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**CITY OF BAY SPRINGS, MISSISSIPPI**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**CITY OF BAY SPRINGS, MISSISSIPPI  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

## Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### Omission of Required Supplementary Information

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

### Supplementary and Other Information

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

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2020, on our consideration of the City of Bay 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* and should be considered in assessing the results of our audit.

*Herzog CPA Company, PLLC*

**Herzog CPA Company, PLLC**  
Hattiesburg, Mississippi  
June 15, 2020

**BASIC FINANCIAL STATEMENTS**

**City of Bay Springs, Mississippi**  
**Statement of Net Position**  
**September 30, 2018**

**EXHIBIT 1**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 908,346	\$ 1,813,835	\$ 2,722,181
Restricted assets - cash	37,252	112,988	150,240
Property tax receivable	888,686	-	888,686
Fines receivable (net of allowance for uncollectibles of \$440,998)	22,308	-	22,308
Receivables (net of uncollectibles):			
Accounts	14,718	334,574	349,292
Sales tax	110,334	-	110,334
Other	29	-	29
Due from other funds	97,196	1,541	98,737
Prepaid expenses	6,669	-	6,669
Capital assets (net of accumulated depreciation):			
Land	257,243	453,918	711,161
Buildings	774,934	-	774,934
Improvements other than buildings	1,486,479	1,275	1,487,754
Mobile equipment	172,825	234,179	407,004
Other furniture and equipment	39,049	38,363	77,412
Infrastructure	856,711	-	856,711
Utility systems	-	5,760,137	5,760,137
<b>Total Assets</b>	<b>5,672,779</b>	<b>8,750,810</b>	<b>14,423,589</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows related to pension	60,389	42,739	103,128
<b>Total Deferred Outflows of Resources</b>	<b>60,389</b>	<b>42,739</b>	<b>103,128</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 5,733,168</b>	<b>\$ 8,793,549</b>	<b>\$ 14,526,717</b>

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

**City of Bay Springs, Mississippi**  
**Statement of Net Position**  
**September 30, 2018**

Page 2  
**EXHIBIT 1**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Liabilities</b>			
Accounts payable	\$ 55,098	\$ 124,800	\$ 179,898
Accrued payroll	5,556	5,186	10,742
Due to other funds	88,457	10,280	98,737
Customer deposits	-	112,988	112,988
Other accrued liabilities	13,721	-	13,721
Non-current Liabilities:			
Due within one year	78,045	55,544	133,589
Due in more than one year	127,466	662,255	789,721
Long-term compensated absences	43,304	29,873	73,177
Net pension liability	1,746,184	1,235,775	2,981,959
<b>Total Liabilities</b>	<b>2,157,831</b>	<b>2,236,701</b>	<b>4,394,532</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pension	43,849	31,031	74,880
Property tax for future reporting period	888,686	-	888,686
<b>Total Deferred Inflows of Resources</b>	<b>932,535</b>	<b>31,031</b>	<b>963,566</b>
<b>Net Position</b>			
Net investment in capital assets	3,381,730	5,770,073	9,151,803
Restricted for debt service	94,288	-	94,288
Unrestricted	(833,216)	755,744	(77,472)
<b>Total Net Position</b>	<b>2,642,802</b>	<b>6,525,817</b>	<b>9,168,619</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 5,733,168</b>	<b>\$ 8,793,549</b>	<b>\$ 14,526,717</b>

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



**City of Bay Springs, Mississippi**  
**Statement of Activities**  
**For the Year Ended September 30, 2018**

EXHIBIT 2

Function/Programs:	Program Revenues			Business-			
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ (709,992)	\$ -	\$ -	\$ 7,096	\$ (702,896)	\$ -	\$ (702,896)
Public safety	(445,904)	-	-	-	(445,904)	-	(445,904)
Public works	(550,142)	132,978	-	39,731	(377,433)	-	(377,433)
Culture and recreation	(157,045)	-	-	197,734	40,689	-	40,689
Economic development	(97,599)	-	-	-	(97,599)	-	(97,599)
Interest on long-term debt	(9,750)	-	-	-	(9,750)	-	(9,750)
Pension expense	(109,192)	-	-	-	(109,192)	-	(109,192)
Total governmental activities	<u>(2,079,624)</u>	<u>132,978</u>	<u>-</u>	<u>244,561</u>	<u>(1,702,085)</u>	<u>-</u>	<u>(1,702,085)</u>
<b>Business-type Activities:</b>							
Water	(514,271)	459,994	-	-	-	(54,277)	(54,277)
Sewer	(364,231)	202,610	-	152,900	-	(8,721)	(8,721)
Gas	(1,574,080)	1,346,171	-	-	-	(227,909)	(227,909)
Industrial park	(544,570)	1,056,932	-	-	-	512,362	512,362
Total business-type activities	<u>(2,997,152)</u>	<u>3,065,707</u>	<u>-</u>	<u>152,900</u>	<u>-</u>	<u>221,455</u>	<u>221,455</u>
Total functions/programs	<u>\$ (5,076,776)</u>	<u>\$ 3,198,685</u>	<u>\$ -</u>	<u>\$ 397,461</u>	<u>\$ (1,702,085)</u>	<u>\$ 221,455</u>	<u>\$ (1,480,630)</u>
General revenues:							
Property tax					\$ 828,739	\$ -	\$ 828,739
Franchise tax					89,593	-	89,593
Sales tax					709,546	-	709,546
Licenses and permits					16,199	-	16,199
Fines and forfeitures					2,971	-	2,971
Intergovernmental, not restricted to							
Specific functions/programs					15,526	-	15,526
Other					67,112	5,771	72,883
Transfers in (out)					471,468	(471,468)	-
Total general revenues and transfers					<u>2,201,154</u>	<u>(465,697)</u>	<u>1,735,457</u>
Change in Net Position					499,069	(244,242)	254,827
Net Position - Beginning					2,143,733	6,770,059	8,913,792
Net Position - End of year					<u>\$ 2,642,802</u>	<u>\$ 6,525,817</u>	<u>\$ 9,168,619</u>

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

**City of Bay Springs, Mississippi**  
**Balance Sheet-Governmental Funds**  
**September 30, 2018**

**EXHIBIT 3**

	Governmental Funds				Total Governmental Funds
	General Fund	Debt Service Fund	Governmental Funds	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 816,094	\$ 92,252	\$ -	\$ -	\$ 908,346
Restricted cash	31,975	-	5,277	-	37,252
Accounts receivable	14,718	-	-	-	14,718
Property tax receivable	844,252	44,434	-	-	888,686
Fines receivable (net of allowance for uncollectibles of \$440,998)	22,308	-	-	-	22,308
Due from other governments	110,334	-	-	-	110,334
Due from other funds	95,161	2,035	-	-	97,196
Other receivables	29	-	-	-	29
Prepaid expenses	6,669	-	-	-	6,669
<b>Total Assets</b>	<b>\$ 1,941,540</b>	<b>\$ 138,721</b>	<b>\$ 5,277</b>	<b>\$ -</b>	<b>\$ 2,085,538</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 54,234	\$ -	\$ 864	\$ -	\$ 55,098
Accrued payroll	5,556	-	-	-	5,556
Due to other funds	88,457	-	-	-	88,457
Other accrued liabilities	13,721	-	-	-	13,721
<b>Total liabilities</b>	<b>161,968</b>	<b>-</b>	<b>864</b>	<b>-</b>	<b>162,832</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue-property taxes	844,252	44,434	-	-	888,686
Unavailable Revenue-fines	22,308	-	-	-	22,308
<b>Total deferred inflows of resources</b>	<b>866,560</b>	<b>44,434</b>	<b>-</b>	<b>-</b>	<b>910,994</b>
<b>Fund Balances:</b>					
Restricted for debt service	-	94,287	-	-	94,287
Unassigned	913,012	-	4,413	-	917,425
<b>Total fund balances</b>	<b>913,012</b>	<b>94,287</b>	<b>4,413</b>	<b>-</b>	<b>1,011,712</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,941,540</b>	<b>\$ 138,721</b>	<b>\$ 5,277</b>	<b>\$ -</b>	<b>\$ 2,085,538</b>

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

**City of Bay Springs, Mississippi**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Statement of Net Position**  
**September 30, 2018**

**EXHIBIT 3.1**

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**Fund balances - Total Governmental Funds** \$ 1,011,712

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

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

Governmental Capital Assets	7,080,071	
Less: Accumulated depreciation	<u>(3,492,830)</u>	3,587,241

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds. 22,308

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

Notes payable	(205,511)	
Compensated absences	<u>(43,304)</u>	(248,815)

Deferred Outflows related to pension liability are applicable to future periods, and therefore, are not reported in the funds. 60,389

Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds. (1,746,184)

Deferred Inflows related to pension liability are applicable to future periods, and therefore, are not reported in the funds. (43,849)

**Net Position of Governmental Activities** \$ 2,642,802

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

**City of Bay Springs, Mississippi**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2018**

EXHIBIT 4

	Governmental Funds			
	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 787,568	\$ 41,171	\$ -	\$ 828,739
Licenses and permits	105,791	-	-	105,791
Intergovernmental revenue	732,168	-	237,464	969,632
Charges for services	132,978	-	-	132,978
Fines and forfeitures	28,439	-	-	28,439
Other revenues	62,444	107	16	62,567
<b>Total Revenues</b>	<u>1,849,388</u>	<u>41,278</u>	<u>237,480</u>	<u>2,128,146</u>
<b>EXPENDITURES</b>				
Current:				
General government	544,956	-	-	544,956
Public safety	757,515	-	-	757,515
Public works	616,716	-	-	616,716
Culture and recreation	212,874	-	216,537	429,411
Economic development	86,446	-	11,153	97,599
Debt service:				
Principal retirement	53,699	20,468	-	74,167
Interest and fiscal charges	6,408	3,342	-	9,750
<b>Total Expenditures</b>	<u>2,278,614</u>	<u>23,810</u>	<u>227,690</u>	<u>2,530,114</u>
<b>(Deficiency) of Revenues Over Expenditures</b>	<u>(429,226)</u>	<u>17,468</u>	<u>9,790</u>	<u>(401,968)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Proceeds from Debt	130,000	-	-	130,000
Transfers in	495,046	2,035	-	497,081
Transfers out	-	(9,347)	(16,266)	(25,613)
<b>Total Other Financing Sources and (Uses)</b>	<u>625,046</u>	<u>(7,312)</u>	<u>(16,266)</u>	<u>601,468</u>
<b>Net Change in Fund Balances</b>	195,820	10,156	(6,476)	199,500
<b>Fund Balance -Beginning</b>	<u>717,192</u>	<u>84,131</u>	<u>10,889</u>	<u>812,212</u>
<b>Fund Balances-Ending</b>	<u>\$ 913,012</u>	<u>\$ 94,287</u>	<u>\$ 4,413</u>	<u>\$ 1,011,712</u>

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

**City of Bay Springs, Mississippi**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**In Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2018**

EXHIBIT 4.1

<b>Net Changes in Fund Balances - Total Governmental Funds</b>		\$ 199,500
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.</p>		
Expenditures for capital assets	405,882	
Less: Current year depreciation	<u>(266,052)</u>	139,830
<p>Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required in the Statement of Activities using the full accrual basis of accounting</p>		
		(25,468)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term debt in the Statement of Net Position.</p>		
Proceeds from debt issuance	(130,000)	
Principal payments	<u>74,167</u>	(55,833)
<p>Some expenses in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in long-term compensated absences		(4,811)
<p>Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the government funds. These activities include:</p>		
Recording of pension expense for the current period	(109,192)	
Recording of contributions made subsequent to measurement date	(44,595)	
Recording of reduction in pension expense for amounts included in net pension liability	<u>399,638</u>	<u>245,851</u>
<b>Change in Net Position of Governmental Activities</b>		<u>\$ 499,069</u>

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

**City of Bay Springs, Mississippi**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2018**

**EXHIBIT 5**

<b>ASSETS</b>	<b>Enterprise Funds</b>				<b>Total Enterprise Funds</b>
	<b>Water</b>	<b>Sewer</b>	<b>Gas</b>	<b>Industrial Park</b>	
Current assets:					
Cash and cash equivalents	\$ 245,621	\$ 34,883	\$ 971,198	\$ 562,133	\$ 1,813,835
Cash-restricted for meter deposits	79,409	-	33,579	-	112,988
Accounts receivable	108,246	80,689	145,639	-	334,574
Due from other funds	50	-	1,491	-	1,541
<b>Total current assets</b>	<b>433,326</b>	<b>115,572</b>	<b>1,151,907</b>	<b>562,133</b>	<b>2,262,938</b>
Noncurrent assets:					
Capital assets:					
Land	258	38,517	-	415,143	453,918
Improvements	18,718	-	-	3,450	22,168
Systems	3,153,922	3,510,344	579,000	2,994,962	10,238,228
Mobile equipment	132,911	112,821	290,333	143,833	679,898
Other furniture and equipment	74,769	132,622	209,916	112,321	529,628
Less accumulated depreciation	(1,591,846)	(1,628,444)	(845,345)	(1,370,333)	(5,435,968)
<b>Total noncurrent assets</b>	<b>1,788,732</b>	<b>2,165,860</b>	<b>233,904</b>	<b>2,299,376</b>	<b>6,487,872</b>
<b>Total Assets</b>	<b>2,222,058</b>	<b>2,281,432</b>	<b>1,385,811</b>	<b>2,861,509</b>	<b>8,750,810</b>
Deferred Outflows of Resources:					
Deferred outflows related to pension	11,196	5,334	19,936	6,273	42,739
<b>Total Deferred Outflows of Resources</b>	<b>11,196</b>	<b>5,334</b>	<b>19,936</b>	<b>6,273</b>	<b>42,739</b>
<b>Total Assets and Deferred Outflows     of Resources</b>	<b>\$ 2,233,254</b>	<b>\$ 2,286,766</b>	<b>\$ 1,405,747</b>	<b>\$ 2,867,782</b>	<b>\$ 8,793,549</b>

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

**City of Bay Springs, Mississippi**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2018**

Page 2  
**EXHIBIT 5**

	Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Gas	Industrial Park	
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 5,827	\$ 2,931	\$ 111,496	\$ 4,546	\$ 124,800
Accrued payroll	1,170	560	2,733	723	5,186
Due to other funds	2,596	573	6,420	691	10,280
Customer deposits	79,409	-	33,579	-	112,988
Current portion of long-term debt	32,922	11,566	-	11,056	55,544
Total current liabilities	<u>121,924</u>	<u>15,630</u>	<u>154,228</u>	<u>17,016</u>	<u>308,798</u>
Noncurrent liabilities:					
Compensated absences payable	4,154	4,566	10,712	10,441	29,873
Long-term debt	367,080	188,803	-	106,372	662,255
Net pension liability	323,734	154,222	576,438	181,381	1,235,775
Total noncurrent liabilities	<u>694,968</u>	<u>347,591</u>	<u>587,150</u>	<u>298,194</u>	<u>1,927,903</u>
Total Liabilities	<u>816,892</u>	<u>363,221</u>	<u>741,378</u>	<u>315,210</u>	<u>2,236,701</u>
Deferred Inflows of Resources					
Deferred inflows related to pension	8,129	3,872	14,475	4,555	31,031
Total Deferred Inflows of Resources	<u>8,129</u>	<u>3,872</u>	<u>14,475</u>	<u>4,555</u>	<u>31,031</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>825,021</u>	<u>367,093</u>	<u>755,853</u>	<u>319,765</u>	<u>2,267,732</u>
<b>NET POSITION</b>					
Net investment in capital assets	1,388,730	1,965,491	233,904	2,181,948	5,770,073
Unrestricted	19,503	(45,818)	415,990	366,069	755,744
Total net position	<u>1,408,233</u>	<u>1,919,673</u>	<u>649,894</u>	<u>2,548,017</u>	<u>6,525,817</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<u>\$ 2,233,254</u>	<u>\$ 2,286,766</u>	<u>\$ 1,405,747</u>	<u>\$ 2,867,782</u>	<u>\$ 8,793,549</u>

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

**City of Bay Springs, Mississippi**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

**EXHIBIT 6**

	Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Gas	Industrial Park	
	Operating revenues:				
Sales	\$ 459,994	\$ 202,610	\$ 1,346,171	\$ 1,056,932	\$ 3,065,707
Intergovernmental revenue	-	152,900	-	-	152,900
Other revenue	3,099	264	1,922	486	5,771
<b>Total operating revenues</b>	<b>463,093</b>	<b>355,774</b>	<b>1,348,093</b>	<b>1,057,418</b>	<b>3,224,378</b>
Operating expenses:					
Personnel services	256,000	145,050	409,604	134,655	945,309
Contractual services, materials, and supplies	109,922	52,737	401,308	116,565	680,532
Utilities	105	46,114	15,181	177,232	238,632
Other services and charges	34,287	16,497	700,536	24,115	775,435
Depreciation	102,143	100,219	47,451	90,302	340,115
<b>Total operating expenses</b>	<b>502,457</b>	<b>360,617</b>	<b>1,574,080</b>	<b>542,869</b>	<b>2,980,023</b>
Operating income (loss)	(39,364)	(4,843)	(225,987)	514,549	244,355
Nonoperating expense:					
Interest Expense	(11,814)	(3,614)	-	(1,701)	(17,129)
Income (loss) before transfers	(51,178)	(8,457)	(225,987)	512,848	227,226
Transfers in	9,347	59,135	-	-	68,482
Transfers out	(19,404)	-	(248,546)	(272,000)	(539,950)
Change in net position	(61,235)	50,678	(474,533)	240,848	(244,242)
<b>Total net position- beginning</b>	<b>1,469,468</b>	<b>1,868,995</b>	<b>1,124,427</b>	<b>2,307,169</b>	<b>6,770,059</b>
<b>Total net position - ending</b>	<b>\$ 1,408,233</b>	<b>\$ 1,919,673</b>	<b>\$ 649,894</b>	<b>\$ 2,548,017</b>	<b>\$ 6,525,817</b>

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



**City of Bay Springs, Mississippi**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

EXHIBIT 7

	Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Gas	Industrial Park	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers and users	\$ 450,139	\$ 350,955	\$ 1,320,976	\$ 1,057,418	\$ 3,179,488
Cash payments to suppliers	(151,387)	(115,767)	(1,154,580)	(311,220)	(1,732,954)
Cash payments to employees	(186,466)	(88,808)	(295,607)	(115,088)	(685,969)
Operating transfers	(10,057)	59,135	(248,546)	(272,000)	(471,468)
Net cash provided by (used by) operating activities	<u>102,229</u>	<u>205,515</u>	<u>(377,757)</u>	<u>359,110</u>	<u>289,097</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchases of capital assets	-	(174,565)	(18,813)	(36,899)	(230,277)
Principal payments	(43,195)	(11,365)	-	(15,030)	(69,590)
Net cash (used by) capital and related financing activities	<u>(43,195)</u>	<u>(185,930)</u>	<u>(18,813)</u>	<u>(51,929)</u>	<u>(299,867)</u>
Net increase (decrease) in cash and cash equivalents	59,034	19,585	(396,570)	307,181	(10,770)
Cash and cash equivalents, beginning of year	265,996	15,298	1,401,347	254,952	1,937,593
<b>Cash and cash equivalents, end of year</b>	<u>\$ 325,030</u>	<u>\$ 34,883</u>	<u>\$ 1,004,777</u>	<u>\$ 562,133</u>	<u>\$ 1,926,823</u>
Reconciliation of change in net position to net cash provided by (used by) operating activities:					
Change in net position	\$ (61,235)	\$ 50,678	\$ (474,533)	\$ 240,848	\$ (244,242)
Adjustments not affecting cash:					
Depreciation expense	102,143	100,219	47,451	90,302	340,115
Changes in assets and liabilities:					
(Increase) in accounts receivable	(12,954)	(4,819)	(27,117)	-	(44,890)
(Increase) decrease in due from other funds	(50)	1,233	894	1,028	3,105
(Increase) in deferred outflows related to pension	(1,506)	(1,615)	(1,355)	(396)	(4,872)
(Decrease) in accounts payable	(7,073)	(419)	(37,555)	(6,692)	(51,739)
Increase (decrease) in customer deposits	1,850	-	(1,534)	-	316
(Decrease) in payroll related liabilities	(623)	(332)	(261)	(268)	(1,484)
Increase (decrease) in compensated absences payable	(398)	(1,357)	2,326	554	1,125
Increase in due to other funds	2,308	573	6,420	691	9,992
Increase in net pension liability	75,568	58,990	100,569	30,872	265,999
Increase in deferred inflows related to pension	4,199	2,364	6,938	2,171	15,672
Total adjustments	<u>163,464</u>	<u>154,837</u>	<u>96,776</u>	<u>118,262</u>	<u>533,339</u>
<b>Net cash provided by (used by) operating activities</b>	<u>\$ 102,229</u>	<u>\$ 205,515</u>	<u>\$ (377,757)</u>	<u>\$ 359,110</u>	<u>\$ 289,097</u>

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

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Reporting Entity

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

Basis of Presentation

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

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

Measurement Focus and Basis of Accounting

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

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

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

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

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

The City reports the following major Governmental Funds:

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

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

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

The City reports the following major Proprietary Funds:

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

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

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

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

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Capital Assets

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

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

Depreciation has been provided using the straight-line method over the following estimated useful lives:

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

Use of Estimates

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

Encumbrances

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

Accounts Receivable

No allowance account is used by the City as of September 30, 2018. All accounts receivable balances reflect amounts due from customers.

Surety Bonds

Surety bond coverage meets the legal requirements for the year ended September 30, 2018.

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Deferred Outflows of Resources

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

Compensated Absences

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

Deferred Inflows of Resources

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

Cash and Cash Equivalents

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

Operating Revenues and Expenses

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

Equity Classifications

*Government-wide Financial Statements:*

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

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

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

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

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

*Fund Financial Statements:*

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

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

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

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

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

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

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

**NOTE 2 – CASH AND INVESTMENTS**

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

Code Sec. 21-33-323 Miss Code Ann. (1972) allows municipalities to invest their surplus funds. The City may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts. All investments of the City throughout the year and at year-end were interest bearing time certificates of deposit which are recorded at cost plus interest earned at September 30, 2018. The market value equals the carrying amount of these investments.

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

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 2 – CASH AND INVESTMENTS - Continued**

The City's deposits, which include all cash accounts and certificates of deposits, with a carrying value of \$2,872,421 and a bank balance of \$3,018,092 at September 30, 2018, are covered by federal deposit insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

**NOTE 3 – CAPITAL ASSETS**

The following is a summary of changes in capital assets during the year ended September 30, 2018:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 257,243	\$ -	\$ -	\$ 257,243
Total capital assets not being depreciated	<u>257,243</u>	<u>-</u>	<u>-</u>	<u>257,243</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,438,671	-	-	1,438,671
Improvements other than buildings	2,321,838	257,004	-	2,578,842
Mobile equipment	1,062,087	142,062	-	1,204,149
Other furniture and equipment	471,226	6,816	-	478,042
Infrastructure	1,123,124	-	-	1,123,124
Total capital assets being depreciated	<u>\$ 6,416,946</u>	<u>\$ 405,882</u>	<u>\$ -</u>	<u>\$ 6,822,828</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Less accumulated depreciation for:</i>				
Buildings	\$ 627,770	\$ 35,967	\$ -	\$ 663,737
Improvements other than buildings	983,896	108,467	-	1,092,363
Mobile equipment	983,972	47,352	-	1,031,324
Other furniture and equipment	416,067	22,926	-	438,993
Infrastructure	215,073	51,340	-	266,413
Total accumulated depreciation	<u>3,226,778</u>	<u>266,052</u>	<u>-</u>	<u>3,492,830</u>
Total capital assets being depreciated, net	<u>3,190,168</u>	<u>139,830</u>	<u>-</u>	<u>3,329,998</u>
<b>Governmental activities capital assets, net</b>	<u><u>\$ 3,447,411</u></u>	<u><u>\$ 139,830</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,587,241</u></u>

Depreciation expense was charged to the following functions as follows:

Governmental Activities:	
General government	\$ 266,052
Total Depreciation Expense	<u><u>\$ 266,052</u></u>

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 3 - CAPITAL ASSETS – Continued**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 453,918	\$ -	\$ -	\$ 453,918
Total capital assets not being depreciated	453,918	-	-	453,918
<i>Capital assets being depreciated:</i>				
Utility systems	10,063,663	174,565	-	10,238,228
Improvements other than buildings	22,168	-	-	22,168
Machinery and equipment	624,186	55,712	-	679,898
Other furniture and equipment	529,628	-	-	529,628
Total capital assets being depreciated	\$ 11,239,645	\$ 230,277	\$ -	\$ 11,469,922

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Less accumulated depreciation for:</i>				
Utility systems	\$ 4,216,993	\$ 261,098	\$ -	\$ 4,478,091
Improvements other than buildings	20,604	289	-	20,893
Machinery and equipment	386,835	58,884	-	445,719
Other furniture and equipment	471,421	19,844	-	491,265
Total accumulated depreciation	5,095,853	340,115	-	5,435,968
Total capital assets being depreciated, net	6,143,792	(109,838)	-	6,033,954
<b>Business-type activities capital assets, net</b>	<u>\$ 6,597,710</u>	<u>\$ (109,838)</u>	<u>\$ -</u>	<u>\$ 6,487,872</u>



**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 4 – NON-CURRENT LIABILITIES**

Loans payable at September 30, 2018, are comprised of the following issues:

*Cap Loans*

<u>Purpose</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
Maintenance and storage facility	\$ 260,000	2021	4.85%	\$ 55,992
Water Improvements	94,980	2019	2.00%	7,001
Water tank	498,100	2028	2.00%	268,395
Water tank	200,000	2027	2.00%	117,428
Water pollution control -01-2	249,098	2034	1.75%	200,369
Water pollution control -02-2	139,917	2036	1.75%	124,606
Total				<u>\$ 773,791</u>

*Capital Leases*

<u>Purpose</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2016 Chevy Crew cab Truck	\$ 35,883	2020	1.75%	\$ 16,007
2-2017 Ford Explorers	63,839	2020	1.75%	32,462
4-2017 Ford Explorers	130,000	2022	1.83%	101,050
Total				<u>\$ 149,519</u>

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 4 – NON-CURRENT LIABILITIES – Continued**

The following is a summary of changes in long-term debt for the year ended September 30, 2018:

<b>DEFINITION AND PURPOSE</b>	<b>Balance</b>	<b>Transactions</b>		<b>Balance</b>	<b>Due</b>
	<b>Outstanding</b>	<b>During Fiscal Year</b>		<b>Outstanding</b>	<b>Within One</b>
	<b>Oct 1, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Sept 30, 2018</b>	<b>Year</b>
<i><u>Governmental Activities:</u></i>					
CAP Loan - Maintenance and storage facility	\$ 76,460	\$ -	\$ (20,468)	\$ 55,992	\$ 20,716
Capital Lease - 2-2017 Ford Explorers	48,281	-	(15,819)	32,462	16,098
Capital Lease - 2016 Crew cab Truck	24,937	-	(8,930)	16,007	9,088
Capital Lease - 4-2017 Ford Explorers	-	130,000	(28,950)	101,050	32,143
<b>Total</b>	<b>149,678</b>	<b>130,000</b>	<b>(74,167)</b>	<b>205,511</b>	<b>78,045</b>
<i><u>Other Non-Current Liabilities</u></i>					
Net Pension Liability	2,022,435	-	(276,251)	1,746,184	-
Compensated Absences	38,493	4,811	-	43,304	-
<b>Total Other Non-Current Liabilities</b>	<b>2,060,928</b>	<b>4,811</b>	<b>(276,251)</b>	<b>1,789,488</b>	<b>-</b>
<b>Total Non-Current Liabilities</b>	<b>\$ 2,210,606</b>	<b>\$ 134,811</b>	<b>\$ (350,418)</b>	<b>\$ 1,994,999</b>	<b>\$ 78,045</b>
<b>DEFINITION AND PURPOSE</b>	<b>Balance</b>	<b>Transactions</b>		<b>Balance</b>	<b>Due</b>
	<b>Outstanding</b>	<b>During Fiscal Year</b>		<b>Outstanding</b>	<b>Within One</b>
	<b>Oct 1, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Sept 30, 2018</b>	<b>Year</b>
<i><u>Business-type Activities:</u></i>					
CAP loan - Water pollution control -01-2	\$ 211,734	\$ -	\$ (11,365)	\$ 200,369	\$ 11,566
CAP loan - Water improvements	14,115	-	(7,114)	7,001	7,001
CAP loan - Water tank	298,271	-	(29,876)	268,395	19,607
CAP loan - Water tank	132,458	-	(15,030)	117,428	11,056
CAP loan - Water pollution control -02-2	130,811	-	(6,205)	124,606	6,314
<b>Total</b>	<b>787,389</b>	<b>-</b>	<b>(69,590)</b>	<b>717,799</b>	<b>55,544</b>
<i><u>Other Non-Current Liabilities</u></i>					
Net Pension Liability	969,776	265,999	-	1,235,775	-
Compensated Absences	28,748	1,125	-	29,873	-
<b>Total Other Non-Current Liabilities</b>	<b>998,524</b>	<b>267,124</b>	<b>-</b>	<b>1,265,648</b>	<b>-</b>
<b>Total Non-Current Liabilities</b>	<b>1,785,913</b>	<b>267,124</b>	<b>(69,590)</b>	<b>1,983,447</b>	<b>55,544</b>
<b>Total Government-wide Non-Current Liabilities</b>	<b>\$ 3,996,519</b>	<b>\$ 401,935</b>	<b>\$ (420,008)</b>	<b>\$ 3,978,446</b>	<b>\$ 133,589</b>

**City of Bay Springs, Mississippi  
Notes to the Financial Statements  
For the Year Ended September 30, 2018**

**NOTE 4 – NON-CURRENT 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 percent of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20 percent whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2018, the amount of outstanding debt was equal to 2.31 percent of the latest property assessments.

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

<u>Year</u>	<u>Governmental</u>		<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 78,045	\$ 4,545	\$ 55,544	\$ 13,137
2020	79,256	2,518	57,127	11,978
2021	45,402	558	58,235	10,870
2022	2,808	4	59,363	9,743
2023	-	-	60,513	8,592
2024-2028	-	-	295,719	25,280
2029-2033	-	-	110,304	6,816
2034-2036	-	-	20,994	340
Total	\$ 205,511	\$ 7,625	\$ 717,799	\$ 86,756

**NOTE 5 – RISK MANAGEMENT**

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

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 6 – PENSION PLAN OBLIGATIONS**

**General Information about the Pension plan**

**Plan Description**

The City of Bay Springs, Mississippi 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 State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

**Benefits Provided**

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

**Contributions**

At September 30, 2018, PERS members were required to contribute 9% of their annual covered salary, and the City of Bay Springs is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2018, 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 of Bay Springs' contributions (employer share only) to PERS for the years ending September 30, 2018, 2017 and 2016 were \$176,258, \$179,755 and \$186,951, respectively, equal to the required contributions for each year.

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 6 – PENSION PLAN OBLIGATIONS - Continued**

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

At September 30, 2018, the City of Bay Springs reported a liability of \$2,981,959 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Bay Springs's proportion of the net pension liability was based on a projection of the City of Bay Springs' long-term share of contribution to the pension plan relative to projected contributions for all participating entities, actuarially determined. The City of Bay Springs' proportionate share used to calculate the September 30, 2018, net pension liability was .017928 percent, which was based on a measurement date of June 30, 2018. This was a decrease of .000072 percent from its proportionate share used to calculate the September 30, 2017, net pension liability, which was based on a measurement date of June 30, 2017.

For the year ended September 30, 2018, the City of Bay Springs recognized pension expense of \$186,467. At September 30, 2018, 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
Difference between expected and actual experience	\$ 20,400	\$ 6,748
Net difference between projected and actual earnings on pension plan investments	-	65,964
Changes of assumptions	28,284	2,168
Changes in the proportion and differences between the City's Contributions and Proportionate Share of Contributions	9,849	-
City's contributions subsequent to the measurement date	44,595	-
	\$ 103,128	\$ 74,880

\$44,595 was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30	Amount
2019	\$ 8,568
2020	(1,232)
2021	(15,230)
2022	(8,453)
	\$ (16,347)

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 6 – PENSION PLAN OBLIGATIONS – Continued**

**Actuarial Assumptions**

The total pension liability used in the September 30, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.00%
Salary increases	3.75%-18.50%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022, with male rates set forward one year.

The actuarial assumptions used in the June 30, 2018 valuation was based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The experience report is dated April 18, 2017.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation Percentage</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	.75
Real estate	10.00	3.50
Private equity	8.00	5.10
Emerging debt	2.00	2.50
Cash	1.00	-
	<u>100.00 %</u>	

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 6 – PENSION PLAN OBLIGATIONS – Continued**

**Discount Rate**

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	\$ 3,926,384	\$ 2,981,959	\$ 2,197,017

**Pension Plan Fiduciary Net Position**

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

**Payable to the Pension Plan**

At September 30, 2018, the City of Bay Springs has no amounts payable for outstanding contributions to the pension plan required for the year ended September 30, 2018.

**NOTE 7 – PROPERTY TAXES**

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

**NOTE 8 – INTERFUND TRANSFERS**

Funds are frequently transferred from the utility funds to the General Fund to finance the operations of the General Fund. Transfers of this nature were \$471,468 for the year.

**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 9 – JOINT VENTURE**

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

**NOTE 10 – EFFECT OF DEFERRED AMOUNTS ON NET POSITION**

The governmental activities' unrestricted net position amount of \$(833,216) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$44,595 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. The \$58,532 balance of the deferred outflow of resources related to pensions at September 30, 2018, will be recognized in pension expense over the next four years. The \$74,880 balance of the deferred inflow of resources related to pension at September 30, 2018, will be recognized in pension expense over the next four years.

**NOTE 11 – SUBSEQUENT EVENTS**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Bay Springs, Mississippi evaluated the activity of the City through June 15, 2020, (the date the financial statements were available to be issued) and determined that the following subsequent events required disclosure in the notes to the financial statements:

In 2018, the Office of the State Auditor initiated an investigation of the City's records. The outcome of the investigation is unknown as of the audit report date.

On November 6, 2018, the Board approved the purchase of a 2000 John Deere 450H Bulldozer in the amount of \$20,500.

On February 5, 2019, the Board approved the purchase of equipment for the Fire Department in the amount of \$32,994. The Board approved asphalt repairs in the amount of \$25,110. The Board also approved a computer software upgrade in the amount of \$30,625.

On March 5, 2019, the Board approved a lease purchase of a fire truck in the amount of \$379,692 for sixty months at 3.19% interest and a monthly payment of \$6,862.

On August 6, 2019, the Board approved \$299,336 for roadway improvements in the Industrial Park.

On September 3, 2019, the Board approved an increase in base water rates from \$17.55 to \$18.55 for customers in the City and an increase from \$14.25 to \$15.25 for customers outside the City. The Board also approved an increase of \$.50 per thousand gallons for the tiers of water usage from 2,501 gallons to 10,000 gallons.

On October 1, 2019, the Board approved an airport runway resurfacing project in the amount of \$166,677. The Board also approved the purchase of a 300kw generator in the amount of \$79,866.

On October 15, 2019, the Board approved an emergency order in the amount of \$38,448 for the demolition of a building.

On December 3, 2019, the Board approved SRF Loan Water Improvements in the amount of \$179,208.



**City of Bay Springs, Mississippi**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**NOTE 11 – SUBSEQUENT EVENTS - Continued**

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of this virus began to cause some business disruption through reduced revenue. While this disruption is currently expected to be temporary, there is considerable uncertainty around the duration. However, the related financial impact and duration cannot be reasonably estimated at this time.

On February 4, 2020, the Board approved SRF Water Improvements in the amount of \$176,389.

On February 18, 2020, the Board approved a State of Emergency due to a tornado on February 5, 2020.

On March 17, 2020, the Board approved a State of Emergency due to Coronavirus.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Bay Springs, Mississippi**  
**Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)**  
**General Fund - Unaudited**  
**For the Year Ended September 30, 2018**

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual (Budgetary Basis)	
<b>REVENUES</b>				
Property taxes	\$ 906,842	\$ 906,842	\$ 789,330	\$ (117,512)
Licenses and permits	104,836	104,836	134,777	29,941
Intergovernmental revenues	661,703	661,703	675,642	13,939
Charges for services	130,364	130,364	132,978	2,614
Fines and forfeitures	22,928	22,928	28,439	5,511
Other revenue	49,994	49,994	60,206	10,212
Total Revenues	<u>1,876,667</u>	<u>1,876,667</u>	<u>1,821,372</u>	<u>(55,295)</u>
<b>EXPENDITURES</b>				
Current:				
General government	617,810	617,810	523,550	94,260
Public safety	734,029	734,029	663,647	70,382
Public works	686,797	686,797	615,530	71,267
Culture and recreation	176,278	176,278	212,591	(36,313)
Economic development	49,150	49,150	86,446	(37,296)
Total expenditures	<u>2,264,064</u>	<u>2,264,064</u>	<u>2,101,764</u>	<u>162,300</u>
(Deficiency) of revenues over Expenditures	<u>(387,397)</u>	<u>(387,397)</u>	<u>(280,392)</u>	<u>107,005</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	438,056	438,056	495,046	56,990
Total Other Financing Sources	<u>438,056</u>	<u>438,056</u>	<u>495,046</u>	<u>56,990</u>
Net Change in Fund Balance	50,659	50,659	214,654	163,995
Fund Balances - beginning	399,433	101,824	512,388	410,564
Fund Balances - ending	<u>\$ 450,092</u>	<u>\$ 152,483</u>	<u>\$ 727,042</u>	<u>\$ 574,559</u>

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

**City of Bay Springs, Mississippi**  
**Schedule of the City's Proportionate Share**  
**of the Net Pension Liability-Unaudited**  
**For the Years Ended September 30, 2018, 2017, 2016, 2015, and 2014**

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	.017928%	.018%	.018%	.017%	.016%
Employer's proportionate share of the net pension liability (asset)	\$ 2,981,959	\$ 2,992,211	\$ 3,215,249	\$ 2,627,865	\$ 1,942,107
Employer's covered payroll	\$ 1,119,097	\$ 1,141,302	\$ 1,186,990	\$ 1,053,897	\$ 1,016,752
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	266.46%	262.17%	270.87%	249.35%	191.01%
Plan fiduciary net position as a percentage of the total pension liability	62.54%	61.49%	57.47%	61.70%	67.21%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

See Notes to the Required Supplementary Information.

**City of Bay Springs, Mississippi**  
**Schedule of the City's Contributions-Unaudited**  
**For the Years Ended September 30, 2018, 2017, 2016, 2015, and 2014**

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 176,258	\$ 179,755	\$ 186,951	\$ 165,989	\$ 160,138
Contributions in relation to the contractually required contributions	<u>(176,258)</u>	<u>(179,755)</u>	<u>(186,951)</u>	<u>(165,989)</u>	<u>(160,138)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 1,119,097	\$ 1,141,302	\$ 1,186,990	\$ 1,053,897	\$ 1,016,752
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%	15.75%	15.75%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

See Notes to the Required Supplementary Information.

**City of Bay Springs, Mississippi**  
**Notes to the Required Supplementary Information-Unaudited**  
**For the Year Ended September 30, 2018**

**a.) Budgetary Information**

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

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

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

**b.) Basis of Presentation**

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

**c.) Budget/GAAP Reconciliation**

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

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

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

	Governmental Fund Types	
	General Fund	
Budget (Cash Basis)	\$	214,654
Increase (Decrease)		
Net adjustments for revenue accruals		9,382
Net adjustments for expenditures accruals		(28,216)
		(28,216)
GAAP Basis	\$	195,820

**City of Bay Springs, Mississippi**  
**Notes to Required Supplementary Information-Unaudited**  
**For the Year Ended September 30, 2018**

**d.) Pension Schedules.**

(1) Changes in Benefit Provisions.

2016

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

(2) Changes of Assumptions.

2015

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

2016

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

2017

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

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

**OTHER INFORMATION**



**City of Bay Springs, Mississippi**  
**Schedule of Surety Bonds for Municipal Officials - Unaudited**  
**September 30, 2018**

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

**SPECIAL REPORTS**

## HERZOG CPA COMPANY, PLLC

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 15, 2020.

#### Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, and 2018-006 to be material weaknesses.

### Compliance and Other Matters

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

### City of Bay Springs, Mississippi's Response to Findings

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

### Purpose of this Report

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

*Herzog CPA Company, PLLC*

**Herzog CPA Company, PLLC**  
Hattiesburg, Mississippi  
June 15, 2020

## HERZOG CPA COMPANY, PLLC

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### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon June 15, 2020. 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.

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

The results of those procedures and our audit of the general purpose financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

**Finding:** The City exceeded budgeted expenditures in the General Fund for culture and recreation and economic development, which is prohibited by Miss. Code Ann. Section 27-35-17.

**Recommendation:** The Board should amend budget to actual expenditures at year end.

**Response:** The City will comply in the future.

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

*Herzog CPA Company, PLLC*

**Herzog CPA Company, PLLC**

Hattiesburg, Mississippi

June 15, 2020

**SCHEDULE OF FINDINGS AND RESPONSES**

**City of Bay Springs, Mississippi  
Schedule of Findings and Responses  
For the Year Ended September 30, 2018**

Section 1: Summary of Auditors' Results

***Financial Statements:***

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

**City of Bay Springs, Mississippi  
Schedule of Findings and Responses  
For the Year Ended September 30, 2018**

Section 2: Financial Statement Findings

2018-001. Finding

Significant Deficiency- Material Weakness.

As reported in prior years, the City exceeded the budget in the General Fund for cultural and recreation and economic development expenditures.

Repeat Finding: Yes, 2017-002.

Criteria: The City should amend the budget to actual at year-end to satisfy audit requirements.

Condition: The Board of Aldermen should amend budget to actual at year end.

Cause: The Board of Alderman did not amend budget to actual.

Effect: The City exceeded budget in the General Fund for cultural and recreation and economic development.

Recommendation:

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

Views of Responsible Officials:

The City will comply in the future.

2018-002. Finding

Significant Deficiency- Material Weakness.

As reported in prior years, the City had several unauthorized expenditures that were paid and not included in the claims docket for the month or approved in the minutes of the Board meetings.

Repeat Finding: Yes, 2017-003.

Criteria: The City should establish procedures that all expenditures must be included in the claims docket or separately approved in the minutes by the Board.

Condition: The Board should approve all expenditures prior to payment.

Cause: All expenditures were not included on claims docket or approved by the Board in the minutes.

Effect: Unauthorized expenditures were paid.

Recommendation:

All expenditures should be approved by the Board.

Views of Responsible Officials:

The City will comply in the future.



**City of Bay Springs, Mississippi**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2018**

Section 2: Financial Statement Findings

2018-003. Finding

Significant Deficiency- Material Weakness.

As reported in the prior year, the City could not locate three invoices that were paid from the Gas Fund. The expenditures do not appear to be expenditures of the City and were excluded from the claims docket.

Repeat Finding: Yes, 2017-004

Criteria: The City should establish procedures that all expenditures should have supporting documentation and Board approval.

Condition: The Board should approve all expenditures for payment.

Cause: All expenditures did not have proper documentation or approval by the Board.

Effect: Unauthorized and undocumented expenditures were paid.

Recommendation:

All invoices for expenditures should be maintained in the City's records and properly approved.

Views of Responsible Officials:

The City will comply in the future.

2018-004. Finding

Significant Deficiency- Material Weakness.

The revenue and expenditures for a Water Fund Community Development Block Grant were incorrectly posted to the General Fund.

Repeat Finding: No

Criteria: The City should establish procedures to ensure that revenue and expenditures are posted to correct funds.

Condition: The Board should review financial statements to ensure revenues and expenditures are properly posted.

Cause: Revenues and Expenditures were posted to incorrect funds.

Effect: Revenues and Expenditures were overstated for General Fund and understated for the Water Fund.

Recommendation:

All revenue and expenditures for the Water Fund should be properly recorded to the correct fund.

Views of Responsible Officials:

The City will comply in the future.

**City of Bay Springs, Mississippi  
Schedule of Findings and Responses  
For the Year Ended September 30, 2018**

Section 2: Financial Statement Findings

2018-005. Finding

Significant Deficiency- Material Weakness.

The Utility Expense for the Water Fund was paid out of the Sewer Fund.

Repeat Finding: No

Criteria: The City should establish procedures to ensure that expenditures are posted to correct funds.

Condition: The Board should review financial statements to ensure expenditures are properly posted.

Cause: Expenditures were posted to incorrect funds.

Effect: Expenditures were overstated for the Sewer Fund and understated for the Water Fund.

Recommendation:

The Utility Expense for the Water Fund should be paid from the Water Fund.

Views of Responsible Officials:

The City will comply in the future.

2018-006. Finding

Significant Deficiency- Material Weakness.

The Goat Station Fund had a bank overdraft at September 30, 2018.

Repeat Finding: No

Criteria: The City should review transactions to ensure that they do not have overdraft bank accounts.

Condition: The Board should review transactions and bank balances to ensure that expenditures do not create a bank overdraft.

Cause: Expenditures were made in September that exceeded the balance in the bank account for the Goat Station Fund.

Effect: The City had a bank overdraft in the Goat Station Fund bank account at September 30, 2018.

Recommendation:

Bank balances should be analyzed before expenditures are made.

Views of Responsible Officials:

The City will comply in the future.