET POSITION - BEGINNING, as previously stated	 15,124,902
 PRIOR PERIOD ADJUSTMENTS	 <u>452,015</u>
 TOTAL NET POSITION - BEGINNING, as restated	 15,576,917
 TOTAL NET POSITION - ENDING	 <u><u>\$ 15,781,989</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,289,886
Payments to suppliers	(3,713,667)
Payments to employees	(1,355,364)
Net cash provided by operating activities	<u>1,220,855</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers (to) from other funds	(400,000)
Net cash used in noncapital financing activities	<u>(400,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets	(528,061)
Proceeds from capital grants	26,522
Principal paid on capital debt	(484,502)
Interest paid on capital debt	(105,860)
Net cash used in capital and related financing activities	<u>(1,091,901)</u>
Net decrease in cash and cash equivalents	(271,046)
Balances-beginning of the year	<u>1,260,644</u>
Balances-end of the year	<u>\$ 989,598</u>
RECONCILIATION TO STATEMENT OF NET POSITION	
Unrestricted:	
Cash and cash equivalents	470,215
Restricted:	
Cash and cash equivalents	<u>519,383</u>
	<u>\$ 989,598</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 684,410
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	619,664
Bad debt expense	8,238
Decrease (increase) in assets	
Accounts receivable	(48,634)
Due from other funds	11,416
Deferred outflows	395,041
Increase (decrease) in liabilities	
Accounts payable and accrued liabilities	(109,112)
Compensated absences	7,432
Customer deposits	7,548
Pension liabilities and deferred inflows	(355,148)
Net cash provided by operating activities	<u>\$ 1,220,855</u>

The accompanying notes are an integral part of these financial statements.

VED
MAR 29 2018

NOTES TO FINANCIAL STATEMENTS

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Introduction

The City of Ocean Springs, MS, Mississippi, (the "City") was incorporated on September 10, 1892, under the laws of the State of Mississippi. The City operates under a Mayor-Aldermen form of government. The following services are provided by the City: public safety (police and fire), public works (highways, streets, and sanitation), culture and recreation, community development, planning and zoning, public utilities (water, sewage, and garbage), and general administrative services.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2017.

II. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units of the City consist of oversight responsibility, special financing relationships and scope of public services. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the City has no component units. However, see Note 11 for information describing a joint venture of the City and another governmental entity and a jointly governed organization.

III. Basis of Accounting, Measurement Focus, and Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

GASB standards require that the accounts of the City be organized on the basis of funds, each of which is considered a separate accounting entity. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Financial reporting standards established by GASB require that the financial statements described below be presented.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The government-wide financial statements are presented on an economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Accordingly, all of the City's current and long-term assets and liabilities, including capital assets, infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position as of September 30. The statement of activities presents changes in net position since October 1, the beginning of the fiscal year.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

III. Basis of Accounting, Measurement Focus, and Presentation, (Continued)

Government-wide Financial Statements, (Continued)

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Shared revenues are recognized when the provider recognizes the liability to the City. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. Taxes and items not properly included as program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in financial position as presented in these statements to the financial position presented in the government-wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

The City reports the following major governmental funds:

General Fund - The general fund is the primary operating fund of the City. This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs. Revenues are received primarily from a separate property tax levy. The general fund is always reported as a major fund in the governmental fund statements.

Food and Beverage Tax Special Revenue Fund - This fund is used to account for a special 2% sales tax on local food and beverage sales. This money will be used for economic development projects and will repay the debt on a recent \$10.7 million bond issue. This fund was selected to be classified as a major fund due to the type of revenues.

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

In addition to the major governmental funds listed above, the City also reports two additional fund types in this category that are considered nonmajor.

The *special revenue funds* account for revenue sources that are legally restricted or committed to expenditure for specific purposes (not including permanent funds or major capital projects).

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

III. Basis of Accounting, Measurement Focus, and Presentation, (Continued)

Governmental Fund Financial Statements, (Continued)

The *capital projects funds* account for the acquisition of capital assets or construction of major capital projects not financed by other funds.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise fees, sales taxes, and licenses, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Sales tax collected and held by vendors at year end on behalf of the City is also recognized as revenue if collected within 30 days after year end. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. In general, all other revenue items are considered to be measurable and available only when cash is received by the City.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, as appropriate, then the unrestricted resources as needed.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; and a statement of cash flows for each major proprietary fund. These fund types are used to account for activities that are similar to those found in the private sector. The measurement focus is on the determination of net income and capital maintenance. The City reports one major utility fund where the intent of the governing body is that the costs of providing utility services to the general public on a continuing basis be financed or recovered through user charges:

The City reports the following major enterprise fund:

Water and Sewer Fund – The water and sewer fund account for the activities of the City's water, sewer, and garbage collections.

Operating revenue reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include personnel costs, contractual services costs, and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

III. Basis of Accounting, Measurement Focus, and Presentation, (Continued)

IV. Use of Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Accordingly, actual results could differ from those estimates.

V. Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are primarily considered to be cash on hand, amounts held in demand deposits, and certificates of deposit. For purposes of the statement of cash flows, short-term investments held in proprietary funds with a maturity date within three months of the date acquired by the City, if any, are considered to be cash equivalents.

The City maintains and controls a major cash pool in which the majority of the City's funds share. Each fund's portion of the pool is displayed on their respective balance sheet as cash and cash equivalents, some of which are restricted assets.

Investments

State statutes authorize the City to invest in (1) direct obligations of the United States government to the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit when insured or secured by acceptable collateral, and (3) obligations of the State of Mississippi, or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court. Investments, if any, are recorded at cost, which approximates fair value.

Receivables

Property taxes are recognized as a receivable at the time they are levied, and the current taxes receivable represent the 2017 levy and prior levies still uncollected, if any.

Accounts receivable held by the City's governmental and business-type activities are stated net of allowances for estimated uncollectibles as of September 30, 2017. The allowance is based on historical collection, experience, and other relevant circumstances.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column. The City reported no amounts due from or to other funds at September 30, 2017.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

Receivables (Continued)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Unbilled Services Receivable

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2017, are recorded as prepaid items. In governmental funds, reported prepaid items are equally offset by nonspendable fund balance amounts, which indicate they do not constitute "available spendable resources" even though they are a component of net current assets. The net change in nonspendable fund balances is not presented because the combined statement of revenues, expenditures, and changes in fund balances reflects the changes in total fund balances rather than just the spendable and nonspendable fund balances.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are externally imposed by creditors, contributors, grantors, or laws. Restricted assets in governmental activities represent capital asset purchases, reserve for debt service and bond payment reserves. Restricted assets in business type activities represent utility customer deposits subject to refund. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

Capital Assets

Capital assets, which include property, plant, equipment, and current infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), net of depreciation, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's capitalization levels are as follows: purchased assets costing more than \$5,000 are capitalized; building renovations are capitalized when their cost exceeds 25% of the building's previously capitalized cost and if the repair extends the building's estimated useful life; contributed capital assets are capitalized and recorded at the estimated market value at the time of the contribution. Salvage values range from 10% to 30% of cost. Assets acquired using capital lease obligations are treated in the same manner as purchased capital assets. Donated capital assets are recorded at acquisition value at the date of donation. Those assets received that will be capitalized are recorded as capital outlay in the fund statements and capital grant and contribution revenues in the statement of activities.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

Capital Assets (Continued)

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

	<u>Lives</u>
Buildings	40-50 years
Improvements	40-50 years
Infrastructure	20-60 years
Machinery and equipment	3-15 years

Deferred Outflows and 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 or periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category related to the City's participation in the pension plan, the unamortized changes in investments actual performance, expectations, projections, and changes in plan assumptions. See Note 8.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category related to the City's participation in the pension plan and the difference between projected and actual plan investment earnings. See Note 8.

Long-term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

Compensated Absences

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

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2017. The resulting liability is then increased to include social security and retirement that the City is required to pay upon liquidation of the liability.

Fund Equity

As of September 30, 2017, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The City currently has only prepaid insurance reported as non-spendable fund balance.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the highest level of decision making authority, the Board of Aldermen (the Board), and does not lapse at year end. The City currently has amounts committed for capital projects.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's policy, only the Board or an official or body to which the Board delegates the authority may assign amounts for specific purposes. Currently, the Board has not delegated the authority to assign fund balances. The City currently has amounts assigned for employee health insurance deductibles.

Unassigned – All amounts not included in other spendable classifications. Any residual fund balance in the General Fund and any deficit fund balance of any other governmental fund is reported as unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board or an official or body to which the Board delegates the authority, as applicable, has provided otherwise in its commitment or assignment actions.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding payables and balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTE 2: CASH

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

Mississippi statutes allow municipalities to select depositories on the basis of competitive bid. The City awarded Hancock Bank the designated depository for calendar year 2016-2017, who then allocates resulting balances of cash to other City approved depositories as follows:

	<u>Allocation</u>
Hancock Bank	60%
Peoples Bank	10%
BancorpSouth Bank	30%
Total	<u>100%</u>

A summary of cash (including restricted cash) at September 30, 2017 is as follows:

	<u>Cash on Hand</u>	<u>Cash Deposits</u>	<u>Pooled Cash Deposits</u>	<u>Total</u>
Governmental Activities				
General Fund	\$ 1,170	\$ 407,521	\$ 1,438,877	\$1,847,568
Food and Beverage	-	-	296,173	296,173
General Obligation	-	-	122,732	122,732
Other Nonmajor Gov't Funds	-	-	115,842	115,842
Total governmental activities	<u>1,170</u>	<u>407,521</u>	<u>1,973,624</u>	<u>2,382,315</u>
Business-type Activities				
Water and Sewer	<u>200</u>	<u>-</u>	<u>989,398</u>	<u>989,598</u>
Total business-type activities	<u>200</u>	<u>-</u>	<u>989,398</u>	<u>989,598</u>
Total cash and cash equivalents	<u>\$ 1,370</u>	<u>\$ 407,521</u>	<u>\$ 2,963,022</u>	<u>\$3,371,913</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: CASH (Continued)

The City maintained the following restricted assets as of September 30, 2017:

Governmental Activities	
Cash and cash equivalents	
Restricted for capital projects	318,135
Restricted for debt service	418,905
Investments	
Restricted for bond reserve	9,271,522
Total restricted assets - governmental activities	<u>10,008,562</u>
Business-type Activities	
Cash and cash equivalents	
Restricted for utility customer deposits	519,383
Total restricted assets - business-type activities	<u>519,383</u>
Total restricted assets - government-wide	<u>\$ 10,527,945</u>

Custodial Credit Risk - Deposits

Custodial credit risk is defined as 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. The collateral is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Miss. Code Ann. (1972), §27-105-5.

Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. 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.

At September 30, 2017, deposits (including restricted deposits) are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Pooled deposits:		
Cash and cash equivalents	\$3,016,846	\$2,963,022
Non-pooled deposits:		
Cash and cash equivalents	495,686	408,891
Total	<u>\$3,512,532</u>	<u>\$3,371,913</u>

Investments

The debt service reserve of \$9,271,522 is invested in the Hancock Horizon Government Mutual fund, which is uninsured and unregistered and is not backed by the full faith and credit of the federal government; however it is exclusively made up of short-term U.S. Government Securities.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 3: RECEIVABLES

Receivables at September 30, 2017, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
	General Fund	Water and Sewer	Total
Property taxes	\$ 145,929	\$ -	\$ 145,929
Franchise taxes	211,322	-	211,322
Court	3,042,938	-	3,042,938
NSF checks	42,436	-	42,436
Utility charges	-	962,593	962,593
Total receivables, gross	3,442,625	962,593	4,405,218
Less allowance for doubtful receivables	(2,863,735)	(198,719)	(3,062,454)
Total receivables, net	<u>\$ 578,890</u>	<u>\$ 763,874</u>	<u>\$ 1,342,764</u>

Property Taxes

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

Restrictions associated with property tax levies vary with the statutory authority. State law limits the amount of increase in certain property taxes. In accordance with the Mississippi Code of 1972, as amended, the Board of Aldermen may levy taxes in any amount for general revenue purposes and general improvements.

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

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 when received. Personal property taxes are recognized as revenue when received because most delinquent personal property taxes are collected by selling the property for taxes, together with all fees, penalties and damages accruing until date of sale, before the close of the fiscal year. The remaining amount of personal property not sold for taxes at the tax sale is recorded as delinquent taxes receivable.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 3: RECEIVABLES (Continued)

The tax levies for the City for the fiscal years ended September 30, 2017, 2016, and 2015 are as follows:

	2017	2016	2015
City Funds			
General Fund	19.05	19.05	19.05
Library maintenance	1.01	1.01	1.01
Debt service	2.77	2.77	2.77
Total City administered funds	22.83	22.83	22.83
School Funds			
District maintenance	54.32	54.32	55.75
School debt	12.64	12.64	13.90
Total School administered funds	66.96	66.96	69.65
Total levy	89.79	89.79	92.48

NOTE 4: DUE FROM OTHER GOVERNMENTS

Sales Tax

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 Ocean Springs) back to the City monthly. The City levies an additional 2% sales tax on local food and beverage sales; the State remits 100% of the amount collected back to the City. Sales tax revenue was \$5,101,442 general sales tax and \$1,345,999 food and beverage tax, for the year ended September 30, 2017. Sales tax receivable is included in due from other governments on the statement of net position and balance sheet – governmental funds and consists of taxes collected by the State for August and September 2017 and not received by the City until October and November 2017.

Due from other governments at September 30, 2017, consists of the following:

	Governmental Activities	Business-Type Activities	
	General Fund	Water and Sewer	Total
Grants	\$ 33,422	\$ 483,811	\$ 517,233
County road tax	40,060	-	40,060
State of Mississippi, sales tax diversion	1,047,874	-	1,047,874
Total due from other governments	\$ 1,121,356	\$ 483,811	\$ 1,605,167

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5: CAPITAL ASSETS

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

	Balance October 1, 2016	Additions	Disposals	Transfers/ Adjustments	Balance September 30, 2017
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,648,304	\$ -	\$ -	\$ -	\$ 3,648,304
Donated artwork	5,717,143	-	-	-	5,717,143
Construction in progress	3,784,401	1,148,682	-	(3,739,494)	1,193,589
Total capital assets, not being depreciated	13,149,848	1,148,682	-	(3,739,494)	10,559,036
Capital assets, being depreciated:					
Buildings and improvements	13,877,944	32,162	-	25,286	13,935,392
Machinery and equipment	922,418	242,800	-	-	1,165,218
Other improvements	15,300,587	-	-	3,084,668	18,385,255
Infrastructure	15,970,807	262,758	-	629,540	16,863,105
Vehicles	4,662,482	354,720	(128,244)	-	4,888,958
Total capital assets, being depreciated	50,734,238	892,440	(128,244)	3,739,494	55,237,928
Less accumulated depreciation for:					
Buildings and improvements	(3,127,961)	(241,128)	-	-	(3,369,089)
Machinery and equipment	(722,412)	(67,724)	-	-	(790,136)
Other improvements	(1,849,512)	(508,052)	-	-	(2,357,564)
Infrastructure	(7,115,213)	(626,905)	-	-	(7,742,118)
Vehicles	(3,382,222)	(253,842)	115,419	-	(3,520,645)
Total accumulated depreciation	(16,197,320)	(1,697,651)	115,419	-	(17,779,552)
Total capital assets, being depreciated, net	34,536,918	(805,211)	(12,825)	3,739,494	37,458,376
Total governmental activities capital assets, net	\$47,686,766	\$ 343,471	\$(12,825)	\$ -	\$48,017,412

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5: CAPITAL ASSETS (Continued)

	Balance October 1, 2016	Additions	Disposals	Transfers/ Adjustments	Balance September 30, 2017
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 29,413	\$ -	\$ -	\$ -	\$ 29,413
Construction in progress	-	33,595	-	-	33,595
Total capital assets, not being depreciated	29,413	33,595	-	-	63,008
Capital assets, being depreciated:					
Buildings	35,390	-	-	-	35,390
Machinery and equipment	790,261	9,249	-	-	799,510
Infrastructure	40,523,170	471,442	-	-	40,994,612
Vehicles	826,984	13,775	-	-	840,759
Total capital assets, being depreciated	42,175,805	494,466	-	-	42,670,271
Less accumulated depreciation for:					
Buildings	(32,198)	-	-	-	(32,198)
Machinery and equipment	(521,812)	(64,421)	-	-	(586,233)
Infrastructure	(19,524,749)	(546,249)	-	-	(20,070,998)
Vehicles	(737,770)	(8,994)	-	-	(746,764)
Total accumulated depreciation	(20,816,529)	(619,664)	-	-	(21,436,193)
Total capital assets, being depreciated, net	21,359,276	(125,198)	-	-	21,234,078
Total business-type activities capital assets, net	<u>\$21,388,689</u>	<u>\$ (91,603)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$21,297,086</u>
 Primary Government					
Total capital assets, net	<u>\$69,075,455</u>	<u>\$ 251,868</u>	<u>\$(12,825)</u>	<u>\$ -</u>	<u>\$69,314,498</u>

Assets under capital leases include equipment that was acquired through capital leases financing with financial institutions (see Note 6 for additional information). As of September 30, 2017, these capitalized assets and the related accumulated depreciation are as follows:

Asset	Capitalized Amount	Accumulated Depreciation	Net
Governmental Activities			
Vehicles	<u>\$ 301,405</u>	<u>\$ (108,512)</u>	<u>\$ 192,893</u>
Total	<u>\$ 301,405</u>	<u>\$ (108,512)</u>	<u>\$ 192,893</u>

Depreciation expense associated with the assets under capital leases in fiscal year 2017 totaled \$13,564 and is included in the statement of activities as general government.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5: CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following governmental functions:

Governmental Activities	
General government	<u>\$ 1,697,651</u>
Business-type Activities	
Water and Sewer	<u>619,664</u>
Total depreciation expense	<u><u>\$ 2,317,315</u></u>

NOTE 6: LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended September 30, 2017 are as follows:

	Balance October 1, 2016	Additions	Principal Payments/ Reductions	Balance September 30, 2017	Due within One Year
Governmental Activities					
General and Special					
Obligation Bonds	\$ 12,325,000	\$ 8,987,000	\$ (520,000)	\$ 20,792,000	\$ 540,000
Notes payable	1,569,241	365,103	(223,273)	1,711,071	314,752
Capital lease payable	138,550	-	(32,126)	106,424	33,745
Compensated absences	551,205	413,546	(413,546)	551,205	551,205
Total governmental activities	<u>\$ 14,583,996</u>	<u>\$ 9,765,649</u>	<u>\$ (1,188,945)</u>	<u>\$ 23,160,700</u>	<u>\$ 1,439,702</u>
Business-type Activities					
Water and Sewer notes payable	\$ 1,471,903	\$ -	\$ (210,541)	\$ 1,261,362	\$ 146,961
Drinking water loan	3,435,288	-	(273,960)	3,161,328	280,592
Compensated absences	90,354	72,822	(65,390)	97,786	97,786
Total business-type activities	<u>\$ 4,997,545</u>	<u>\$ 72,822</u>	<u>\$ (549,891)</u>	<u>\$ 4,520,476</u>	<u>\$ 525,339</u>

The General and Water and Sewer Funds provide the resources for the retirement of compensated absences. For the year ended September 30, 2017, interest incurred and charged to expense totaled \$756,939 in the governmental activities and \$105,860 in the business-type activities. In the current fiscal year the City adopted new accounting guidance, GASB No.89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. In accordance with the standard, there is no capitalizable interest for the year ended September 30, 2017.

Bonds Payable

The City is responsible for the repayment of specific General Obligations Bonds of the State of Mississippi relative to the City's capital projects. The bonds are backed by the full faith and credit of the State of Mississippi, but are being retired from the resources of the City and are presented as debt of the City. General obligation bonds issued in 2009 and 2017 are collateralized by a pledge of the proceeds of a food and beverage tax in an amount not to exceed two percent (2%) of the gross proceeds of the sales of prepared foods and beverages from every person, firm or corporation or other entity operating a restaurant or bar, or both.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 6: LONG-TERM LIABILITIES (Continued)

Bonds Payable (Continued)

At September 30, 2017, the City had the following outstanding bonds payable:

	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance September 30, 2017</u>
Governmental Activities:					
General obligation bonds:					
MDB special obligation					
bonds Series 2009	5/6/2009	7/1/2034	4.00 - 4.70%	\$ 10,710,000	\$ 8,365,000
General obligation bonds Series 2009	12/1/2009	12/1/2029	3 - 4%	4,600,000	3,440,000
General obligation bonds Series 2017	1/11/2017	6/1/2034	2.75%	8,987,000	8,987,000
Total governmental activities				<u>\$ 24,297,000</u>	<u>\$20,792,000</u>

The City's future principal and interest requirements related to the bonds payable are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2018	\$ 540,000	\$ 762,951	\$ 1,302,951
2019	620,000	744,551	1,364,551
2020	1,076,000	722,401	1,798,401
2021	1,114,000	686,936	1,800,936
2022	1,157,000	648,576	1,805,576
2023-2027	6,450,000	2,591,925	9,041,925
2028-2032	7,059,000	1,316,750	8,375,750
2033-2037	2,776,000	164,296	2,940,296
	<u>\$ 20,792,000</u>	<u>\$ 7,638,386</u>	<u>\$ 28,430,386</u>

Interest accrued on bonds payable totaled \$173,886 for the fiscal year ended September 30, 2017.

The Board of Aldermen annually adopts a resolution providing for the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City. The millage rate for the year ended September 30, 2017, was 2.77 mills or \$2.77 per \$1,000 of assessed value.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 6: LONG-TERM LIABILITIES (Continued)

Notes Payable

At September 30, 2017, the City's outstanding notes payable are described as follows:

	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance September 30, 2017</u>
Governmental Activities:					
Notes payable:					
MDA capital improvements loan -					
Mary C O'Keefe	6/1/2003	5/1/2023	3.00%	\$ 500,000	\$ 170,724
Community Bank general obligation note	2/18/2015	2/1/2020	1.80%	250,000	150,000
BancorpSouth general obligation note	11/1/2013	11/1/2018	2.11%	250,000	100,000
Community Bank general obligation note	1/24/2017	11/1/2021	1.78%	300,000	300,000
MDA energy investment program loan -					
Building lighting	1/1/2017	1/1/2021	1.50%	65,103	65,103
Musco Finance - Sunplex lighting	10/2/2010	12/1/2024	6.50%	1,489,000	925,244
Total governmental activities				<u>2,854,103</u>	<u>1,711,071</u>
Business-type Activities:					
Notes payable:					
State of MS Revolving Fund Loan	2/25/2013	1/1/2033	1.75%	1,059,133	848,929
State of MS Revolving Fund Loan	9/1/2010	12/1/2027	2.00%	328,752	206,144
State of MS Revolving Fund Loan	4/1/2001	3/1/2021	3.00%	500,000	107,124
State of MS Revolving Fund Loan	6/14/1998	1/1/2018	4.50%	1,100,100	32,008
State of MS Revolving Fund Loan	10/1/2001	9/1/2021	3.00%	273,115	67,157
State of MS Drinking Water					
Improvement Loan	11/10/2006	9/30/2029	1.95%	1,943,294	1,288,470
State of MS Drinking Water					
Improvement Loan	9/3/2008	5/1/2028	1.95%	835,711	494,395
State of MS Drinking Water					
Improvement Loan	8/10/2002	4/1/2026	3.50%	1,054,818	548,340
State of MS Drinking Water					
Improvement Loan	6/15/2001	2/1/2023	3.00%	522,924	212,677
State of MS Drinking Water					
Improvement Loan	11/18/2008	8/1/2028	1.95%	1,029,345	617,446
Total business-type activities				<u>8,647,192</u>	<u>4,422,690</u>
Total notes payable				<u>\$11,501,295</u>	<u>\$6,133,761</u>

Principal and interest maturities will be as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	\$ 314,752	\$ 75,840	\$ 427,553	\$ 88,948	\$ 907,093
2019	322,579	63,564	404,032	83,244	873,419
2020	264,003	52,542	413,903	73,375	803,823
2021	211,414	41,283	402,706	63,530	718,933
2022	220,311	31,328	381,434	54,393	687,466
2023-2027	378,012	35,978	1,728,584	148,805	2,291,379
2028-2032	-	-	649,456	21,426	670,882
2033-2037	-	-	15,022	45	15,067
	<u>\$ 1,711,071</u>	<u>\$ 300,535</u>	<u>\$ 4,422,690</u>	<u>\$ 533,766</u>	<u>\$ 6,968,062</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 6: LONG-TERM LIABILITIES (Continued)

Capital Leases

The City has entered into several capital leases to finance the purchase of Sunplex lighting and a fire truck. The purchases were financed at a fixed, simple interest rate. Title to the equipment and fire truck shall vest subject to the right of the lessors, the lessors are granted a first priority security interest in the equipment.

The capital lease obligations outstanding as of September 30, 2017, are as follows:

	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance September 30, 2017</u>
Governmental Activities:					
Capital leases:					
Oshkosh Capital - Fire truck	4/23/2010	4/1/2020	5.04%	\$ 301,405	\$ 106,424
Total governmental activities				<u>301,405</u>	<u>106,424</u>
Total capital leases				<u>\$ 301,405</u>	<u>\$ 106,424</u>

The following is a schedule of future minimum lease payments under capital leases and the net present value of these minimum lease payments as of September 30, 2017:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2018	\$ 33,745	\$ 5,364	\$ 39,109
2019	35,446	3,663	39,109
2020	37,233	1,877	39,110
	<u>\$ 106,424</u>	<u>\$ 10,904</u>	<u>\$ 117,328</u>

Bond Refunding

On January 11, 2017, the City issued \$8,987,000 in Mississippi Development Bank Special Obligation Refunding Bonds with an interest rate of 2.75%. The City issued the bonds to provide for the advance refunding of outstanding series 2009 special obligation bonds, with an outstanding balance of \$8,695,000 at 5.13% interest rate on the refunding date. The current net proceeds are not sufficient to defease the full amount of the outstanding series 2009 bonds. The net proceeds of \$8,331,054 (after bond issuance costs of \$175,412, \$112,338 placement agent fees, and \$368,193 deposit into debt reserve) were deposited into an irrevocable trust to provide the debt service requirements of the new refunding bonds. Per GASB No.86, the bond refunding is considered a crossover refunding whereby the old and new debt are included in the City's debt obligations. The irrevocable trust is also included in the City's assets. The outstanding series 2009 bonds will continue to be paid by the current debt reserve account until such time as the escrow account proceeds are sufficient to meet the debt service payments, at which time the debt will be considered to be defeased and the escrow account obligation will crossover to the series 2009 bonds and the obligation and asset will be removed. This is expected to occur in July 2019. The outstanding principal of the series 2009 bonds and trust were \$8,395,000 and \$8,167,346, respectively, at September 30, 2017. The advance refunding is expected to reduce total debt service payments over the next 17 years by \$622,038. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$595,545.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 6: LONG-TERM LIABILITIES (Continued)

Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the last completed assessment for taxation. In no case shall the total indebtedness exceed 20% of the assessed value of the property.

The City's legal debt limit for general obligation bond was \$39,941,484 and the legal debt margin was \$25,756,459, at September 30, 2017.

NOTE 7: INTERFUND TRANSACTIONS

Interfund Receivables and Payables

Generally, outstanding balances between funds reported as "due to/due from other funds" include outstanding charges by one fund to another for services or goods (such as utility services) and other miscellaneous receivables/payables between funds. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/due from other funds."

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

At year end September 30, 2017 there were no interfund receivables or payables.

Interfund Transfers

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, grant matching requirements, subsidies of various City operations and re-allocations of special revenues.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Interfund transfers between funds during the year ended September 30, 2017 consist of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 400,000	\$ -
Water and Sewer	-	400,000
Total	<u>\$ 400,000</u>	<u>\$ 400,000</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 8: EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

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

Plan Description

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

Benefits provided

Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's 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. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions

PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate as of 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. The City's contributions to PERS for the fiscal years ending September 30, 2017, 2016, and 2015 total \$1,106,563, \$820,192, and \$808,761, respectively, which equal the required contributions for each year.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 8: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

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

At September 30, 2017, the City reported a liability of \$18,285,733 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The city's proportionate share used to calculate the September 30, 2017 net pension liability was .11 percent, which was based on a measurement date of June 30, 2017. This remained the same from its proportionate share used to calculate the September 30, 2016 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended September 30, 2017, the City recognized pension expense of \$2,127,018. 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	Deferred Inflows of Resources
Governmental Activities:		
Differences between expected and actual experience	\$ 226,465	\$ 47,346
Changes in assumptions	350,336	11,028
Net difference between projected and actual earnings on pension plan investments	-	83,317
Change in proportionate share	-	434,483
Difference between employer contributions and share of contributions	-	1,213
City contributions subsequent to the measurement date	262,489	-
Totals	<u>\$ 839,290</u>	<u>\$ 577,386</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
Business-Type Activities		
Differences between expected and actual experience	\$ 36,249	\$ 7,438
Changes in assumptions	56,077	1,723
Net difference between projected and actual earnings on pension plan investments	-	13,062
Change in proportionate share	-	68,301
Difference between employer contributions and share of contributions	-	181
City contributions subsequent to the measurement date	42,016	-
Totals	<u>\$ 134,342</u>	<u>\$ 90,705</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 8: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$304,505 are recognized as a reduction to the net pension liability in the year ending September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 51,294
2019	286,453
2020	16,503
2021	(353,213)
Total	<u>\$ 1,037</u>

Actuarial assumptions

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

Investment rate of return	7.75 percent, net of investment expense and inflation
Projected salary increases	3.75 - 18.50 percent, including inflation
Inflation	3.0 percent

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017. Mortality rates were based on the RP-2014 Health Annuitant Blue Collar Table projected with Scale BB to 2022, set forward one year for males.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Broad	27.00%	4.60%
International equity	18.00%	4.50%
Emerging markets equity	4.00%	4.75%
Global	12.00%	4.75%
Fixed income	18.00%	0.75%
Real estate	10.00%	3.50%
Private equity	8.00%	5.10%
Emerging debt	2.00%	2.25%
Cash	1.00%	0.00%
Total	<u>100.00%</u>	

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 8: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

Discount rate

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

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 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.75%	\$ 23,982,960
Current discount rate	7.75%	\$ 18,285,732
1% increase	8.75%	\$ 13,555,797

Pension plan fiduciary net position

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

Deferred Compensation Plan

PERS offers the City's employees voluntary participation in a deferred compensation plan in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. Participants self-direct investment of their savings through selections from a group of funds managed by Great West Life and Annuity Insurance Company, a third-party administrator. All plan assets are held in trust by the third-party administrator for the exclusive benefit of the participants and their beneficiaries and not subject to the claims of the City's general creditors.

Other Postemployment Benefits

Through PERS, retirees and beneficiaries have the option of maintaining health and other coverage at their own expense; the State incurs no expense for postretirement health benefits. However, since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the State has a postemployment healthcare benefit reportable under GASB Section Po50 as a single employer defined benefit healthcare plan. Effective July 1, 2007, the State implemented GASB Section Po50 prospectively, which requires reporting on an accrual basis, the liability associated with other postemployment benefits. The State does not issue a publicly available financial report on the plan. However, the required reporting is included in the State's financial statements disclosures available on the State of Mississippi's website at www.dfa.state.ms.us.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9: TAX ABATEMENTS

The Mississippi Code of 1972 Annotated §17-21-5, authorizes municipal governing authorities, in their discretion, to grant exemptions from ad valorem taxation, except ad valorem taxation for school district purposes, for new structures, or improvements to or renovations of existing structures located in the central business district of the municipality, for a period of not more than seven (7) years from the date of completion of the new structure or the improvement to or renovation of the existing structure for which the exemption is granted. The City adopted such an ordinance in 2011, 2012, and in 2017, which exempts eligible properties from up to 80% of municipal ad valorem taxes. Per the City ordinance, the City has granted tax abatements to four restaurants, a motor vehicle dealer, a car wash, and a real estate company. For the year ended September 30, 2017, the City abated the following taxes:

<u>Taxes Abated</u>	<u>%of Abatement</u>	<u>Total Amount Abated</u>
Real property	80%	<u>\$470,114</u>

NOTE 10: COMMITMENTS AND CONTINGENCIES

Litigation

The City is party to legal proceedings, many of which occur in the normal course of governmental operations. Although the outcome of these proceedings is not presently determinable, in the opinion of the City's legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Federal Grants

In the normal course of operations and as a result of the destruction from natural disasters, the City has received grant funds from various Federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds.

Capital Project Commitment

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

The following is a summary of the budgeted commitment for future capital projects:

	<u>Contract Amount</u>	<u>Expended to Date</u>	<u>Remaining Contract</u>
Tidelands Living Shoreline	\$ 65,000	\$ -	\$ 65,000
Government Street Improvements	1,393,353	693,632	699,721
Porter Avenue Infrastructure	1,036,200	-	1,036,200
GOMA Continuity Planning	44,000	5,238	38,762
	<u>\$ 2,538,553</u>	<u>\$ 698,870</u>	<u>\$1,839,683</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 11: RELATED PARTY COMMITMENTS

Joint Venture

The City of Ocean Springs is a member of the Jackson County Utility Authority (Authority) which was established by an act of the Mississippi Legislature and operates under MS Code 49-17-701 to provide for adequate wastewater treatment and solid waste disposal services to the citizens of Jackson County, Mississippi. The Authority is responsible for the operations and maintenance of wastewater treatment plants for the Cities of Pascagoula, Moss Point, Ocean Springs, and Gautier, Mississippi. The Authority is considered to be a joint venture of all the above named primary governments. The governing body of the Authority is comprised of members appointed by the governing bodies of the primary governments named above.

The governing board is comprised of one member from each of the cities and two members from each of the counties who are members of the Authority. Through a fifty-year contract, the City of Ocean Springs is obligated to pay monthly, its pro-rata share of all operating, administrative, and capital costs of the Authority. Additionally, the City is jointly and severally liable for all of the liabilities of the Authority. The Authority is classified as a joint venture between the City of Ocean Springs and the other members. A copy of the Authority's financial statements as of and for the year ended September 30, 2017 can be found online at <http://www.jcua-ms.us/all-forms-and-reports>. A complete copy is on file at the administrative offices of the Authority.

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

Sewer Enterprise Fund Group	
Statement of revenues, expenses and changes in fund balance:	
Contractual Services (wastewater treatment)	<u>\$ 2,083,185</u>

Jointly Governed Organization

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

The City of Ocean Springs contributed \$205,447 for the year ended September 30, 2017 through proceeds of a specific tax levy authorized by MS Code 39-3-13. This agreement is cancelable upon 90 days written notice prior to the end of the fiscal year; therefore, the City of Ocean Springs does not have an ongoing financial responsibility.

NOTE 12: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disasters for which the City carries commercial insurance.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 13: PRIOR PERIOD ADJUSTMENTS

The City has recorded the following prior period adjustments in order to correct the ending balances for the year ended September 30, 2016.

Government-wide Financial Statements

The following adjustments were made to the prior year financial statements ending balances:

Governmental Activities

Government-Wide Financial Statements

Governmental Activities

Beginning net position, as previously reported	\$ 21,356,417
Adjustment to correct court fines and fees receivable and allowance	(178,721)
Adjustment to correct construction in progress	(155,375)
Adjustment to correct pension liability	1,049,872
Beginning net position, as restated	<u>\$ 22,072,193</u>

Fund Financial Statements

Governmental Funds

The following adjustments were made to the prior year financial statements ending balances:

Governmental Fund Financial Statements

Beginning net position, as previously reported	\$ 3,493,260
Adjustment to correct interfund receivables, receivables from other agencies, and payables	383,464
Beginning net position, as restated	<u>\$ 3,876,724</u>

Proprietary Funds

The following adjustments were made to the prior year financial statements ending balances:

Proprietary Fund Financial Statements

Beginning net position, as previously reported	\$ 15,124,902
Adjustment to correct pension liability and interfund receivables	452,015
Beginning net position, as restated	<u>\$ 15,576,917</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 14: SUBSEQUENT EVENTS

The City has evaluated events subsequent to year end through November 16, 2018, which is the date the financial statements were available to be issued. The following events were identified:

- The City has received approximately \$150,000 in grant awards from federal agencies.
- The City has entered into a General Obligation note in the amount of \$180,000 for the purchase of computer hardware.
- The City has entered into a General Obligation note in the amount of \$200,000 for the purchase of accounting software.
- The City has entered into a General Obligation note in the amount of \$357,768 for the purchase of body-worn and in-car camera systems for the Police Department.
- The City has awarded a construction contract for the sewer rehabilitation project for the proposed amount of \$167,301.
- The City has entered into a General Obligation note in the amount of \$450,000 for the purchase of a pumper fire truck.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLAN
LAST THREE FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.11%	0.11%	0.11%
City's proportionate share of the net pension liability	\$ 18,285,733	\$ 19,648,746	\$ 17,003,831
City's covered employee payroll	\$ 7,069,178	\$ 7,315,767	\$ 6,844,479
City's proportionate share of the net pension liability as a percentage of covered employee payroll	258.67%	268.58%	248.43%
Plan fiduciary net position as a percentage of total pension liability	61.49%	57.47%	61.70%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

See independent auditors' report and notes to required supplementary information.

RECEIVED
JUL 29 2018

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLAN
LAST THREE FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,113,396	\$ 1,152,233	\$ 1,078,005
Contributions in relation to contractually required contribution	<u>1,113,396</u>	<u>1,152,233</u>	<u>1,078,005</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	<u>\$ 7,069,178</u>	<u>\$ 7,315,767</u>	<u>\$ 6,844,479</u>
Contributions as a percentage of covered employee payroll	<u>15.75%</u>	<u>15.75%</u>	<u>15.75%</u>

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

See independent auditors' report and notes to required supplementary information.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017**

NOTE 1: CHANGES IN ASSUMPTIONS – PUBLIC EMPLOYEES' RETIREMENT SYSTEM

In 2016, the assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

In 2017, the expectation of retire life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022, rather than projected to 2016, which was used prior to 2017. In 2017, the wage inflation assumption was reduced from 3.75% to 3.25%. In 2017, withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rate were also adjusted to more closely reflect actual experience. In 2017, the percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

NOTE 2: METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2015 valuation for the June 30, 2017 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	33.9 years
Asset valuation method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF OCEAN SPRINGS, MISSISSIPPI
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	<u>Special Revenue</u>				
	<u>Tourism</u>	<u>Library</u>	<u>Special Paid Fines and Forfeitures</u>	<u>Task Force</u>	<u>Fire Protection</u>
ASSETS					
Cash and cash equivalents	\$ -	\$ 50,424	\$ 4,601	\$ 12,550	\$ 44,277
Receivable, net					
Taxes	-	10,415	-	-	-
Due from other governments	10,970	-	-	-	-
Total assets	<u>\$ 10,970</u>	<u>\$ 60,839</u>	<u>\$ 4,601</u>	<u>\$ 12,550</u>	<u>\$ 44,277</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ 11,310	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>11,310</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Unassigned	10,970	49,529	4,601	12,550	44,277
Total fund balances	<u>10,970</u>	<u>49,529</u>	<u>4,601</u>	<u>12,550</u>	<u>44,277</u>
Total liabilities and fund balances	<u>\$ 10,970</u>	<u>\$ 60,839</u>	<u>\$ 4,601</u>	<u>\$ 12,550</u>	<u>\$ 44,277</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS, Continued
SEPTEMBER 30, 2017

	<u>Capital Projects</u>			
	<u>Mary C. O'Keefe Building</u>	<u>STP Government Street-Phase II</u>	<u>CIAP Harbor Improvements</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,127	\$ 8,230	\$ (5,367)	\$ 115,842
Receivable, net				
taxes	-	-	-	10,415
Due from other governments	-	-	-	10,970
Total assets	<u>\$ 1,127</u>	<u>\$ 8,230</u>	<u>\$ (5,367)</u>	<u>\$ 137,227</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 11,310
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,310</u>
Fund balances:				
Unassigned	<u>1,127</u>	<u>8,230</u>	<u>(5,367)</u>	<u>125,917</u>
Total fund balances	<u>1,127</u>	<u>8,230</u>	<u>(5,367)</u>	<u>125,917</u>
Total liabilities and fund balances	<u>\$ 1,127</u>	<u>\$ 8,230</u>	<u>\$ (5,367)</u>	<u>\$ 137,227</u>

See independent auditors' report.

CITY OF OCEAN SPRINGS, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Special Revenue</u>				
			Special Paid		
	Tourism	Library	Fines and	Task Force	Fire Protection
			Forfeitures		
REVENUES					
Property taxes	\$ -	\$ 189,279	\$ -	\$ -	\$ -
Fees and fines	-	-	7,337	28,424	-
Intergovernmental	49,419	-	-	-	97,659
Total revenues	<u>49,419</u>	<u>189,279</u>	<u>7,337</u>	<u>28,424</u>	<u>97,659</u>
EXPENDITURES					
Current:					
Public safety	-	-	-	7,800	27,442
Cultural and recreation	-	205,447	-	-	-
Urban and economic development	44,952	-	-	-	-
Capital outlay					
Public Safety	-	-	25,454	26,373	45,068
Culture and Recreation	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	32,126
Interest and other charges	-	-	-	-	6,983
Total expenditures	<u>44,952</u>	<u>205,447</u>	<u>25,454</u>	<u>34,173</u>	<u>111,619</u>
Excess (deficiency) of revenues over expenditures	<u>4,467</u>	<u>(16,168)</u>	<u>(18,117)</u>	<u>(5,749)</u>	<u>(13,960)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	4,467	(16,168)	(18,117)	(5,749)	(13,960)
Fund balances - beginning, previously reported	6,503	65,697	22,718	18,299	58,237
Prior period adjustments	-	-	-	-	-
Fund balances - beginning, as restated	6,503	65,697	22,718	18,299	58,237
Fund balances - ending	<u>\$ 10,970</u>	<u>\$ 49,529</u>	<u>\$ 4,601</u>	<u>\$ 12,550</u>	<u>\$ 44,277</u>

LED

2018

CITY OF OCEAN SPRINGS, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Capital Projects			
	Mary C. O'Keefe Building	STP Government Street-Phase II	CIAP Harbor Improvements	Total Non-Major Governmental Funds
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ 189,279
Fees and fines	-	-	-	35,761
Intergovernmental	-	-	50,492	197,570
Total revenues	-	-	50,492	422,610
EXPENDITURES				
Current:				
Public safety	-	-	-	35,242
Cultural and recreation	-	-	-	205,447
Economic development	-	-	-	44,952
Capital outlay				
Public Safety	-	-	-	96,895
Culture and Recreation	-	-	50,493	50,493
Debt service:				
Principal	-	-	-	32,126
Interest and other charges	-	-	-	6,983
Total expenditures	-	-	50,493	472,138
Excess (deficiency) of revenues over expenditures	-	-	(1)	(49,528)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	735	735
Total other financing sources and uses	-	-	735	735
Net change in fund balances	-	-	734	(48,793)
Fund balances - beginning, previously reported	10,000	8,230	22,603	212,287
Prior period adjustments	(8,873)	-	(28,704)	(37,577)
Fund balances - beginning, as restated	1,127	8,230	(6,101)	174,710
Fund balances - ending	\$ 1,127	\$ 8,230	\$ (5,367)	\$ 125,917

See independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2017**

Position	Surety Company	Bond Amount
Mayor	Scott Insurance	\$100,000
Alderpersons (7)	Scott Insurance	\$100,000
Police Chief	Scott Insurance	\$100,000
Court Clerk	Scott Insurance	\$50,000
Deputy Court Clerks (2)	Scott Insurance	\$50,000
Records Clerks (2)	Scott Insurance	\$50,000
Warrants Officer	Scott Insurance	\$50,000
City Clerk	Scott Insurance	\$100,000
Deputy City Clerk	Scott Insurance	\$50,000
Payroll Clerk	Scott Insurance	\$50,000
Purchasing Agent	Scott Insurance	\$50,000
Accountant	Beacon Insurance	\$50,000
General Administrative Clerk	Scott Insurance	\$50,000
Utility Billing Supervisor	Scott Insurance	\$50,000
Utility Clerk	Scott Insurance	\$50,000
Water Technician	Scott Insurance	\$50,000
Building Office Administrator	Scott Insurance	\$50,000
Building Clerk	RLI Insurance Company	\$50,000
Camp Special Events Coordinator	Scott Insurance	\$50,000
Parks Receptionist (3)	Scott Insurance	\$50,000
Parks Coordinator	Scott Insurance	\$50,000
Parks Director	Lemon Mohler Insurance	\$50,000
Public Employee Blanket	Scott Insurance	\$25,000
Unemployment Bond	Scott Insurance	\$27,600

See independent auditors' report.

REPORT ON INTERNAL CONTROL AND COMPLIANCE



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

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

November 16, 2018

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ocean Springs, Mississippi as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Ocean Springs, Mississippi's basic financial statements and have issued our report thereon dated November 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ocean Springs, Mississippi'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 Ocean Springs, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ocean Springs, Mississippi's internal control.

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

To the Board of Alderpersons
City of Ocean Springs
Ocean Springs, Mississippi
November 16, 2018

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

Compliance and Other Matters

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

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.

Alexander Van Loon, Sloan, Levens, & Favre, PLLC

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

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

November 16, 2018

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

We have audited the basic financial statements of the City of Ocean Springs, Mississippi, as of and for the year ended September 30, 2017 and have issued our report dated November 16, 2018. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures and our audit of the basic financial statements disclosed the following material instance of noncompliance with state laws and regulations. Our finding and recommendation and your response are as follows:

Finding:

Per section 21-35-13 of Mississippi state law, the City Clerk should provide the Board a monthly financial packet including the expenditures and liabilities incurred against each separate budget appropriation item during the preceding calendar month and Board approval should be noted in the minutes. The City Clerk did not provide a monthly financial packet as prescribed by state law. The City Clerk provides the Board a quarterly packet of revenues and expenditures, only.

Response: The City concurs with this finding.

Finding:

According to section 21-35-5 of Mississippi state law, the City shall publish a complete budget of municipal revenues, expenses and working cash balances for the next fiscal year, at least one time during September of said year in a newspaper published in the county wherein the City is located. The City did not publish the budget for fiscal year 2017 during the month of September 2016, as prescribed by state law.

Response: The City concurs with this finding.

Honorable Mayor and Members of the
Board of Aldermen
City of Ocean Springs, Mississippi
November 16, 2018

Finding:

Section 27-105-5 states the City, whose funds are deposited in a financial institution in the public funds guaranty pool, should obtain the collateral report and determine that all of the City's bank deposits are accurately stated on the report. The City's collateral report is not accurately stated. The report detailed a cash account that was not included in the City ledger and amounts on the report did not reconcile to City records.

Response: The City concurs with this finding.

Finding:

Mississippi state law 27-105-353 and 27-105-363 require the City to commission one or more depositories to serve the City for two year terms. The City must give notice to qualified financial institutions in December and receive bids in January. The City has not given notice for bids and has had the same depository since 2015.

Response: The City concurs with this finding.

Finding:

Section 27-17-9 requires the City charge privilege tax in conformity with the provided schedule. The provided schedule requires the City to charge \$3 per employee over 10; the City currently charges \$2 for each additional employee.

Response: The City concurs with this finding.

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

Alexander. Van Loon. Sloan. Levens. & Favre, PLLC

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

FILED
NOV 29 2018



City of Ocean Springs

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

1018 Porter Avenue
Ocean Springs, MS 39564

PH 228.875.4236
FX 228.875.7249

Shea Dobson
Mayor

Bobby Cox
Alderman at Large

John Gill
Alderman Ward 1

Rickey Authement
Alderman Ward 2

Joseph Bellman, Jr.
Alderman Ward 3

Ken Papania
Alderman Ward 4

Robert Blackman
Alderman Ward 5

Michael (Mike) Impey, II
Alderman Ward 6

City Clerk
228.875.4236

Police Chief
228.875.2211

Fire Chief
228.872.4407

Public Works
228.875.3955

Community
Development and
Planning
228.875.4415

Human Resources
and Risk Management
228.872.3338

Parks and
Leisure Services
228.875.8665

November 27, 2018

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

Re: Annual Municipal Audit 2016-2017

Dear Sir or Madam:

Enclosed is the City of Ocean Springs Annual Audit Report for Fiscal Year Ended September 30, 2017. A separate management letter was written to the city. The City appreciates the State's forgiveness for us missing the deadline. Since the City Clerk resigned in July, the Auditors had to work with the City staff along with us creating and adopting the budget which caused the delay.

If you have any questions, please feel free to contact me at (228) 217-8692 or pgaston@oceansprings-ms.gov

Sincerely,

Patty Gaston,
City Clerk