

OFFICE OF THE STATE AUDITOR REPORT NOTE:

Section 7-7-211, Mississippi Code Annotated (1972) gives the Office of the State Auditor the authority to audit, with the exception of municipalities, any governmental entity in the state. In the case of municipalities, *Section 21-35-31, Mississippi Code Annotated (1972)* requires municipalities to obtain an annual audit performed by a private CPA firm and submit that audit report to the Office of the State Auditor. The Office of the State Auditor files these audit reports for review in case questions arise related to the municipality.

As a result, the following document was not prepared by the Office of the State Auditor. Instead, it was prepared by a private CPA firm and submitted to the Office of the State Auditor. The document was placed on this web page as it was submitted and no review of the report was performed by the Office of the State Auditor prior to finalization of the report. 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

FINANCIAL REPORT

SEPTEMBER 30, 2018



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SEPTEMBER 30, 2018**

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INTRODUCTORY SECTION

**CITY OF OCEAN SPRINGS, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2018**

ELECTED OFFICIALS

Mayor	Shea Dobson
Alderman – Ward 1	John Gill
Alderman – Ward 2	Rickey Authement
Alderman – Ward 3	Joseph Bellman Jr.
Alderman – Ward 4	Ken Papania
Alderman – Ward 5	Robert Blackman
Alderman – Ward 6	Michael Impey
Alderman – At Large	Robert Cox

APPOINTED DEPARTMENT HEADS

City Clerk	Patty Gaston
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

July 30, 2019

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 funds information of the City of Ocean 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 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 consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining funds information of the City of Ocean 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 management's discussion and analysis, budgetary comparison information, and net pension liability and contributions on pages 5-10, 45-46, and 47-48 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ocean Springs, Mississippi's basic financial statements. The introductory section on page 1 and the combining non-major governmental fund statements on pages 50 through 51 are presented for purposes of additional analysis and are not required as part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and schedule of expenditures of federal awards 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. 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 combining nonmajor fund financial statements and schedule of expenditures of federal awards 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
July 30, 2019

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 52. 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 July 30, 2019, 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

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Certified Public Accountants
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS



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Ocean Springs, MS 39566-1800

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Ocean Springs, MS 39564

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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

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Leisure Services**
228.875.8665



City of Ocean Springs

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Introduction

The following Management's Discussion and Analysis of the City of Ocean Springs, Mississippi's (the "City") activities and financial performance provides an introduction to the financial statements of the City for the fiscal year ended September 30, 2018. The information contained in this Management's Discussion and Analysis has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The components of the annual financial report include:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Required Supplementary Information (RSI)

The MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at September 30, 2018 by \$38,913,807.
- The total net position increased by \$1,672,623. Of this amount, an increase of \$1,145,065 was associated with governmental activities and an increase of \$527,558 was from business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,595,533 an increase of \$404,716.
- At the end of the current fiscal year, unassigned fund balance for the governmental funds was \$2,246,213.

Overview of the Financial Statements

The City's basic financial statements comprise the following elements:

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Overview of the Financial Statements (Continued)

Government-wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include capital projects, general government, public safety, public works, solid waste, urban and economic development, and culture and recreation. The business-type activities of the City are comprised of water and sewer operations.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting not only to ensure and demonstrate compliance with finance-related legal requirements but also to help control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes, grants, and other money. All of the funds of the City can be divided into two categories:

- Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

The City maintains three major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, food and beverage fund, general obligation fund, and nonmajor funds.

- Proprietary Funds

The City maintains one proprietary fund for water and sewer operations. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information for this fund is presented in the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Refer to Note 1 to the financial statements for more detailed information on the elements of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Government-wide Financial Analysis

Table 1 below presents the City's condensed statement of net position as of September 30, 2018 and 2017, derived from the government-wide Statement of Net Position.

Table 1: Condensed Statement of Net Position
As of September 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 14,043,411	\$ 13,560,823	\$ 2,802,684	\$ 2,237,283	\$ 16,846,095	\$ 15,798,106
Capital assets	48,909,045	48,017,412	20,857,250	21,297,086	69,766,295	69,314,498
Total assets	<u>62,952,456</u>	<u>61,578,235</u>	<u>23,659,934</u>	<u>23,534,369</u>	<u>86,612,390</u>	<u>85,112,604</u>
Deferred outflows for pensions	341,755	839,290	69,055	134,342	410,810	973,632
Long-term debt outstanding	23,544,460	23,353,031	4,051,348	4,520,475	27,595,808	27,873,506
Net pension liability	15,879,845	15,870,532	2,416,422	2,415,200	18,296,267	18,285,732
Other liabilities	880,223	1,157,381	886,157	860,342	1,766,380	2,017,723
Total liabilities	<u>40,304,528</u>	<u>40,380,944</u>	<u>7,353,927</u>	<u>7,796,017</u>	<u>47,658,455</u>	<u>48,176,961</u>
Deferred inflows for pensions	385,423	577,386	65,515	90,705	450,938	668,091
Net position:						
Investment in capital assets, net of related debt	26,103,663	25,360,867	16,856,014	16,868,991	42,959,677	42,229,858
Restricted	71,854	84,255	-	-	71,854	84,255
Unrestricted	<u>(3,571,257)</u>	<u>(3,985,927)</u>	<u>(546,467)</u>	<u>(1,087,002)</u>	<u>(4,117,724)</u>	<u>(5,072,929)</u>
Total net position	<u>\$ 22,604,260</u>	<u>\$ 21,459,195</u>	<u>\$ 16,309,547</u>	<u>\$ 15,781,989</u>	<u>\$ 38,913,807</u>	<u>\$ 37,241,184</u>

At September 30, 2018 and 2017, the City's assets and deferred outflows exceeded liabilities and deferred inflows by \$38,913,807 and \$37,241,184, respectively. By far, the largest portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire or construct those assets. The City uses these capital assets to provide services to the citizens and businesses in the City; consequently, these net positions are not available for future spending. A portion of the net position is restricted for capital improvements. The remaining portion of net position is unrestricted, which can be used to finance government operations.

Total assets increased by \$1,499,786 due largely to increases in cash and cash equivalents and capital assets. Total liabilities decreased by (\$518,506) due primarily to the (\$235,430) decrease in long-term debt outstanding related to standard debt payments and the use of \$153,482 in deferred revenues. Deferred outflows for pensions decreased by (\$562,822) and deferred inflows for pensions decreased by (\$217,153) during the current fiscal year.

Governmental activities reflect a negative fund balance in unrestricted net position of (\$3,571,257) at September 30, 2018. This is a \$414,670 increase from prior year's fund balance in unrestricted net position of (\$3,985,927). The increase in unrestricted net position is primarily due to an increase in revenue and a decrease in expenditures.

Business-type activities reflect an unrestricted net position of (\$546,467) at September 30, 2018, an increase of \$540,535 over prior year's unrestricted net position of (\$1,087,002). The increase in unrestricted net position is primarily due to a larger proportional decrease in expenditures than in revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Government-wide Financial Analysis (Continued)

Table 2 below presents the City's condensed statement of activities for the fiscal years ended September 30, 2018 and 2017, as derived from the government-wide Statement of Activities.

Table 2: Condensed Statement of Activities
For the years ended September 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for services	\$ 1,515,465	\$ 1,658,245	\$ 6,778,827	\$ 6,780,023	\$ 8,294,292	\$ 8,438,268
Operating grants	1,674,747	561,859	-	-	1,674,747	561,859
Capital grants and contributions	218,911	650,835	-	26,522	218,911	677,357
General revenues						
Property taxes	5,214,190	4,605,870	-	-	5,214,190	4,605,870
Sales taxes	6,669,072	6,447,441	-	-	6,669,072	6,447,441
Franchise taxes	896,968	760,054	-	-	896,968	760,054
Other taxes	852,635	755,773	-	-	852,635	755,773
Other general revenues	279,571	187,237	-	-	279,571	187,237
Total revenues	17,321,559	15,627,314	6,778,827	6,806,545	24,100,386	22,433,859
Expenses						
General government	4,563,963	4,819,240	-	-	4,563,963	4,819,240
Public safety	6,519,528	6,458,005	-	-	6,519,528	6,458,005
Public works	2,212,967	2,037,455	-	-	2,212,967	2,037,455
Culture and recreation	1,906,861	2,090,044	-	-	1,906,861	2,090,044
Urban & economic development	512,087	473,904	-	-	512,087	473,904
Debt service - interest	861,088	761,664	-	-	861,088	761,664
Water, sewer & gas	-	-	5,851,269	6,201,473	5,851,269	6,201,473
Total expenses	16,576,494	16,640,312	5,851,269	6,201,473	22,427,763	22,841,785
Increase (decrease) in net assets before transfers	745,065	(1,012,998)	927,558	605,072	1,672,623	(407,926)
Transfers	400,000	400,000	(400,000)	(400,000)	-	-
Net increase (decrease) in net position	1,145,065	(612,998)	527,558	205,072	1,672,623	(407,926)
Net position, beginning of year	21,459,195	21,356,417	15,781,989	15,124,902	37,241,184	36,481,319
Prior period adjustment	-	715,776	-	452,015	-	1,167,791
Net position, beginning - restated	21,459,195	22,072,193	15,781,989	15,576,917	37,241,184	37,649,110
Net position, end of year	\$ 22,604,260	\$ 21,459,195	\$ 16,309,547	\$ 15,781,989	\$ 38,913,807	\$ 37,241,184

Governmental Activities

Governmental activities increased the City's net position by \$1,145,065 due to increases in revenues and decreases in expenses.

Business-type Activities

Business-type activities increased the City's net position by \$527,558. The key element of this increase is a larger proportional decrease in expenditures than in revenues.

Financial Analysis of the City's Funds

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$12,595,533.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Financial Analysis of the City's Funds (Continued)

General Fund

Fund balance at September 30, 2018 totaled \$2,464,968, an increase of \$269,260 during the fiscal year in comparison to the \$2,195,708 balance in fiscal year 2017. Significant changes in revenues and expenses in comparison to fiscal year 2017 are as follows:

- Property taxes increased by \$387,674
- Fees and fines decreased by (\$114,229)
- Intergovernmental revenue increased by \$189,227
- Grants increased by \$368,931
- Public safety expenditures increased by \$241,319
- General government expenditures increased by \$188,312
- Public works expenditures increased by \$173,859
- Health and welfare expenditures increased by \$678,297
- Cultural and recreation expenditures increased by \$268,723
- Capital outlay expenditures decreased by (\$684,296)
- There were proceeds from long term debt of \$825,397 in 2018

Food and Beverage Fund

The food and beverage fund had a fund balance of \$9,605,807 at September 30, 2018, which is a decrease of (\$123,178) from prior year. This is primarily due to an increase debt servicing expenditures.

General Obligation Fund

The general obligation fund had a balance of \$273,800 at September 30, 2018, which is an increase of \$133,594 from prior year due primarily to a decrease in debt servicing expenditures.

Budget Variances in the General Fund

All significant differences in the original budget and the final amended budget are summarized as follows:

- \$366,400 (44%) decrease in revenue from fines and forfeitures
- \$250,989 (43%) increase in supervision and finance expenditures
- \$418,037 (11%) increase in police department expenditures
- \$144,304 (5%) increase in street department expenditures

The City ended the year with an overall favorable variance between the budget and actual of \$591,661 primarily due to a \$807,408 increase in governmental revenues related to capital grants.

Capital Asset and Long-Term Debt Activity

Capital Assets at Year End (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 3,648,304	\$ 3,648,304	\$ 29,413	\$ 29,413	\$ 3,677,717	\$ 3,677,717
Donated artwork	5,732,494	5,717,143	-	-	5,732,494	5,717,143
Construction in progress	2,169,675	1,193,589	33,595	33,595	2,203,270	1,227,184
Buildings and improvements	13,953,887	13,935,392	35,390	35,390	13,989,277	13,970,782
Equipment	2,232,728	1,165,218	827,543	799,510	3,060,271	1,964,728
Other improvements	18,540,711	18,385,255	-	-	18,540,711	18,385,255
Infrastructure	17,046,208	16,863,105	41,130,800	40,994,612	58,177,008	57,857,717
Vehicles	5,030,168	4,888,958	840,759	840,759	5,870,927	5,729,717
Accumulated depreciation	(19,445,130)	(17,779,552)	(22,040,250)	(21,436,193)	(41,485,380)	(39,215,745)
Total	<u>\$ 48,909,045</u>	<u>\$ 48,017,412</u>	<u>\$ 20,857,250</u>	<u>\$ 21,297,086</u>	<u>\$ 69,766,295</u>	<u>\$ 69,314,498</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Capital Asset and Long-Term Debt Activity (Continued)

Capital Asset Activity

At September 30, 2018, the City reported \$48,909,045 in net capital assets for governmental activities and \$20,857,250 in capital assets for business-type activities. Major capital asset events during the year included the following:

- The City incurred governmental capital asset additions of \$2,697,412 primarily related to new machinery and equipment purchased and additional construction in progress during the current fiscal year.
- The City incurred governmental expenditures construction in progress of \$1,067,967 primarily related to street/sidewalk improvements, sportsplex additions, and the "Meet Me at the Park" project.

Additional information on the City's capital assets can be found in Note 5 to the financial statements.

Long-Term Liabilities Activity

At the end of the current fiscal year, the City had \$3,995,830 in outstanding proprietary debt and \$22,800,924 in outstanding governmental debt. See Note 6 to the financial statements for further information.

Pursuant to the provisions of Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the City of Ocean Springs recorded approximately \$18.3 million in pension liabilities for the defined benefit plans administered by the State of Mississippi's Public Employees' Retirement System for the fiscal year ended September 30, 2018. The \$18.3 million is the City's proportionate share of the total net pension liability of the State of Mississippi's Public Employees' Retirement System. See Note 8 to the financial statements for further information.

Economic Conditions and Outlook

The City expects increased property tax revenues due to increased assessed values of properties in 2018. In addition, with the opening of new and expanded retail store and restaurants, sales and food and beverage taxes are also expected to increase.

The City is actively pursuing grant funding and other funding sources which will be used to fund City projects as allowable by the grantors.

The City expects slight increases in personnel wages and benefits expenses due to adopting a mandatory pay scale and an increase in the required employer PERS contribution rate. These increased expenses are budgeted to be covered with general operating funds.

Contact the City's Financial Management

This financial report is designed to provide a general overview of the City of Ocean Springs for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Clerk at 1018 Porter Avenue, Ocean Springs, Mississippi, 39564.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,891,601	\$ 1,463,252	\$ 3,354,853
Receivables, net	611,399	774,317	1,385,716
Due from other governmental agencies	1,520,939	-	1,520,939
Prepaid expenses	219,777	-	219,777
Restricted assets:			
Cash and cash equivalents	836,882	565,115	1,401,997
Investments, bond reserve	8,962,813	-	8,962,813
Capital assets			
Nondepreciable assets	11,550,473	63,008	11,613,481
Depreciable assets, net of depreciation	37,358,572	20,794,242	58,152,814
Total capital assets	<u>48,909,045</u>	<u>20,857,250</u>	<u>69,766,295</u>
Total assets	<u>62,952,456</u>	<u>23,659,934</u>	<u>86,612,390</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows on pension liability	<u>341,755</u>	<u>69,055</u>	<u>410,810</u>
LIABILITIES			
Accounts payable	435,566	298,327	733,893
Accrued liabilities	393,681	17,309	410,990
Retainage payable	4,458	5,406	9,864
Deferred revenues	46,518	-	46,518
Customer deposits	-	565,115	565,115
Long-term liabilities:			
Due within one year			
Bonds, notes payable, and capital leases	1,192,235	404,032	1,596,267
Accrued interest	192,331	-	192,331
Compensated absences	551,205	55,518	606,723
Due in more than one year			
Bonds, notes payable, and capital leases	21,608,689	3,591,798	25,200,487
Proportionate share of collective net pension liability	15,879,845	2,416,422	18,296,267
Total liabilities	<u>40,304,528</u>	<u>7,353,927</u>	<u>47,658,455</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows on pension liability	<u>385,423</u>	<u>65,515</u>	<u>450,938</u>
NET POSITION			
Invested in capital assets, net of related debt	26,103,663	16,856,014	42,959,677
Restricted for:			
Capital improvements	71,854	-	71,854
Unrestricted	<u>(3,571,257)</u>	<u>(546,467)</u>	<u>(4,117,724)</u>
Total net position	<u>\$ 22,604,260</u>	<u>\$ 16,309,547</u>	<u>\$ 38,913,807</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, 2018

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	\$ 4,563,963	\$ 6,000	\$ 1,213,740	\$ 195,960	\$ (3,148,263)	\$ -	\$ (3,148,263)
Culture and recreation	1,906,861	696,626	49,958	22,951	(1,137,326)	-	(1,137,326)
Public safety	6,519,528	531,192	405,049	-	(5,583,287)	-	(5,583,287)
Public works	2,210,348	-	-	-	(2,210,348)	-	(2,210,348)
Economic development	512,087	281,647	6,000	-	(224,440)	-	(224,440)
Interest on long-term debt	863,707	-	-	-	(863,707)	-	(863,707)
Total governmental activities	16,576,494	1,515,465	1,674,747	218,911	(13,167,371)	-	(13,167,371)
Business-type activities							
Water and Sewer	5,851,269	6,778,827	-	-	-	927,558	927,558
Total primary government	\$ 22,427,763	\$ 8,294,292	\$ 1,674,747	\$ 218,911	(13,167,371)	927,558	(12,239,813)
General revenues:							
Property taxes, levied for general purposes					5,214,190	-	5,214,190
Sales, restaurant, and hotel taxes					6,669,072	-	6,669,072
Franchise and utility taxes					896,968	-	896,968
Other taxes					852,635	-	852,635
Interest earnings					153,886	-	153,886
Miscellaneous					125,089	-	125,089
Sale of assets					596	-	596
Transfers					400,000	(400,000)	-
Total general revenues and transfers					14,312,436	(400,000)	13,912,436
Change in net position					1,145,065	527,558	1,672,623
Net position - beginning					21,459,195	15,781,989	37,241,184
Net position - ending					\$ 22,604,260	\$ 16,309,547	\$ 38,913,807

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

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**CITY OF OCEAN SPRINGS, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018**

	General Fund	Food and Beverage	General Obligation	Other Non-Major Government Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,654,651	\$ -	\$ -	\$ 236,950	\$ 1,891,601
Restricted Assets:					
Cash and cash equivalents	158,602	421,954	256,326	-	836,882
Investments-bond reserve	-	1,106,186	-	-	1,106,186
Escrow	-	7,856,627	-	-	7,856,627
Receivables, net					
Taxes	319,363	-	17,474	10,415	347,252
Other	42,531	-	-	-	42,531
Due from other governments	1,286,416	225,855	-	8,668	1,520,939
Due from other City funds	10,000	-	-	-	10,000
Prepaid expenses	219,777	-	-	-	219,777
Total assets	<u>\$ 3,691,340</u>	<u>\$ 9,610,622</u>	<u>\$ 273,800</u>	<u>\$ 256,033</u>	<u>\$ 13,831,795</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued liabilities	\$ 823,816	\$ 4,815	\$ -	\$ 5,074	\$ 833,705
Due to other funds	10,000	-	-	-	10,000
Deferred revenue	392,557	-	-	-	392,557
Total liabilities	<u>1,226,373</u>	<u>4,815</u>	<u>-</u>	<u>5,074</u>	<u>1,236,262</u>
Fund balances:					
Nonspendable for prepaids					
Prepaids	219,777	-	-	-	219,777
Restricted					
Debt service	-	9,567,695	122,732	-	9,690,427
Committed					
Capital improvements	54,327	-	-	-	54,327
Assigned					
Other purposes	384,789	-	-	-	384,789
Unassigned	1,806,074	38,112	151,068	250,959	2,246,213
Total fund balances	<u>2,464,967</u>	<u>9,605,807</u>	<u>273,800</u>	<u>250,959</u>	<u>12,595,533</u>
Total liabilities and fund balances	<u>\$ 3,691,340</u>	<u>\$ 9,610,622</u>	<u>\$ 273,800</u>	<u>\$ 256,033</u>	<u>\$ 13,831,795</u>

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, 2018

Total fund balance, governmental funds	\$ 12,595,533
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.	48,909,045
Certain other long-term assets are not available to pay current period expenditures and, therefore, are not reported in the funds	221,616
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(23,352,129)
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.	346,039
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.	(15,923,513)
Net Position of Governmental Activities in the Statement of Net Position (Exhibit A)	\$ 22,604,260

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, 2018

	General Fund	Food and Beverage	General Obligation	Other Non- Major Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes					
Property taxes	\$ 4,011,236	\$ -	\$ 719,557	\$ 194,753	\$ 4,925,546
Franchise taxes	845,311	-	-	-	845,311
Licenses and permits	281,647	-	-	-	281,647
Fees and fines	488,779	-	-	109,017	597,796
Intergovernmental	6,636,423	1,380,677	-	321,759	8,338,859
Charges for services	702,626	-	-	-	702,626
Grants	996,909	-	-	-	996,909
Miscellaneous - other	206,760	70,479	-	-	277,239
Total revenues	<u>14,169,691</u>	<u>1,451,156</u>	<u>719,557</u>	<u>625,529</u>	<u>16,965,933</u>
EXPENDITURES					
Current:					
General government	2,021,334	-	-	-	2,021,334
Public safety	6,929,860	70,991	-	18,256	7,019,107
Public works	2,330,459	-	-	-	2,330,459
Health and welfare	1,108,794	-	-	-	1,108,794
Cultural and recreation	2,086,441	50,884	-	152,638	2,289,963
Economic development	328,632	132,993	-	30,000	491,625
Capital outlay					
General government	532	-	-	-	532
Public safety	-	-	-	260,068	260,068
Public works	152,119	-	-	-	152,119
Economic development	30,851	-	-	-	30,851
Culture and recreation	116,712	168,475	-	416	285,603
Debt service:					
Principal retirement	31,766	439,272	445,733	33,745	950,516
Interest and agent fees	2,619	711,720	140,230	5,364	859,933
Total expenditures	<u>15,140,119</u>	<u>1,574,335</u>	<u>585,963</u>	<u>500,487</u>	<u>17,800,904</u>
Excess of revenues over expenditures	<u>(970,428)</u>	<u>(123,179)</u>	<u>133,594</u>	<u>125,042</u>	<u>(834,971)</u>
OTHER FINANCING SOURCES					
Proceeds from long-term debt, net	825,397	-	-	-	825,397
Proceeds from sale of assets	14,290	-	-	-	14,290
Transfers in	400,000	-	-	-	400,000
Total other financing sources and uses	<u>1,239,687</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,239,687</u>
Net change in fund balances	269,259	(123,179)	133,594	125,042	404,716
Fund balances - beginning	<u>2,195,708</u>	<u>9,728,986</u>	<u>140,206</u>	<u>125,917</u>	<u>12,190,817</u>
Fund balances - ending	<u>\$ 2,464,967</u>	<u>\$ 9,605,807</u>	<u>\$ 273,800</u>	<u>\$ 250,959</u>	<u>\$ 12,595,533</u>

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, 2018

Net change in fund balances - total governmental funds: \$ 404,716

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 (\$2,381,377) exceeds depreciation (\$1,788,824) in the current period. 592,553

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. (13,694)

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. 355,030

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 repayments (\$950,516) exceed proceeds (\$829,171). 121,345

Pension expense recorded in the Statement of Activities does not require the use of current financial resources. (314,885)

Change in net position of governmental activities (Exhibit B) \$ 1,145,065

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, 2018

	Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,463,252
Accounts receivable, net	
Customer accounts	774,317
Total current assets	<u>2,237,569</u>
Non-current assets:	
Restricted Assets:	
Cash and cash equivalents	565,115
Capital Assets:	
Land and construction in progress	63,008
Infrastructure	38,681,255
Utility system	2,449,545
Buildings and improvements	35,390
Machinery and equipment	1,668,302
Less: accumulated depreciation	<u>(22,040,250)</u>
Total non-current assets	<u>21,422,365</u>
Deferred outflows of resources	
Deferred outflows on pension liability	<u>69,055</u>
Total assets	<u><u>\$ 23,728,989</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 321,042
Compensated absences	55,518
Bonds, capital leases, and notes payable	404,032
Payable from restricted assets:	
Customer deposits payable from restricted assets	<u>565,115</u>
Total current liabilities	<u>1,345,707</u>
Non-current liabilities:	
Net pension obligation	2,416,422
Bonds, capital leases, and notes payable, non-current	<u>3,591,798</u>
Total non-current liabilities	<u>6,008,220</u>
Deferred inflows of resources	
Deferred inflows on pension liability	<u>65,515</u>
Total liabilities	<u>7,419,442</u>
NET POSITION	
Invested in capital assets, net of related debt	16,856,014
Unrestricted	<u>(546,467)</u>
Total net position	<u><u>\$ 16,309,547</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, 2018

	Water and Sewer
REVENUES	
Charges for services	<u>\$ 6,778,827</u>
Total operating revenues	<u>6,778,827</u>
OPERATING EXPENSES	
Personnel services	1,198,236
Supplies and materials	656,380
Contractual services	2,998,814
Other services, charges, supplies and expenses	301,058
Depreciation expense	<u>604,057</u>
Total operating expenses	<u>5,758,545</u>
Operating Income	<u>1,020,282</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	<u>(92,724)</u>
Total non-operating revenue (expenses)	<u>(92,724)</u>
INCOME BEFORE TRANSFERS AND SPECIAL ITEM	927,558
Transfers out	<u>(400,000)</u>
CHANGE IN NET POSITION	527,558
TOTAL NET POSITION - BEGINNING	<u>15,781,989</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 16,309,547</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, 2018**

	<u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 7,297,930
Payments to suppliers	(3,976,172)
Payments to employees	(1,199,185)
Net cash provided by operating activities	<u>2,122,573</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	(164,221)
Principal paid on capital debt	(426,859)
Interest paid on capital debt	(92,724)
Net cash used in capital and related financing activities	<u>(683,804)</u>
Net decrease in cash and cash equivalents	1,038,769
Balances-beginning of the year	<u>989,598</u>
Balances-end of the year	<u><u>\$ 2,028,367</u></u>
RECONCILIATION TO STATEMENT OF NET POSITION	
Unrestricted:	
Cash and cash equivalents	1,463,252
Restricted:	
Cash and cash equivalents	<u>565,115</u>
	<u><u>\$ 2,028,367</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,020,282
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	604,057
Bad debt expense	3,243
Decrease (increase) in assets	
Accounts receivable	470,128
Deferred outflows	65,287
Increase (decrease) in liabilities	
Accounts payable and accrued liabilities	(19,920)
Compensated absences	(42,268)
Customer deposits	45,732
Pension liabilities and deferred inflows	(23,968)
Net cash provided by operating activities	<u><u>\$ 2,122,573</u></u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Introduction

The City of Ocean Springs, 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, 2018.

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, 2018**

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, 2018

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, 2018**

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 Fund Balance

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 2018 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, 2018. 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, 2018.

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Fund Balance (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, 2018, 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, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Fund Balance (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, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Fund Balance (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, 2018. 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, 2018, 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, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Fund Balance (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.

VI. Stewardship, Compliance, and Accountability

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

1. Prior to September 1, the Mayor submits to the Board a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than September 15, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the governmental funds. The Board may amend the budget during the fiscal year, by resolution, to reallocate resources.
5. Budgets for the governmental funds are adopted on a cash basis except for expenditures which include those paid within 30 days of the fiscal year end as required by state statute.

Budgetary – GAAP Reporting Reconciliations

Budgetary comparison is required to be presented for the general fund and each major special revenue fund, if any, with a legally adopted budget. The City adopts annual operating budgets for the general fund and all special revenue funds. Budgetary comparisons, presented in the required supplementary information section of this report, are on the budgetary basis. Certain adjustments are necessary to compare actual data on a GAAP versus budget basis. These reconciling adjustments can be found in the Budgetary Comparison Schedule.

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 2017-2018, 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>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 2: CASH (Continued)

A summary of cash (including restricted cash) at September 30, 2018 is as follows:

	Cash on Hand	Cash Deposits	Pooled Cash Deposits	Total
Governmental Activities				
General Fund	\$ 1,270	\$ 397,813	\$ 1,443,932	\$ 1,843,015
Food and Beverage	-	-	421,954	421,954
General Obligation	-	-	256,326	256,326
Other Nonmajor Gov't Funds	-	-	207,188	207,188
Total governmental activities	<u>1,270</u>	<u>397,813</u>	<u>2,329,400</u>	<u>2,728,483</u>
Business-type Activities				
Water and Sewer	<u>200</u>	<u>-</u>	<u>2,028,167</u>	<u>2,028,367</u>
Total business-type activities	<u>200</u>	<u>-</u>	<u>2,028,167</u>	<u>2,028,367</u>
Total cash and cash equivalents	<u>\$ 1,470</u>	<u>\$ 397,813</u>	<u>\$ 4,357,567</u>	<u>\$ 4,756,850</u>

The City maintained the following restricted assets as of September 30, 2018:

Governmental Activities

Cash and cash equivalents

Restricted for capital projects \$ 158,602

Restricted for debt service 678,280

Investments

Restricted for bond reserve 8,962,813

Total restricted assets - governmental activities 9,799,695

Business-type Activities

Cash and cash equivalents

Restricted for utility customer deposits 565,115

Total restricted assets - business-type activities 565,115

Total restricted assets - government-wide \$ 10,364,810

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.

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2: CASH (Continued)

Custodial Credit Risk - Deposits (Continued)

At September 30, 2018, deposits (including restricted deposits) are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Pooled deposits:		
Cash and cash equivalents	\$ 4,357,564	\$ 4,357,567
Non-pooled deposits:		
Cash and cash equivalents	<u>399,283</u>	<u>399,283</u>
Total	<u>\$ 4,756,847</u>	<u>\$ 4,756,850</u>

Investments

The debt service reserve of \$8,962,813 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.

NOTE 3: RECEIVABLES

Receivables at September 30, 2018, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
	General Fund	Water and Sewer	Total
Property taxes	\$ 55,021	\$ -	\$ 55,021
Franchise taxes	292,231	-	292,231
Court	3,404,192	-	3,404,192
NSF checks	42,531	-	42,531
Utility charges	-	976,276	976,276
Total receivables, gross	3,793,975	976,276	4,770,251
Less allowance for doubtful receivables	<u>(3,182,576)</u>	<u>(201,959)</u>	<u>(3,384,535)</u>
Total receivables, net	<u>\$ 611,399</u>	<u>\$ 774,317</u>	<u>\$ 1,385,716</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.

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3: RECEIVABLES (Continued)

Property Taxes (Continued)

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.

The tax levies for the City for the fiscal years ended September 30, 2018, 2017, and 2016 are as follows:

	2018	2017	2016
City Funds			
General Fund	21.05	19.05	19.05
Library maintenance	1.01	1.01	1.01
Debt service	3.77	2.77	2.77
Total City administered funds	<u>25.83</u>	<u>22.83</u>	<u>22.83</u>
School Funds			
District maintenance	52.68	55.75	55.75
School debt	14.28	13.90	13.90
Total School administered funds	<u>66.96</u>	<u>69.65</u>	<u>69.65</u>
Total levy	<u><u>92.79</u></u>	<u><u>92.48</u></u>	<u><u>92.48</u></u>

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 \$5,296,714 general sales tax and \$1,372,358 food and beverage tax, for the year ended September 30, 2018. 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 2018 and not received by the City until October and November 2018.

Due from other governments at September 30, 2018, consists of the following:

	Governmental Activities
	<u>General Fund</u>
Grants	\$ 402,143
County road tax	44,675
State of Mississippi, sales tax diversion	<u>1,074,121</u>
Total due from other governments	<u><u>\$ 1,520,939</u></u>

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5: CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2018:

	Balance October 1, 2017	Additions	Disposals	Transfers/ Adjustments	Balance September 30, 2018
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,648,304	\$ -	\$ -	\$ -	\$ 3,648,304
Donated artwork	5,717,143	-	-	15,351	5,732,494
Construction in progress	1,193,589	1,067,967	-	(91,881)	2,169,675
Total capital assets, not being depreciated	<u>10,559,036</u>	<u>1,067,967</u>	<u>-</u>	<u>(76,530)</u>	<u>11,550,473</u>
Capital assets, being depreciated:					
Buildings and improvements	13,935,392	18,495	-	-	13,953,887
Machinery and equipment	1,165,218	1,067,510	-	-	2,232,728
Other improvements	18,385,255	78,926	-	76,530	18,540,711
Infrastructure	16,863,105	183,103	-	-	17,046,208
Vehicles	4,888,958	278,150	(136,940)	-	5,030,168
Total capital assets, being depreciated	<u>55,237,928</u>	<u>1,626,184</u>	<u>(136,940)</u>	<u>76,530</u>	<u>56,803,702</u>
Less accumulated depreciation for:					
Buildings and improvements	(3,369,089)	(218,091)	-	-	(3,587,180)
Machinery and equipment	(790,136)	(200,658)	-	-	(990,794)
Other improvements	(2,357,564)	(514,601)	-	-	(2,872,165)
Infrastructure	(7,742,118)	(590,893)	-	-	(8,333,011)
Vehicles	(3,520,645)	(264,581)	123,246	-	(3,661,980)
Total accumulated depreciation	<u>(17,779,552)</u>	<u>(1,788,824)</u>	<u>123,246</u>	<u>-</u>	<u>(19,445,130)</u>
Total capital assets, being depreciated, net	<u>37,458,376</u>	<u>(162,640)</u>	<u>(13,694)</u>	<u>76,530</u>	<u>37,358,572</u>
Total governmental activities capital assets, net	<u>\$ 48,017,412</u>	<u>\$ 905,327</u>	<u>\$ (13,694)</u>	<u>\$ -</u>	<u>\$ 48,909,045</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5: CAPITAL ASSETS (Continued)

	Balance October 1, 2017	Additions	Disposals	Transfers/ Adjustments	Balance September 30, 2018
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	63,008	-	-	-	63,008
Capital assets, being depreciated:					
Buildings	35,390	-	-	-	35,390
Machinery and equipment	799,510	28,033	-	-	827,543
Infrastructure	40,994,612	136,188	-	-	41,130,800
Vehicles	840,759	-	-	-	840,759
Total capital assets, being depreciated	42,670,271	164,221	-	-	42,834,492
Less accumulated depreciation for:					
Buildings	(32,198)	-	-	-	(32,198)
Machinery and equipment	(586,233)	(51,953)	-	-	(638,186)
Infrastructure	(20,070,998)	(549,602)	-	-	(20,620,600)
Vehicles	(746,764)	(2,502)	-	-	(749,266)
Total accumulated depreciation	(21,436,193)	(604,057)	-	-	(22,040,250)
Total capital assets, being depreciated, net	21,234,078	(439,836)	-	-	20,794,242
Total business-type activities capital assets, net	\$ 21,297,086	\$ (439,836)	\$ -	\$ -	\$ 20,857,250
Primary Government					
Total capital assets, net	\$ 69,314,498	\$ 465,491	\$ (13,694)	\$ -	\$ 69,766,295

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, 2018, these capitalized assets and the related accumulated depreciation are as follows:

Asset	Capitalized Amount	Accumulated Depreciation	Net
Governmental Activities			
Heavy equipment	\$ 312,774	\$ (28,150)	\$ 284,624
Vehicles	301,405	(122,076)	179,329
Total	\$ 614,179	\$ (150,226)	\$ 463,953

Depreciation expense associated with the assets under capital leases in fiscal year 2018 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, 2018

NOTE 5: CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following governmental functions:

Governmental Activities	
General government	<u>\$ 1,788,824</u>
Business-type Activities	
Water and Sewer	<u>604,057</u>
Total depreciation expense	<u><u>\$ 2,392,881</u></u>

NOTE 6: LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended September 30, 2018 are as follows:

	Balance October 1, 2017	Additions	Principal Payments/ Reductions	Balance September 30, 2018	Due within One Year
Governmental Activities					
General and Special					
Obligation Bonds	\$ 20,792,000	\$ -	\$ (540,000)	\$ 20,252,000	\$ 620,000
Notes payable	1,711,071	825,397	(368,242)	2,168,226	478,579
Capital lease payable	106,424	312,774	(38,500)	380,698	93,656
Compensated absences	551,205	404,030	(404,030)	551,205	551,205
Total governmental activities	<u>\$ 23,160,700</u>	<u>\$ 1,542,201</u>	<u>\$ (1,350,772)</u>	<u>\$ 23,352,129</u>	<u>\$ 1,743,440</u>
Business-type Activities					
Water and Sewer notes payable	\$ 1,261,362	\$ -	\$ (146,270)	\$ 1,115,092	\$ 116,811
Drinking water loan	3,161,327	-	(280,589)	2,880,738	287,221
Compensated absences	97,786	8,957	(51,225)	55,518	55,518
Total business-type activities	<u>\$ 4,520,475</u>	<u>\$ 8,957</u>	<u>\$ (478,084)</u>	<u>\$ 4,051,348</u>	<u>\$ 459,550</u>

The General and Water and Sewer Funds provide the resources for the retirement of compensated absences. For the year ended September 30, 2018, interest incurred and charged to expense totaled \$863,707 in the governmental activities and \$92,724 in the business-type activities.

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, 2018

NOTE 6: LONG-TERM LIABILITIES (Continued)

Bonds Payable (Continued)

At September 30, 2018, the City had the following outstanding bonds payable:

	Date Issued	Maturity Date	Interest Rate	Original Amount	Balance September 30, 2018
Governmental Activities:					
General obligation bonds:					
MDB special obligation					
bonds Series 2009	5/6/2009	7/1/2034	4.00 - 4.70%	\$ 10,710,000	\$ 8,025,000
General obligation bonds Series 2009	12/1/2009	12/1/2029	3 - 4%	4,600,000	3,240,000
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>\$ 20,252,000</u>

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

Year Ending September 30,	Governmental Activities		Total Requirements
	Principal	Interest	
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	1,194,000	607,272	1,801,272
2024-2028	6,697,000	2,357,988	9,054,988
2029-2033	6,979,000	1,052,174	8,031,174
2034-2038	1,415,000	55,538	1,470,538
	<u>\$ 20,252,000</u>	<u>\$ 6,875,436</u>	<u>\$ 27,127,436</u>

Interest accrued on bonds payable totaled \$202,507 for the fiscal year ended September 30, 2018.

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, 2018, was 3.77 mills or \$3.77 per \$1,000 of assessed value.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 6: LONG-TERM LIABILITIES (Continued)

Notes Payable

At September 30, 2018, 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, 2018</u>
Governmental Activities:					
Notes payable:					
MDA capital improvements loan -					
Mary C O'Keefe	6/1/2003	5/1/2023	3.00%	\$ 500,000	\$ 142,239
Community Bank general obligation note	2/18/2015	2/1/2020	1.80%	250,000	106,390
BancorpSouth general obligation note	11/1/2013	11/1/2018	2.11%	250,000	50,000
Community Bank general obligation note	1/24/2017	11/1/2021	1.78%	300,000	180,135
MDA energy investment program loan -					
Building lighting	1/1/2017	1/1/2021	1.50%	65,103	83,489
Musco Finance - Sunplex lighting	10/2/2010	12/1/2024	6.50%	1,489,000	825,973
Regions Bank general obligation note	1/26/2018	11/1/2022	1.99%	180,000	180,000
Community Bank general obligation note	4/18/2018	5/1/2023	2.39%	200,000	200,000
Community Bank general obligation note	4/18/2018	5/1/2023	2.39%	400,000	400,000
Total governmental activities				<u>3,634,103</u>	<u>2,168,226</u>
Business-type Activities:					
Notes payable:					
State of MS Revolving Fund Loan	2/25/2013	1/1/2033	1.75%	1,059,133	799,928
State of MS Revolving Fund Loan	9/1/2010	12/1/2027	2.00%	328,752	187,686
State of MS Revolving Fund Loan	4/1/2001	3/1/2021	3.00%	500,000	76,683
State of MS Revolving Fund Loan	10/1/2001	9/1/2021	3.00%	273,115	50,795
State of MS Drinking Water					
Improvement Loan	11/10/2006	9/30/2029	1.95%	1,943,294	1,193,705
State of MS Drinking Water					
Improvement Loan	9/3/2008	5/1/2028	1.95%	835,711	452,285
State of MS Drinking Water					
Improvement Loan	8/10/2002	4/1/2026	3.50%	1,054,818	492,591
State of MS Drinking Water					
Improvement Loan	6/15/2001	2/1/2023	3.00%	522,924	175,967
State of MS Drinking Water					
Improvement Loan	11/18/2008	8/1/2028	1.95%	1,029,345	566,190
Total business-type activities				<u>7,547,092</u>	<u>3,995,830</u>
Total notes payable				<u>\$ 11,181,195</u>	<u>\$ 6,164,056</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6: LONG-TERM LIABILITIES (Continued)

Notes Payable (continued)

Principal and interest maturities will be as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities		Total Requirements
	Principal	Interest	Principal	Interest	
2019	\$ 478,579	\$ 81,638	\$ 404,032	\$ 87,688	\$ 1,051,937
2020	443,545	66,552	413,903	73,375	997,375
2021	395,794	52,102	402,587	63,530	914,013
2022	316,311	37,601	381,434	54,393	789,739
2023	311,850	24,610	365,275	45,575	747,310
2024-2028	222,147	14,593	1,631,628	113,055	1,981,423
2029-2033	-	-	396,971	11,646	408,617
	<u>\$ 2,168,226</u>	<u>\$ 277,096</u>	<u>\$ 3,995,830</u>	<u>\$ 449,262</u>	<u>\$ 6,890,414</u>

Capital Leases

The City has entered into several capital leases to finance the purchase of Sunplex lighting, a fire truck, a cat tractor, and mini hex excavator. 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, 2018, are as follows:

	Date Issued	Maturity Date	Interest Rate	Original Amount	Balance September 30, 2018
Governmental Activities:					
Capital leases:					
Oshkosh Capital - Fire truck	4/23/2010	4/1/2020	5.04%	\$ 301,405	\$ 72,679
Hancock Bank - Cat tractor	8/29/2018	8/29/2023	3.69%	192,511	189,584
Hancock Bank - Hex excavator	8/29/2018	8/29/2023	3.69%	120,263	118,435
Total governmental activities				<u>\$ 614,179</u>	<u>\$ 380,698</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, 2018:

Year Ending September 30,	Governmental Activities		Total Requirements
	Principal	Interest	
2019	\$ 93,656	\$ 14,051	\$ 107,707
2020	97,628	10,080	107,708
2021	62,662	5,937	68,599
2022	65,014	3,584	68,598
2023	61,738	1,145	62,883
	<u>\$ 380,698</u>	<u>\$ 34,797</u>	<u>\$ 415,495</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6: LONG-TERM LIABILITIES (Continued)

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 net proceeds were 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 \$8,025,000 and \$7,856,627, respectively, at September 30, 2018. 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.

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 \$39,570,151 and the legal debt margin was \$16,769,228, at September 30, 2018.

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, 2018 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.

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7: INTERFUND TRANSACTIONS (Continued)

Interfund Transfers (Continued)

Interfund transfers between funds during the year ended September 30, 2018 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>

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.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 8: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

Contributions

PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 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's contributions to PERS for the fiscal years ending September 30, 2018, 2017, and 2016 total \$1,122,862, \$1,106,563, and \$820,192, respectively, which equal the required contributions for each year.

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

At September 30, 2018, the City reported a liability of \$18,296,267 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'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, 2018 net pension liability was .11 percent, which was based on a measurement date of June 30, 2018. This remained the same 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 recognized pension expense of \$573,358. 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
Governmental Activities:		
Differences between expected and actual experience	\$ 66,727	\$ 65,907
Changes in assumptions	8,980	8,480
Net difference between projected and actual earnings on pension plan investments	-	311,036
Difference between employer contributions and share of contributions	8,566	-
City contributions subsequent to the measurement date	257,482	-
Totals	\$ 341,755	\$ 385,423

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

Defined Benefit Pension Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Business-Type Activities		
Differences between expected and actual experience	\$ 13,483	\$ 11,203
Changes in assumptions	1,814	1,441
Net difference between projected and actual earnings on pension plan investments	-	52,871
Difference between employer contributions and share of contributions	1,731	-
City contributions subsequent to the measurement date	52,027	-
Totals	\$ 69,055	\$ 65,515

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$309,509 are recognized as a reduction to the net pension liability in the year ending September 30, 2018. 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	\$ 214,427
2019	(55,518)
2020	(426,262)
2021	(82,284)
Total	<u>\$ (349,637)</u>

Actuarial assumptions

The total pension liability in the June 30, 2018 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	3.25 - 18.50 percent, including inflation
Inflation	3.0 percent

The actuarial assumptions used in the June 30, 2018 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 with adjustments.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 8: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

Actuarial assumptions (continued)

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>	

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 former employer contribution rate (15.75 percent) through June 30, 2019 and at the current contribution rate (17.40%) thereafter. 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:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% decrease	6.75%	\$ 24,090,935
Current discount rate	7.75%	\$ 18,296,268
1% increase	8.75%	\$ 13,480,135

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 8: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

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.

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, 2018, the City abated the following taxes:

<u>Taxes Abated</u>	<u>% of Abatement</u>	<u>Total Amount Abated</u>
Real property	80%	<u>\$ 531,834</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.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 10: COMMITMENTS AND CONTINGENCIES (Continued)

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:

	Contract Amount	Expended to Date	Remaining Contract
Tidelands Living Shoreline	\$ 65,000	\$ 31,350	\$ 33,650
Government Street Improvements	231,531	144,881	86,650
Porter Avenue Infrastructure	1,131,856	781,531	350,325
GOMA Continuity Planning	44,000	33,124	10,876
CIPP Lining Sewer Rehab	167,301	-	167,301
Freedom Field	19,200	5,184	14,016
Sportsplex Additions	42,749	24,015	18,734
	<u>\$ 1,701,637</u>	<u>\$ 1,020,085</u>	<u>\$ 681,552</u>

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, 2018 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.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 11: RELATED PARTY COMMITMENTS (Continued)

Joint Venture (continued)

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:

Statement of revenues, expenses and changes in fund balance:	
Contractual Services (wastewater treatment)	<u>\$ 2,043,158</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 \$163,949 for the year ended September 30, 2018 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.

NOTE 13: SUBSEQUENT EVENTS

The City has evaluated events subsequent to year end through July 30, 2019, which is the date the financial statements were available to be issued. The following events were identified:

- The City entered into a memorandum of understanding with the Mississippi Department of Finance and Administration to receive up to \$500,000 in State funds that are to be used for water and sewer infrastructure improvements.
- The City entered into a general obligation notes totaling \$559,000 for the purchase of a fire pumper apparatus, computers, and new flooring.
- The City purchased a boom truck in the amount of \$131,000.
- The City has awarded new contracts totaling \$162,800 for Police Department video surveillance and construction projects related to a tidelands project.

REQUIRED SUPPLEMENTARY INFORMATION

**BUDGETARY COMPARISON
SCHEDULE (NON-GAAP BASIS)
GENERAL FUND**

CITY OF OCEAN SPRINGS, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes				
Property taxes	\$ 4,297,984	\$ 4,248,983	\$ 4,427,900	\$ 178,917
Sales taxes	4,950,000	5,030,958	5,030,958	-
Franchise taxes	820,000	816,059	816,059	-
Miscellaneous taxes	970,403	965,647	1,014,586	48,939
Licenses and permits	300,500	263,935	280,791	16,856
Intergovernmental	255,400	262,845	314,339	51,494
Fines and forfeitures	825,000	458,600	464,928	6,328
Charges for services	657,300	625,162	626,112	950
Interest	5,000	5,406	53,617	48,211
Miscellaneous	200,000	194,890	223,731	28,841
Total revenues	<u>13,281,587</u>	<u>12,872,485</u>	<u>13,253,021</u>	<u>380,536</u>
EXPENDITURES				
Executive and legislative				
Personnel services	367,016	359,114	359,449	(335)
Supplies	10,900	15,534	14,952	582
Other services and charges	303,733	378,715	276,289	102,426
Capital outlay	40,000	67,264	26,099	41,165
Total executive and legislative	<u>721,649</u>	<u>820,627</u>	<u>676,789</u>	<u>143,838</u>
Supervision and finance				
Personnel services	347,610	352,611	349,221	3,390
Supplies	8,050	8,706	8,433	273
Other services and charges	227,000	308,730	290,445	18,285
Capital outlay	5,000	168,602	168,602	-
Total supervision and finance	<u>587,660</u>	<u>838,649</u>	<u>816,701</u>	<u>21,948</u>
Police department				
Personnel services	3,171,558	3,172,163	3,170,075	2,088
Supplies	254,000	258,399	232,945	25,454
Other services and charges	374,060	392,621	386,680	5,941
Capital outlay	90,000	484,472	480,071	4,401
Total police department	<u>3,889,618</u>	<u>4,307,655</u>	<u>4,269,771</u>	<u>37,884</u>
Fire department				
Personnel services	2,148,424	2,146,032	2,157,244	(11,212)
Supplies	76,000	82,376	74,423	7,953
Other services and charges	118,500	136,065	133,710	2,355
Capital outlay	19,500	14,500	14,420	80
Total fire department	<u>2,362,424</u>	<u>2,378,973</u>	<u>2,379,797</u>	<u>(824)</u>
Judicial department				
Personnel services	270,366	267,225	262,194	5,031
Supplies	6,300	7,536	4,273	3,263
Other services and charges	17,250	25,470	21,330	4,140
Capital outlay	3,000	-	-	-
Total judicial department	<u>296,916</u>	<u>300,231</u>	<u>287,797</u>	<u>12,434</u>
Inspections department				
Personnel services	235,940	235,941	233,159	2,782
Supplies	11,500	13,800	11,254	2,546
Other services and charges	92,500	91,500	81,138	10,362
Capital outlay	7,000	22,000	21,095	905
Total inspections department	<u>346,940</u>	<u>363,241</u>	<u>346,646</u>	<u>16,595</u>

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

CITY OF OCEAN SPRINGS, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
EXPENDITURES, Continued				
Street department				
Personnel services	1,179,462	1,204,785	1,162,753	42,032
Supplies	310,250	354,028	319,274	34,754
Other services and charges	724,550	796,753	759,579	37,174
Capital outlay	430,000	433,000	286,317	146,683
Total street department	<u>2,644,262</u>	<u>2,788,566</u>	<u>2,527,923</u>	<u>260,643</u>
Safety and human resources				
Personnel services	117,555	117,556	117,257	299
Supplies	1,000	1,224	996	228
Other services and charges	486,400	495,743	503,641	(7,898)
Capital outlay	4,000	3,895	3,895	-
Total safety and human resources	<u>608,955</u>	<u>618,418</u>	<u>625,789</u>	<u>(7,371)</u>
Parks and recreation				
Personnel services	1,087,177	1,087,550	1,194,238	(106,688)
Supplies	225,800	232,323	188,778	43,545
Other services and charges	519,650	545,934	489,099	56,835
Capital outlay	9,000	5,400	3,210	2,190
Total parks and recreation	<u>1,841,627</u>	<u>1,871,207</u>	<u>1,875,325</u>	<u>(4,118)</u>
Community development				
Personnel services	173,956	173,956	173,515	441
Supplies	3,500	1,822	1,559	263
Other services and charges	123,400	145,745	141,213	4,532
Capital Outlay	5,000	90	90	-
Total community development	<u>305,856</u>	<u>321,613</u>	<u>316,377</u>	<u>5,236</u>
Total expenditures	<u>13,605,907</u>	<u>14,609,180</u>	<u>14,122,915</u>	<u>486,265</u>
Deficiency of revenues over expenditures	<u>(324,320)</u>	<u>(1,736,695)</u>	<u>(869,894)</u>	<u>866,801</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	20,000	7,332	7,332	-
Debt proceeds	-	825,397	825,397	-
Sale of assets	20,000	20,000	14,290	(5,710)
Federal grants proceeds	-	-	755,914	755,914
Federal grants expenditures	-	-	(1,035,344)	(1,035,344)
Transfers out	(10,000)	(10,000)	(10,000)	-
Transfers in	400,000	400,000	410,000	10,000
Total other financing sources (uses)	<u>430,000</u>	<u>1,242,729</u>	<u>967,589</u>	<u>(275,140)</u>
Net change in fund balance	105,680	(493,966)	97,695	<u>\$ 591,661</u>
Fund balance-beginning, budget basis	<u>1,081,359</u>	<u>1,847,568</u>	<u>1,847,568</u>	
Fund balance-ending, budget basis	<u>\$ 1,187,039</u>	<u>\$1,353,602</u>	<u>1,945,263</u>	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis at beginning of the year.			411,349	
Change in receivables			390,737	
Change in prepaid expenses			13,037	
Change in accounts payable and accrued liabilities			17,198	
Change in deferred revenue			<u>(312,617)</u>	
Fund balance-ending, GAAP basis			<u>\$ 2,464,967</u>	

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

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

	2018	2017	2016	2015
City's proportion of the net pension liability	0.11%	0.11%	0.11%	0.11%
City's proportionate share of the net pension liability	\$ 18,296,268	\$ 18,285,733	\$ 19,648,746	\$ 17,003,831
City's covered employee payroll	\$ 7,161,065	\$ 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	255.50%	258.67%	268.58%	248.43%
Plan fiduciary net position as a percentage of total pension liability	62.54%	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.

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

	2018	2017	2016	2015
Contractually required contribution	\$ 1,127,868	\$ 1,113,396	\$ 1,152,233	\$ 1,078,005
Contributions in relation to contractually required contribution	\$ 1,127,868	1,113,396	1,152,233	1,078,005
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll	\$ 7,161,065	\$ 7,069,178	\$ 7,315,767	\$ 6,844,479
Contributions as a percentage of covered employee payroll	15.75%	15.75%	15.75%	15.75%

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, 2018

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, 2016 valuation for the June 30, 2018 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	36.6 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, 2018**

	Special Revenue				
	Tourism	Library	Special Paid Fines and Forfeitures	Task Force	Fire Protection
ASSETS					
Cash and cash equivalents	\$ 29,762	\$ 81,229	\$ 46,042	\$ 4,210	\$ 72,133
Receivable, net					
Taxes	-	10,415	-	-	-
Due from other governments	8,668	-	-	-	-
Total assets	<u>\$ 38,430</u>	<u>\$ 91,644</u>	<u>\$ 46,042</u>	<u>\$ 4,210</u>	<u>\$ 72,133</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 4,960	\$ -	\$ 114
Total liabilities	<u>-</u>	<u>-</u>	<u>4,960</u>	<u>-</u>	<u>114</u>
Fund balances:					
Unassigned	<u>38,430</u>	<u>91,644</u>	<u>41,082</u>	<u>4,210</u>	<u>72,019</u>
Total fund balances	<u>38,430</u>	<u>91,644</u>	<u>41,082</u>	<u>4,210</u>	<u>72,019</u>
Total liabilities and fund balances	<u>\$ 38,430</u>	<u>\$ 91,644</u>	<u>\$ 46,042</u>	<u>\$ 4,210</u>	<u>\$ 72,133</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS, Continued
SEPTEMBER 30, 2018

	<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	\$ (5,783)	\$ 236,950
Receivable, net				
taxes	-	-	-	10,415
Due from other governments	-	-	-	8,668
Total assets	<u>\$ 1,127</u>	<u>\$ 8,230</u>	<u>\$ (5,783)</u>	<u>\$ 256,033</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 5,074
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,074</u>
 Fund balances:				
Unassigned	<u>1,127</u>	<u>8,230</u>	<u>(5,783)</u>	<u>250,959</u>
Total fund balances	<u>1,127</u>	<u>8,230</u>	<u>(5,783)</u>	<u>250,959</u>
Total liabilities and fund balances	<u>\$ 1,127</u>	<u>\$ 8,230</u>	<u>\$ (5,783)</u>	<u>\$ 256,033</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, 2018

	Special Revenue				
			Special Paid		
	Tourism	Library	Fines and Forfeitures	Task Force	Fire Protection
REVENUES					
Property taxes	\$ -	\$ 194,753	\$ -	\$ -	\$ -
Fees and fines	-	-	109,017	-	-
Intergovernmental	57,460	-	-	164,735	99,564
Total revenues	<u>57,460</u>	<u>194,753</u>	<u>109,017</u>	<u>164,735</u>	<u>99,564</u>
EXPENDITURES					
Current:					
Public safety	-	-	5,855	2,821	9,580
Cultural and recreation	-	152,638	-	-	-
Urban and economic development	30,000	-	-	-	-
Capital outlay					
Public Safety	-	-	66,681	170,254	23,133
Culture and Recreation	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	33,745
Interest and other charges	-	-	-	-	5,364
Total expenditures	<u>30,000</u>	<u>152,638</u>	<u>72,536</u>	<u>173,075</u>	<u>71,822</u>
Excess (deficiency) of revenues over expenditures	<u>27,460</u>	<u>42,115</u>	<u>36,481</u>	<u>(8,340)</u>	<u>27,742</u>
Net change in fund balances	27,460	42,115	36,481	(8,340)	27,742
Fund balances - beginning	10,970	49,529	4,601	12,550	44,277
Fund balances - ending	<u>\$ 38,430</u>	<u>\$ 91,644</u>	<u>\$ 41,082</u>	<u>\$ 4,210</u>	<u>\$ 72,019</u>

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, 2018

	Capital Projects			
	Mary C. O'Keefe Building	STP Government Street-Phase II	CIAP Harbor Improvements	Total Non-Major Governmental Funds
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ 194,753
Fees and fines	-	-	-	109,017
Intergovernmental	-	-	-	321,759
Total revenues	-	-	-	625,529
EXPENDITURES				
Current:				
Public safety	-	-	-	18,256
Cultural and recreation	-	-	-	152,638
Urban and economic development	-	-	-	30,000
Capital outlay				
Public Safety	-	-	-	260,068
Culture and Recreation	-	-	416	416
Debt service:				
Principal	-	-	-	33,745
Interest and other charges	-	-	-	5,364
Total expenditures	-	-	416	500,487
Excess (deficiency) of revenues over expenditures	-	-	(416)	125,042
Net change in fund balances	-	-	(416)	125,042
Fund balances - beginning	1,127	8,230	(5,367)	125,917
Fund balances - ending	<u>\$ 1,127</u>	<u>\$ 8,230</u>	<u>\$ (5,783)</u>	<u>\$ 250,959</u>

See independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2018**

Position	Surety Company	Bond Amount
Mayor	Scott Insurance	\$100,000
Alderpersons (7)	Scott Insurance	\$100,000
City Clerk	Scott Insurance	\$100,000
Police Chief	Scott Insurance	\$50,000
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
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.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



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***

July 30, 2019

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 City of Ocean 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 of Ocean Springs, Mississippi's basic financial statements and have issued our report thereon dated July 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of 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 City of Ocean Springs, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of 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 Aldermen
City of Ocean Springs
Ocean Springs, Mississippi
July 30, 2019

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide 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 FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

July 30, 2019

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

Report on Compliance for Each Major Federal Program

We have audited the City of Ocean Springs, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Ocean Springs, Mississippi's major federal program for the year ended September 30, 2018. The City of Ocean Springs, Mississippi's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City of Ocean Springs, Mississippi's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ocean Springs, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the City of Ocean Springs, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on the major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

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

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

To the Board of Aldermen
City of Ocean Springs
Ocean Springs, Mississippi
July 30, 2019

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

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

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Grantor Federal Agency Passed - Through Agency Program Title	CFDA Number	Grant No./ Pass-Through Grantor No.	Federal Expenditures
US DEPARTMENT OF TRANSPORTATION			
Federal Highway Administration			
<i>Passed through the State of Mississippi</i>			
<i>Department of Transportation</i>			
STP	20.205	STP-9064-000(10)LPA	\$ 92,478
STP	20.205	STP-9067-00(001)LPA	624,794
Total US Department of Transportation			717,272
US DEPARTMENT OF JUSTICE			
Equitable Sharing Program	16.922		109,017
Total US Department of Justice			109,017
US DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through Mississippi Emergency Management Agency</i>			
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW73	48,780
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW49	254,152
Total US Department of Homeland Security			302,932
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,129,221

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Ocean Springs, Mississippi under programs of the federal government for the year ended September 30, 2018 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Ocean Springs, Mississippi.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. The cost principles are applied based on the period of expenditures.

The City of Ocean Springs, Mississippi has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 – RECONCILIATION OF GRANT REVENUE

The following reconciles the total expenditures of federal awards to grant revenue recognized in the statement of activities for the year ended September 30, 2018:

Governmental Activities	
General government - operating grants and contributions	\$ 1,213,740
General government - capital grants and contributions	195,960
Public safety - operating grants and contributions	405,049
	<u>1,814,749</u>
Less: state grants and other aid	(392,105)
Less: county aid	<u>(293,423)</u>
Total expenditures of federal awards	<u><u>\$ 1,129,221</u></u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified
Internal Control over financial reporting:	
Material Weaknesses identified?	No
Significant Deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material Weaknesses identified?	No
Significant Deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors’ report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	Yes
Federal programs identified as major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	<i>Highway Planning and Construction</i>

Dollar threshold used to distinguish between type A and type B Programs	\$750,000
Auditee qualified as low-risk auditee?	No

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings

U.S. Department of Health and Human Services

2018-001 – Highway Planning and Construction – CFDA No. 20.205; Grant No. STP-9065-000(10)LPA, STP-9067-00(001)LPA; Grant period: Year ended September 30, 2018; Pass-through entity: Mississippi Department of Transportation

Condition

Audit reports were not prepared and filed timely with the Federal Audit Clearinghouse (FAC) in accordance with Uniform Guidance.

Criteria

Uniform Guidance requires the audit reports to be filed with the FAC within nine months after the end of the audit period (or by June 30).

Effect

The City risks losing current federal award funding and preventing eligibility for future awards.

Questioned Costs

There are no questioned costs associated with the finding.

Cause

The City did not submit the audit reports to the FAC within nine months.

Context

The City was preparing to change accounting software which caused delays in preparation of the audit.

Repeat Finding

This is not a repeat finding.

Recommendation

It is not expected to cause future delays as the change will be complete before future reporting periods end.

Views of Responsible Officials and Planned Corrective Actions

The City concurs with the finding and has provided a response in the Corrective Action Plan.



City of Ocean Springs

**CORRECTIVE ACTION PLAN
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
SINGLE AUDIT FOR FISCAL YEAR ENDING SEPTEMBER 30, 2018**

2018-001 – Highway Planning and Construction – CFDA No. 20.205; Grant No. STP-9065-000(10)LPA, STP-9067-00(001)LPA; Grant period: Year ended September 30, 2018; Pass-through entity: Mississippi Department of Transportation

Audit reports were not prepared and filed timely with the Federal Audit Clearinghouse (FAC).

Management Comments and Corrective Action Plan

- The City will improve its financial reporting process to ensure that audit reports can be submitted timely to the FAC no later than 9 months after fiscal year end.

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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

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Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

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

July 30, 2019

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, 2018 and have issued our report dated July 30, 2019. 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:

As reported in the prior year, 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:

As reported in the prior year, 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.

Honorable Mayor and Members of the
Board of Aldermen
City of Ocean Springs, Mississippi
July 30, 2019

Finding:

According to page IV-B5 of the State Auditor's "Municipal Audit and Accounting Guide," a Municipal Compliance Questionnaire must be completed at the end of each fiscal year and entered into the official minutes of the governing authorities at their next regular meeting. The City did not enter the Municipal Compliance Questionnaire into the minutes.

Response: The City concurs with this finding.

This report is intended solely 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