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DANE MAXWELL
MAYOR

FRANK CORDER
ACTING CITY MANAGER

RYAN A. FREDERIC
CITY ATTORNEY

FRANK CORDER
ASSISTANT CITY MANAGER



603 WATTS AVE. • P.O. DRAWER 908
PASCAGOULA, MS 39568-0908 • TELEPHONE 228-762-1020
FAX 228-372-6851

CITY COUNCIL

WILLIE C. JONES	Councilman, Ward 1
FELIX FORNETT	Councilman, Ward 2
STEPHEN BURROW	Councilman, Ward 3
MATT PARKER	Councilman, Ward 4
SCOTT TIPTON	Councilman, Ward 5
JENNIFER COLMER	Councilwoman at Large

November 13, 2019

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

Re: Annual Municipal Audit

Accompanying this letter is a copy of the annual audit the City of Pascagoula, Mississippi, for the fiscal year ended September 30, 2019. A separate management letter was not written to the city in connection with this audit.

If you have any questions, or if I may be of assistance in any way, please do not hesitate to contact me.

Thank you for your attention to this matter.

Sincerely,

Karen Kennedy
City Clerk
City of Pascagoula

Office: 228-938-6748

Fax: 228-938-6749





CITY OF PASCAGOULA, MISSISSIPPI

Audited Financial Statements and Special Reports

For the Year Ended September 30, 2018

CITY OF PASCAGOULA, MISSISSIPPI
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INTRODUCTORY SECTION



ELECTED OFFICIALS
As of September 30, 2018



Dane Maxwell
Mayor



Jennifer Colmer
Councilwoman At-Large



Rev. Dr. Willie C. Jones
Councilman, Ward 1



Felix Fornett, Sr.
Councilman, Ward 2



Stephen Burrow
Councilman, Ward 3



Matt Parker
Councilman, Ward 4



Scott Tipton
Councilman, Ward 5

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Pascagoula, Mississippi

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and schedule of budgetary comparison information on pages 5 through 14 and 68 through 70 be

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pascagoula, Mississippi's basic financial statements. The introductory section, the combining and individual non-major fund financial statements, and statistical schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards 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 basis financial statements.

The combining and individual nonmajor fund financial statements and the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the 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 and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019, on our consideration of the City of Pascagoula, 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 solely 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 the effectiveness of the City of Pascagoula, Mississippi's 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 Pascagoula, Mississippi's internal control over financial reporting compliance.

Columber, Harvey & Associates, P.A.

Gulfport, Mississippi
October 25, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

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CITY OF PASCAGOULA, MISSISSIPPI
Management's Discussion and Analysis

This section of the City of Pascagoula, Mississippi's (the City) Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2018 and 2017. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

City of Pascagoula is located on the Mississippi Gulf Coast and is ranked as the 20th most populated city in the State of Mississippi. According to the United States Census Bureau, the estimated population of City of Pascagoula as of July 1, 2018, is 21,685. The median household income is \$38,651 with over 84.5% of persons 25 years or older holding a high school degree or higher.

Government-wide Financial Highlights

- Total assets and deferred outflows of resources exceed the liabilities and deferred inflows of resources at the close of the current year by approximately \$44,486,530. This amount represents the total net position of the City's governmental and business-type activities. This amount decreased from last's year's net position of \$47,499,860 by \$4,104,572 for current year activities and increased \$1,091,242 for prior period adjustments. Prior period adjustments are made to last year's net position for amounts found to belong in prior year balances rather than be reflected in the current year statement of activities. Please see Note 3 for details on these adjustments.
- General revenues amounted to of \$18,577,886 or 46% of total revenues. This amount decreased \$456,349 from 2017. Program revenues amounted to \$21,887,592 or 54% of total revenues, which decreased \$2,392,944 from 2017. This decrease was mostly due to the decrease in charges for services revenues received in the governmental activities.
- Overall expenditures/expenses for the City decreased \$3,385,577 from the total expenditures/expenses of \$47,955,627 reported in 2017. This reduction in primarily due to City's management eliminating several departments and consolidated efforts to reduce City spending.
- Capital assets, net of accumulated depreciation, increased by \$6,600,932 in the governmental activities and decreased \$237,024 in the business-type activities during 2018. Capital asset acquisitions and adjustments to prior year balances totaled \$12,156,355 while normal straight-line depreciation of capital assets totaled \$5,792,448.
- Non-current liabilities increased by \$1,168,299 in the governmental activities primarily due to the City borrowing an additional \$4,479,000 in the current year. Principal payments of \$1,709,263 were made in the governmental activities to reduce outstanding debt, along with a net reduction of \$1,665,576 in outstanding pension and accumulated absences amounts owed to employees.

Non-current liabilities decreased by \$469,406 in the business-type activities primarily due to the City principal payments of \$719,821 to reduce outstanding debt. The business-type other non-current liabilities increased a net of \$250,415 primarily due to acquiring a larger proportionate share of the outstanding pension and compensated absences allocations.

Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$19,605,605 in revenues, which shows an increase of \$655,899 from 2017 and \$24,932,136 in expenditures, an increase of \$226,375 from 2017, in the current year. The General Fund's fund balance decreased a net of \$167,373 (\$329,811 in prior period adjustments offsetting a \$(497,184) change in fund balance for the current year.
- *Parks and Recreation Bond Project* – This fund is used to account for the 2017 General Obligation bond funds designated for the acquisition and construction of infrastructure for parks and recreation. The fund shows that at September 30, 2018 the remaining bond fund available for future years was \$7,561,689. Of the \$4,826,843 spent on capital outlay and infrastructure \$4,381,982 was capitalized.

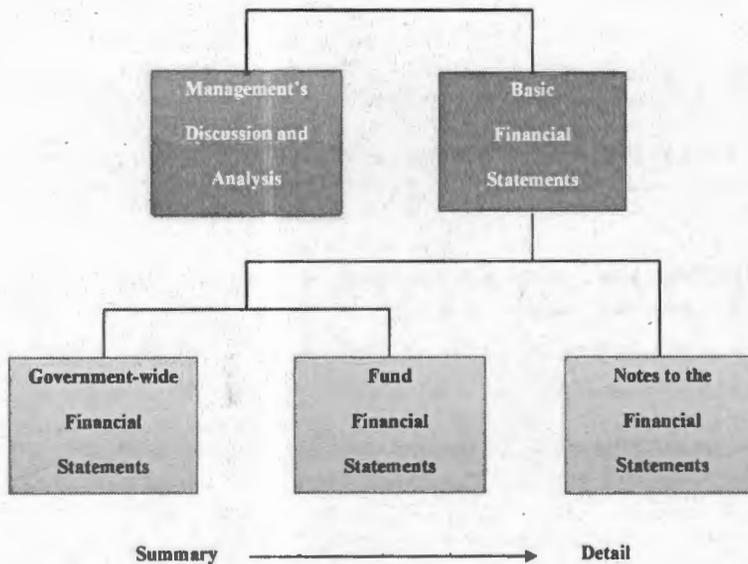
CITY OF PASCAGOULA, MISSISSIPPI
Management's Discussion and Analysis

Using this Annual Financial Report

This discussion and analysis are intended to serve as an introduction to City of Pascagoula's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Pascagoula.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements:

- 1) the governmental funds statements;
- 2) the proprietary fund statements; and
- 3) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show required budgetary information and required pension plan schedules, and other relevant information.

CITY OF PASCAGOULA, MISSISSIPPI
Management's Discussion and Analysis

Government-wide Financial Statements (Reporting the City of Pascagoula as a Whole).

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer, gas and solid waste services offered by the City.

Table 1 and Table 2 provide a summary of the City's net position and changes in net position for 2018 compared to 2017.

TABLE 1						
Condensed Statement of Net Position						
September 30, 2018 and 2017						
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current assets	\$ 15,189,629	9,751,415	8,792,572	7,883,336	23,982,201	17,634,751
Capital assets	83,829,637	77,228,705	29,733,957	29,970,981	113,563,594	107,199,686
Total Assets	99,019,266	86,980,120	38,526,529	37,854,317	137,545,795	124,834,437
Deferred Outflows	1,186,670	2,370,995	67,270	114,324	1,253,940	2,485,319
Liabilities						
Current liabilities	2,907,184	2,408,127	2,609,633	2,394,369	5,516,817	4,802,496
Non-current liabilities	58,325,603	57,157,304	16,319,208	16,788,614	74,644,811	73,945,918
Total Liabilities	61,232,787	59,565,431	18,928,841	19,182,983	80,161,628	78,748,414
Deferred Inflows	13,795,209	957,426	356,368	114,056	14,151,577	1,071,482
Net Position						
Investment in capital assets, net of related debt	71,288,003	70,538,431	15,057,168	16,692,293	86,345,171	87,230,724
Restricted net assets	8,699,852	20,080,400	-	342,799	8,699,852	20,423,199
Unrestricted	(54,809,915)	(61,790,573)	4,251,422	1,636,510	(50,558,493)	(60,154,063)
Total Net Position	\$ 25,177,940	28,828,258	19,308,590	18,671,602	44,486,530	47,499,860

Note: Prior year amounts have been reclassified for comparative purposes. These reclassifications had no effect on overall net position.

CITY OF PASCAGOULA, MISSISSIPPI
Management's Discussion and Analysis

TABLE 2
Condensed Statement of Activities
September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 2,626,040	5,570,779	15,451,270	15,214,413	18,077,310	20,785,192
Operating grants and contributions	326,773	440,610	-	-	326,773	440,610
Capital grants and contributions	3,483,509	3,054,734	-	-	3,483,509	3,054,734
General revenues						
Taxes	17,099,352	18,103,109	227,548	235,390	17,326,900	18,338,499
Grants and contributions - unrestricted	430,609	64,088	8,020	-	438,629	64,088
Investment earnings	66,782	29,110	21,381	28,764	88,163	57,874
Miscellaneous	256,772	347,581	467,422	226,193	724,194	573,774
Total revenues	24,289,837	27,610,011	16,175,641	15,704,760	40,465,478	43,314,771
Expenses:						
General government	6,789,754	12,874,305	-	-	6,789,754	12,874,305
Public safety	12,543,753	12,649,871	-	-	12,543,753	12,649,871
Public works	5,168,821	3,486,967	-	-	5,168,821	3,486,967
Culture and recreation	2,856,416	2,092,694	-	-	2,856,416	2,092,694
Urban renewal and economic development	1,199,041	648,346	-	-	1,199,041	648,346
Interest on long-term debt	660,061	1,122,424	-	-	660,061	1,122,424
Pascagoula Utilities	-	-	13,997,175	13,813,056	13,997,175	13,813,056
Solid waste and energy recovery	-	-	1,355,029	1,257,294	1,355,029	1,257,294
Transfer Station	-	-	-	10,670	-	10,670
Total expenses	29,217,846	32,874,607	15,352,204	15,081,020	44,570,050	47,955,627
Transfers	186,449	-	(186,449)	-	-	-
Changes in net position	(4,741,560)	(5,264,596)	636,988	623,740	(4,104,572)	(4,640,856)
Net Position - beginning, restated	29,919,500	34,092,854	18,671,602	18,047,862	48,591,102	52,140,716
Net Position - ending	\$ 25,177,940	28,828,258	19,308,590	18,671,602	44,486,530	47,499,860

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$44,486,530 as of September 30, 2018. The City's net position decreased by \$4,104,572 for the fiscal year ended September 30, 2018. However, the largest portion reflects the City's net investment in capital assets (e.g. land, infrastructure, buildings, machinery, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$8,699,852, represents resources that are subject to external restrictions on how they may be used.

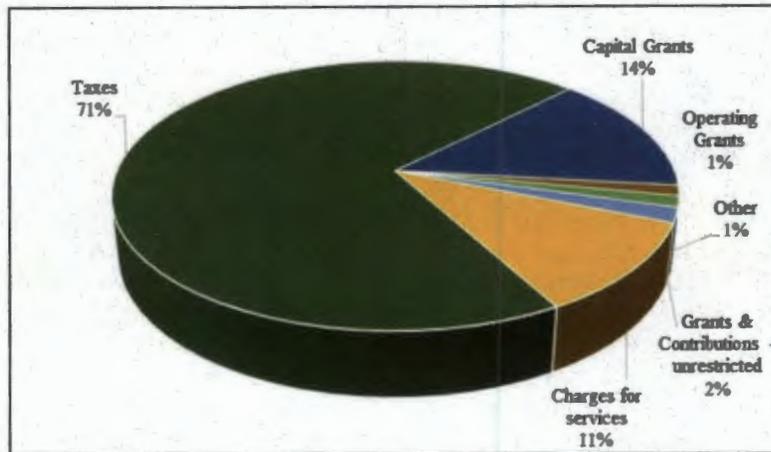
**CITY OF PASCAGOULA, MISSISSIPPI
Management's Discussion and Analysis**

Governmental Activities

Total net position decreased \$4,741,560 as a result primarily due to expenditures exceeding revenues received by the City. Under the accrual basis of accounting, governmental activities general revenues amounted to of \$17,853,515 or 74% of total revenues. This amount decreased \$690,373 from 2017. Program revenues amounted to \$6,436,322 or 26% of total revenues, which decreased \$2,629,801 from 2017.

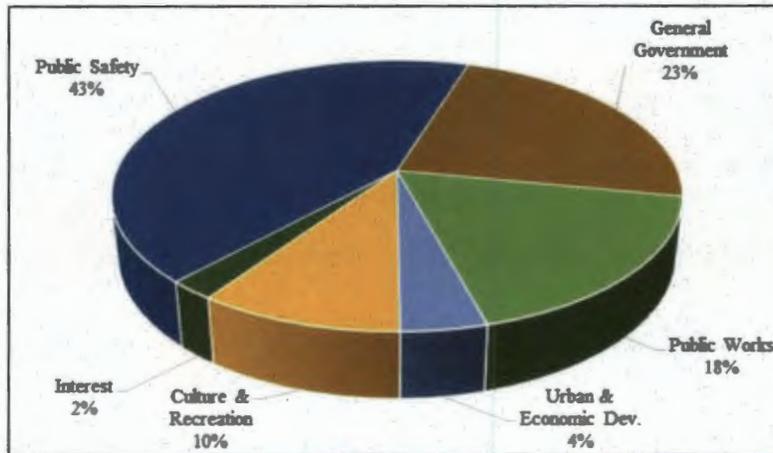
Several revenue sources fund our governmental activities. The following chart shows the City's total general revenues and program income that is used to offset governmental expenses.

Chart 1 – Governmental Activities Revenue Sources



Major governmental expense activities are shown in the following chart.

Chart 2 – Governmental Activities



Business-type activities

Business-type activities for the City include the Pascagoula Utilities Fund (water and sewer, gas), the Solid Waste Fund, Energy Recovery and Transfer Station Fund.

Net position for the business-type activities was \$19,308,590 for the year ended September 30, 2018, an increase of \$636,988. Charges for services increased approximately \$236,857 due primarily to an increase in service rates in 2018.



CITY OF PASCAGOULA, MISSISSIPPI
Management's Discussion and Analysis

Fund Financial Statements (Reporting the City of Pascagoula's Most Significant Funds)

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

Governmental Funds

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

At the end of the year, the governmental funds reported a combined fund balance of \$29,737,932, a decrease of \$7,549,308 of current year activities from 2017. A prior period adjustment of \$407,726 was added to the reported fund balance from 2017. The overall decrease is primarily a result of major construction in the Parks and Recreation Bond Project, and a significant increase in fund balance from prior year due to the receipt of \$12,500,000 in bond proceeds.

Of the fund balance \$11,285,614 is restricted and cannot be spent for any other purpose than that designated by the grant, bond proceeds or state statute. Another \$1,401,696 is committed to specific projects and \$903,110 is assigned by the council to be spent only on capital projects. The result is a deficit of \$14,535,590 of available funds to meet these requirements.

Proprietary Funds

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

The proprietary funds of the City have three major funds: Pascagoula Utilities, Solid Waste and the Energy Recovery Fund.

The net position of the Pascagoula Utilities Fund increased \$371,646 during the fiscal year ended September 30, 2018. Operating income amounted to \$790,723 which includes \$1,966,385 of depreciation expense.

The net position of the Solid Waste Fund increased \$264,720, with operating revenues of \$257,348.

Fiduciary Funds

Fiduciary Funds show amounts held by the City for the benefit of others.

CITY OF PASCAGOULA, MISSISSIPPI
Management's Discussion and Analysis

General Fund Budgeting Highlights

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

During the course of 2018, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over-spending by individual departments.

Capital Assets

Table 3 shows the Changes in Capital Assets for the years ended September 30, 2018 and 2017.

TABLE 3
Schedule of Capital Assets (Net of Accumulated Depreciation)
September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 16,273,896	13,079,365	84,751	84,751	16,358,647	13,164,116
Construction in progress	2,808,331	6,275,847	1,854,545	722,891	4,662,876	6,998,738
Buildings & improvements	3,043,971	3,300,516	5,005,677	5,376,468	8,049,648	8,676,984
Improvements - other	40,120,325	32,282,783	22,458,589	23,312,539	62,578,914	55,595,322
Infrastructure	19,189,339	20,033,465	-	-	19,189,339	20,033,465
Machinery & equipment	1,450,907	1,757,984	317,541	457,523	1,768,448	2,215,507
Equipment under capital leases*	942,868	498,745	12,854	16,809	955,722	515,554
Total	\$ 83,829,637	77,228,705	29,733,957	29,970,981	113,563,594	107,199,686

* Note: Equipment under capital assets has been reclassified from 2017 audit for comparable purpose. This reclassification did not change overall total assets.

The primary increase in capital assets occurred due to land purchases for the new sports complex. In addition, a prior period adjustment was made to capital assets in the amount of \$683,516 for capital assets that were not capitalized in prior years.

General Long-term Obligations

At September 30, 2018, the City had \$42,592,180 outstanding debt obligations, with \$760,836 in compensated absences payable.

TABLE 4
Schedule of Debt Obligations
September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	\$ 20,264,354	21,368,333	-	-	20,264,354	21,368,333
Revenue Bonds	-	-	14,302,247	14,998,268	14,302,247	14,998,268
Note payable	6,992,486	2,513,486	320,770	340,816	7,313,256	2,854,302
Capital Leases	700,056	1,241,202	12,267	16,021	712,323	1,257,223
Total	\$ 27,956,896	25,123,021	14,635,284	15,355,105	42,592,180	40,478,126

CITY OF PASCAGOULA, MISSISSIPPI
Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The City of Pascagoula continues to project the mostly positive outlook in terms of its economic environment. It is the home to Mississippi's largest employer, Huntington-Ingalls Shipbuilding, as well as a plethora of other major industrial companies such as Chevron, Mississippi Phosphates, and VT Halter Marine. Although its residential population hovers around 22,000, Pascagoula's daytime population swells to an estimated 60,000 with all of the people who commute to work.

Pascagoula's unemployment rate decreased slightly in 2018 to 5.8%, down from 6.1% in 2017. Mississippi's unemployment rate in September 2018 was 4.7%.

While Pascagoula continues to make strides in terms of its economic growth, it still faces some challenges as a municipal government. Its current economic growth comes after years of devastation left by Hurricane Katrina, the BP Oil Spill, and the economic recession in 2008. As a result, Pascagoula's transportation infrastructure, water and sewer system and recreation facilities are in need of considerable upgrades. The City is in the final stages of completing a \$15 million infrastructure upgrade funded by a bond issue. Also, a \$12.5 million bond issue in 2017 has allowed the City to begin our recreational facility enhancements projects. The City has approximately \$4,662,876 in construction in progress at the end of the year with approximately \$647,064 remaining contract commitments for completion of the project phases. In 2018, the City council committed bond monies to the acquisition of land and construction of a new sports complex with an estimated cost of \$10 million to be located off Tucker Avenue. The complex is to include three baseball fields, three softball fields and one multi-use field. There will also be designated space for concession stands, bleachers, pavilions and batting cages. This project is estimated to be completed at the end of 2019.

In the fiscal year 2018/2019 budget, general fund revenues are budgeted at \$20,703,453 a decrease of \$15,005,236 from the 2017/2018 budgeted revenues. This represents a 42% decrease. The major factor contributing to this decrease is that \$9,289,405 was budgeted in 2017/2018 for loan proceeds which are not expected in 2018/2019. The 2017/2018 budget was also amended approximately \$12.8 million due to shortfalls of expected revenues.

In the fiscal year 2018/2019 budget, general fund expenditures were budgeted at 20,461,204 a decrease of \$15,157,205 from the 2017/2018 budgeted expenditures. In fiscal year 2017/2018 it was determined that the City had overextended its spending power which has resulted in a \$14,235,504 deficit general fund balance. The council and City management took extreme steps to cut the City's budgeted expenditures by eliminating several departments within the City and reducing staff.

The Pascagoula Utilities Fund revenues were budgeted to be \$15,368,008 for the 2018/2019 budget, a \$2,879,269 decrease. The major factor in this decrease was that 2017/2018 budgeted amounts included the sale of the City's gas system in December 2018. In additions, expenditures budgeted for the 2018/2019 budget year were decreased to \$13,889,892, a \$3,700,446 decrease as a result.

Contact the City's Financial Management

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

City Manager
City of Pascagoula, Mississippi
603 Watts Avenue
Pascagoula, MS 39568
(228) 762-1020

BASIC FINANCIAL STATEMENTS

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City of Pascagoula, Mississippi
Statement of Net Position
September 30, 2018

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current assets			
Cash	\$ -	6,738,842	6,738,842
Taxes receivables	12,759,045	226,221	12,985,266
Accounts receivable (net of allowance)	49,786	1,415,482	1,465,268
Intergovernmental receivables	1,444,453	-	1,444,453
Fines receivable (net of allowance)	345,061	-	345,061
Interfund	227,182	(227,182)	-
Prepaid items	364,102	13,069	377,171
Restricted current assets - cash	-	626,140	626,140
Total Current Assets	<u>15,189,629</u>	<u>8,792,572</u>	<u>23,982,201</u>
Capital assets			
Nondepreciable capital assets	19,082,227	1,939,296	21,021,523
Other capital assets (net of accumulated depreciation)	64,747,410	27,794,661	92,542,071
Total Capital Assets	<u>83,829,637</u>	<u>29,733,957</u>	<u>113,563,594</u>
Total Assets	<u>99,019,266</u>	<u>38,526,529</u>	<u>137,545,795</u>
Deferred Outflows of Resources			
Deferred bond charges	74,549	-	74,549
Deferred amounts on pension	1,112,121	67,270	1,179,391
Total Deferred Outflow of Resources	<u>1,186,670</u>	<u>67,270</u>	<u>1,253,940</u>
Liabilities			
Current liabilities:			
Claims and wages payable	2,507,120	678,705	3,185,825
Accrued interest payable	124,727	1,214,194	1,338,921
Judgements and insurance claims payable	228,489	-	228,489
Unearned revenue	46,382	90,594	136,976
Payable from restricted assets			
Customer deposits	466	626,140	626,606
Total current liabilities	<u>2,907,184</u>	<u>2,609,633</u>	<u>5,516,817</u>
Noncurrent Liabilities:			
Due within one year			
Capital debt	1,536,073	329,536	1,865,609
Noncapital debt	1,545,975	401,199	1,947,174
Due in more than one year			
Capital debt	21,941,823	12,245,748	34,187,571
Noncapital debt	3,656,600	1,696,062	5,352,662
Net pension liability	29,645,132	1,646,663	31,291,795
Total noncurrent liabilities	<u>58,325,603</u>	<u>16,319,208</u>	<u>74,644,811</u>
Total Liabilities	<u>61,232,787</u>	<u>18,928,841</u>	<u>80,161,628</u>
Deferred Inflows of Resources			
Property tax for future reporting period	12,213,354	224,675	12,438,029
Deferred amount on pensions	1,208,216	77,120	1,285,336
Deferred amounts associated with debt	373,639	54,573	428,212
Total Deferred Inflows of Resources	<u>13,795,209</u>	<u>356,368</u>	<u>14,151,577</u>
Net Position			
Investment in capital assets, net of related debt	71,288,003	15,057,168	86,345,171
Restricted Net Position:			
Restricted for grant/bond purposes	7,833,497	-	7,833,497
Restricted for debt service	370,814	-	370,814
Restricted for public safety	495,541	-	495,541
Unrestricted	(54,809,915)	4,251,422	(50,558,493)
Total Net Position	<u>\$ 25,177,940</u>	<u>19,308,590</u>	<u>44,486,530</u>

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

City of Pascagoula, Mississippi
Statement of Activities
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 6,789,754	1,677,397	77,753	50,000	(4,984,604)		(4,984,604)
Public safety	12,543,753	402,252	249,020	162,606	(11,729,875)		(11,729,875)
Public works	5,168,821	-	-	2,682,242	(2,486,579)		(2,486,579)
Culture, recreation and community services	2,856,416	341,442	-	319,068	(2,195,906)		(2,195,906)
Urban renewal and economic development	1,199,041	204,949	-	269,593	(724,499)		(724,499)
Interest on long-term debt	660,061	-	-	-	(660,061)		(660,061)
Total governmental activities	<u>29,217,846</u>	<u>2,626,040</u>	<u>326,773</u>	<u>3,483,509</u>	<u>(22,781,524)</u>		<u>(22,781,524)</u>
Business-type activities:							
Pacagoula utilities	13,997,175	14,074,461	-	-		77,286	77,286
Solid waste	1,355,029	1,376,809	-	-		21,780	21,780
Total business-type activities	<u>15,352,204</u>	<u>15,451,270</u>	<u>-</u>	<u>-</u>		<u>99,066</u>	<u>99,066</u>
Total government	<u>\$ 44,570,050</u>	<u>18,077,310</u>	<u>326,773</u>	<u>3,483,509</u>		<u>99,066</u>	<u>(22,682,458)</u>
General Revenues:							
Taxes:							
					7,403,727	-	7,403,727
					1,078,448	-	1,078,448
					682,683	227,548	910,231
					19,485	-	19,485
					5,365,998	-	5,365,998
					1,042,401	-	1,042,401
					1,506,610	-	1,506,610
					430,609	8,020	438,629
					66,782	21,381	88,163
					256,772	467,422	724,194
					17,853,515	724,371	18,577,886
					186,449	(186,449)	-
					<u>18,039,964</u>	<u>537,922</u>	<u>18,577,886</u>
					(4,741,560)	636,988	(4,104,572)
					28,828,258	18,671,602	47,499,860
					1,091,242	-	1,091,242
					<u>29,919,500</u>	<u>18,671,602</u>	<u>48,591,102</u>
					\$ 25,177,940	19,308,590	44,486,530

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

City of Pascagoula, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
For the Fiscal Year Ended September 30, 2018

	Major Funds			Total Governmental Funds
	General Fund	Parks and Recreation Bond Project	Other Governmental Funds	
ASSETS				
Cash	\$ -	8,232,167	6,112,508	14,344,675
Receivables:				
Property tax	8,223,601	-	4,053,879	12,277,480
Franchise taxes	481,565	-	-	481,565
Intergovernmental	922,533	-	521,920	1,444,453
Court fines & fees	345,061	-	-	345,061
Accounts receivable, net	39,323	-	10,463	49,786
Due from other funds	640,248	-	128,264	768,512
Advance to other fund	26,400	-	-	26,400
Total Assets	<u>10,678,731</u>	<u>8,232,167</u>	<u>10,827,034</u>	<u>29,737,932</u>
LIABILITIES				
Interfund payable - pooled cash	14,545,669	-	-	14,545,669
Claims payable	616,249	670,478	544,037	1,830,764
Other accrued liabilities	255,968	-	-	255,968
Wages payable	420,388	-	-	420,388
Unearned revenue	39,323	-	-	39,323
Due to other funds	575,884	-	-	575,884
Customer deposits	466	-	-	466
Advance from other fund	-	-	26,400	26,400
Total Liabilities	<u>16,453,947</u>	<u>670,478</u>	<u>570,437</u>	<u>17,694,862</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes for future reporting period	8,171,444	-	4,041,910	12,213,354
Unavailable revenue - fines and grants	456,217	-	318,669	774,886
Total Deferred Inflows of Resources	<u>8,627,661</u>	<u>-</u>	<u>4,360,579</u>	<u>12,988,240</u>
FUND BALANCES				
Restricted:				
Grant/bond purposes	-	7,561,689	271,808	7,833,497
Debt service	-	-	2,956,576	2,956,576
Public safety	-	-	495,541	495,541
Committed:				
Capital projects	-	-	1,057,954	1,057,954
Machpelah Cemetery	-	-	162,379	162,379
Lighthouse preservation	-	-	150,127	150,127
Rental rehabilitation	-	-	7,019	7,019
Historic preservation	-	-	1,880	1,880
Inner harbor	-	-	22,337	22,337
Assigned:				
Capital projects	-	-	903,110	903,110
Unassigned	(14,402,877)	-	(132,713)	(14,535,590)
Total Fund Balances	<u>(14,402,877)</u>	<u>7,561,689</u>	<u>5,896,018</u>	<u>(945,170)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,678,731</u>	<u>8,232,167</u>	<u>10,827,034</u>	<u>29,737,932</u>

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

City of Pascagoula, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
For the Fiscal Year Ended September 30, 2018

Total governmental funds balance **\$ (945,170)**

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

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

Governmental capital assets	\$ 130,636,549	
Less: accumulated depreciation	<u>(46,806,912)</u>	83,829,637

Prepaid items, such as prepaid insurance, are accounted for as expenditures in the period of acquisition and, therefore, are not reported in the funds.

Prepaid property and fire insurance	\$ 292,589	
Prepaid bond insurance	<u>71,513</u>	364,102

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

Court fines receivable	\$ 358,554	
Franchise fees receivable	97,663	
Grants receivable	<u>318,669</u>	774,886

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

Bonds payable	\$ (20,264,354)	
Notes payable	(6,992,486)	
Capital leases payable	(700,056)	
Compensated absences	(723,575)	
Net pension liability	<u>(29,645,132)</u>	(58,325,603)

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

Accrued interest payable		(124,727)
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	\$ 1,112,121	
Deferred inflows of resources related to pensions	<u>(1,208,216)</u>	(96,095)

Bond deferred bond charges are amortized over the life of the loan at the government-wide level and recorded as incurred at the fund level.

Deferred bond charges	\$ 74,549	
Unamortized premium on bond	<u>(373,639)</u>	(299,090)

Internal Service Funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the Statement of Net

Current assets	\$ 200,994	
Amounts due from other funds	34,554	
Held for employees in Flex Account	(7,059)	
Estimated claims payable	<u>(228,489)</u>	-

Net position of governmental activities **\$ 25,177,940**

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

City of Pascagoula, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
For the Fiscal Year Ended September 30, 2018

	Major Funds			Total Governmental Funds
	General Fund	Parks and Recreation Bond Project	Other Governmental Funds	
Revenues:				
Property taxes	\$ 7,365,708	-	1,761,131	9,126,839
Franchise fees	1,408,947	-	-	1,408,947
Fees and fines	379,478	-	234,957	614,435
Licenses and permit fees	146,755	-	-	146,755
Intergovernmental	8,081,385	-	2,702,315	10,783,700
Charges for services	1,975,706	-	21,082	1,996,788
Investment earnings	7,381	43,286	16,115	66,782
Miscellaneous	240,245	-	-	240,245
Total Revenues	19,605,605	43,286	4,735,600	24,384,491
Expenditures:				
General government	5,458,398	-	102,344	5,560,742
Public safety	11,189,563	-	700,462	11,890,025
Public works	3,672,041	-	187,775	3,859,816
Culture & recreation	1,672,619	444,861	-	2,117,480
Urban & economic development	1,086,643	-	116,702	1,203,345
Capital outlay	1,270,486	4,381,982	4,076,641	9,729,109
Debt service:				
Principal	490,819	-	1,218,444	1,709,263
Interest and other fiscal charges	91,567	-	736,525	828,092
Total Expenditures	24,932,136	4,826,843	7,138,893	36,897,872
Excess (Deficiency) of Revenues Over Expenditures	(5,326,531)	(4,783,557)	(2,403,293)	(12,513,381)
Other Financing Sources (Uses):				
Loan proceeds	4,479,000	-	-	4,479,000
Proceeds from sale of assets	129,062	-	73,500	202,562
Proceeds from insurance	41,001	-	55,062	96,063
Transfers in	180,284	-	6,164	186,448
Total Other Financing Sources (Uses)	4,829,347	-	134,726	4,964,073
Net change in fund balances	(497,184)	(4,783,557)	(2,268,567)	(7,549,308)
Fund balances - beginning	(14,235,504)	12,345,246	8,086,670	6,196,412
Prior period adjusting entry	329,811	-	77,915	407,726
Fund balances - beginning, as restated	(13,905,693)	12,345,246	8,164,585	6,604,138
Fund balances - ending	\$ (14,402,877)	7,561,689	5,896,018	(945,170)

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

City of Pascagoula, Mississippi
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended September 30, 2018

Net Change in Fund Balances - total governmental funds **\$ (7,549,308)**

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

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

Capital outlay	\$ 9,729,109	
Depreciation	<u>(3,826,063)</u>	5,903,046

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the (49,768)

The issuance of long-term debt provides current financial resources to the governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net po

Issuance of debt	\$ (4,479,000)	
Debt retirement	<u>1,709,263</u>	(2,769,737)

Receivables that do not meet the "measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities they are recognized when levied and earned. (190,716)

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

Pension expense and contributions made after measurement date		(185,403)
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Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Accrued interest payable	\$ 166,976	
Compensated absences	<u>(27,810)</u>	139,166

Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the Statement of Activities.

Amortization of bond premium	\$ (12,424)	
Amortization of prepaid bond insurance	(39,895)	
Amortization of deferred charges	<u>13,479</u>	<u>(38,840)</u>

Change in net position of governmental activities **\$ (4,741,560)**

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

City of Pascagoula, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2018

	Business-type Activities - Enterprise Funds				Total Business-type Activities	Governmental Activities
	Major Funds		Non-Major			Self Insurance Fund
	Pascagoula Utilities Fund	Solid Waste Fund	Energy Recovery Fund	Transfer Station Fund		
Assets						
Current assets						
Cash	\$ 2,674,933	2,455,699	-	1,608,210	6,738,842	200,994
Accounts receivable (net of allowance)	1,062,601	352,881	-	-	1,415,482	-
Property tax receivable	-	226,221	-	-	226,221	-
Due from other fund	554,387	-	-	-	554,387	34,554
Prepaid items	13,069	-	-	-	13,069	-
Restricted current assets						
Cash	626,140	-	-	-	626,140	-
Total Current Assets	<u>4,931,130</u>	<u>3,034,801</u>	<u>-</u>	<u>1,608,210</u>	<u>9,574,141</u>	<u>235,548</u>
Capital assets						
Nondepreciable capital assets	1,854,545	-	84,751	-	1,939,296	-
Other capital assets (net of accumulated depreciation)	27,794,661	-	-	-	27,794,661	-
Total Capital Assets	<u>29,649,206</u>	<u>-</u>	<u>84,751</u>	<u>-</u>	<u>29,733,957</u>	<u>-</u>
Total Assets	<u>34,580,336</u>	<u>3,034,801</u>	<u>84,751</u>	<u>1,608,210</u>	<u>39,308,098</u>	<u>235,548</u>
Deferred Outflow of Resources						
Deferred amounts on pensions	67,270	-	-	-	67,270	-
Total Deferred Outflow of Resources	<u>67,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,270</u>	<u>-</u>
Liabilities						
Current liabilities:						
Claims payable	546,266	110,858	-	-	657,124	-
Wages and accrued liabilities payable	21,581	-	-	-	21,581	-
Accrued interest payable	36,567	-	1,177,627	-	1,214,194	-
Due to other fund	-	141,321	640,248	-	781,569	-
Judgements and claims payable	-	-	-	-	-	228,489
Unearned revenue	-	90,594	-	-	90,594	7,059
Payable from restricted assets						
Customer deposits	626,140	-	-	-	626,140	-
Total current liabilities	<u>1,230,554</u>	<u>342,773</u>	<u>1,817,875</u>	<u>-</u>	<u>3,391,202</u>	<u>235,548</u>
Noncurrent Liabilities:						
Due within one year						
Capital debt	329,536	-	-	-	329,536	-
Noncapital debt	401,199	-	-	-	401,199	-
Due in more than one year						
Capital debt	6,119,147	-	6,126,601	-	12,245,748	-
Noncapital debt	1,696,062	-	-	-	1,696,062	-
Net pension liability	1,646,663	-	-	-	1,646,663	-
Total noncurrent liabilities	<u>10,192,607</u>	<u>-</u>	<u>6,126,601</u>	<u>-</u>	<u>16,319,208</u>	<u>-</u>
Total Liabilities	<u>11,423,161</u>	<u>342,773</u>	<u>7,944,476</u>	<u>-</u>	<u>19,710,410</u>	<u>235,548</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	-	224,675	-	-	224,675	-
Deferred amounts on pensions	77,120	-	-	-	77,120	-
Deferred amounts associated with debt	54,573	-	-	-	54,573	-
Total Deferred Inflows of Resources	<u>131,693</u>	<u>224,675</u>	<u>-</u>	<u>-</u>	<u>356,368</u>	<u>-</u>
Net Position						
Net investment in capital assets	21,099,018	-	(6,041,850)	-	15,057,168	-
Unrestricted	1,993,734	2,467,353	(1,817,875)	1,608,210	4,251,422	-
Total Net Position	<u>\$ 23,092,752</u>	<u>2,467,353</u>	<u>(7,859,725)</u>	<u>1,608,210</u>	<u>19,308,590</u>	<u>-</u>

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

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

	Business-type Activities					Governmental
	Major Funds			Non-Major	Total Business-type Activities	Self Insurance Fund
	Pascagoula Utilities Fund	Solid Waste Fund	Energy Recovery Fund	Transfer Station Fund		-
Revenues:						
Charges for services	\$ 14,074,461	1,376,809	-	-	15,451,270	-
Property taxes	-	227,548	-	-	227,548	-
Intergovernmental	-	8,020	-	-	8,020	-
Employer contributions	-	-	-	-	-	2,252,537
Employee contributions	-	-	-	-	-	249,792
Retiree contributions	-	-	-	-	-	16,453
Insurance claim reimbursements	-	-	-	-	-	502,853
Miscellaneous operating revenues	466,800	-	-	622	467,422	-
Total Operating Revenues	14,541,261	1,612,377	-	622	16,154,260	3,021,635
Operating Expenses:						
Personnel services	1,195,639	-	-	-	1,195,639	-
Insurance claims and expenses	-	-	-	-	-	2,459,962
Administrative expenses	1,526,836	78,459	-	-	1,605,295	561,673
Wastewater treatment	3,855,732	-	-	-	3,855,732	-
Natural gas purchases	1,513,439	-	-	-	1,513,439	-
Waste collection	-	1,196,592	-	-	1,196,592	-
Waste disposal	-	31,092	-	-	31,092	-
Utilities	549,289	-	-	-	549,289	-
Supplies	536,318	-	-	-	536,318	-
Other services and charges	2,606,900	48,886	-	-	2,655,786	-
Depreciation	1,966,385	-	-	-	1,966,385	-
Total Operating Expenses	13,750,538	1,355,029	-	-	15,105,567	3,021,635
Operating income (loss)	790,723	257,348	-	622	1,048,693	-
Non-Operating Revenues (Expenses)						
Interest and investment revenue	14,009	7,372	-	-	21,381	-
Interest Expense	(255,734)	-	-	-	(255,734)	-
Amortization of bond premium	5,214	-	-	-	5,214	-
Amortization of deferred savings on refunding bond	3,883	-	-	-	3,883	-
Transfers in	-	-	-	-	-	-
Transfers out	(186,449)	-	-	-	(186,449)	-
Total Non-Operating Revenues (Expenses)	(419,077)	7,372	-	-	(411,705)	-
Change in net position	371,646	264,720	-	622	636,988	-
Total net position - beginning	22,721,106	2,202,633	(7,859,725)	1,607,588	18,671,602	-
Total net position - ending	\$ 23,092,752	2,467,353	(7,859,725)	1,608,210	19,308,590	-

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

City of Pascagoula, Mississippi
Statement Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2018

	Business-type Activities					Governmental Activities
	Major Funds			Non-Major		Self Insurance Fund
	Pascagoula Utilities Fund	Solid Waste Fund	Energy Recovery Fund	Transfer Station Fund	Total Business-type Activities	
Cash Flows from Operating Activities						
Cash received from customers	\$ 14,140,010	1,366,727	-	-	15,506,737	-
Cash received for premiums	-	-	-	-	-	2,518,034
Other operating receipts	466,800	234,022	-	622	701,444	502,853
Cash paid to employees	(881,950)	-	-	-	(881,950)	-
Cash paid to suppliers	(536,318)	-	-	-	(536,318)	-
Cash paid to contractors	(9,888,355)	(1,245,340)	-	-	(11,133,695)	-
Cash paid for judgements and claims	-	-	-	-	-	(2,459,962)
Cash paid for administrative services	-	-	-	-	-	(539,936)
Net cash provided by (used in) operating activities	<u>3,300,187</u>	<u>355,409</u>	<u>-</u>	<u>622</u>	<u>3,656,218</u>	<u>20,989</u>
Cash Flows From Non-Capital Financing Activities						
Advances from (to) other funds	(127,440)	141,321	-	-	13,881	180,005
Net cash flows provided by (used in) non-capital financing activities	<u>(127,440)</u>	<u>141,321</u>	<u>-</u>	<u>-</u>	<u>13,881</u>	<u>180,005</u>
Cash Flows From Capital and Related Financing Activities						
Purchase of capital assets	(2,363,660)	-	-	-	(2,363,660)	-
Proceeds from bond issuance	-	-	-	-	-	-
Repayment of debt	(719,821)	-	-	-	(719,821)	-
Interest and amortization on debt	(254,719)	-	-	-	(254,719)	-
Net cash provided by (used in) capital and related financing activities	<u>(3,338,200)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,338,200)</u>	<u>-</u>
Cash Flows From Investing Activities						
Interest received	14,009	7,372	-	-	21,381	-
Net cash flows provided by (used in) investing activities	<u>14,009</u>	<u>7,372</u>	<u>-</u>	<u>-</u>	<u>21,381</u>	<u>-</u>
Net increase (decrease) in cash	(151,444)	504,102	-	622	353,280	200,994
Cash - October 1	3,452,517	1,951,597	-	1,607,588	7,011,702	-
Cash - September 30	<u>\$ 3,301,073</u>	<u>2,455,699</u>	<u>-</u>	<u>1,608,210</u>	<u>7,364,982</u>	<u>200,994</u>

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

City of Pascagoula, Mississippi
Statement Cash Flows
Proprietary Funds (continued)
For the Fiscal Year Ended September 30, 2018

	Business-type Activities				Total Business-type Activities	Governmental Activities
	Major Funds		Non-Major			Self Insurance Fund
	Pascagoula Utilities Fund	Solid Waste Fund	Energy Recovery Fund	Transfer Station Fund		
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in)						
Operating Activities						
Operating income (loss)	\$ 790,723	257,348	-	622	1,048,693	-
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	1,996,385	-	-	-	1,996,385	-
(Increase) decrease in assets:						
Accounts receivable	92,596	(10,082)	-	-	82,514	-
Property tax receivable	-	(1,546)	-	-	(1,546)	-
Customer deposits	(27,047)	-	-	-	(27,047)	-
Increase (decrease) in liabilities:						
Claims and wages payable	123,327	109,689	-	-	233,016	21,737
Unearned revenue	-	-	-	-	-	(748)
Compensated absences	(7,872)	-	-	-	(7,872)	-
Pension liabilities and deferrals	332,075	-	-	-	332,075	-
Net cash provided by (used in) operating activities	<u>\$ 3,300,187</u>	<u>355,409</u>	<u>-</u>	<u>622</u>	<u>3,656,218</u>	<u>20,989</u>

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

City of Pascagoula, Mississippi
Statement of Fiduciary Net Position
September 30, 2018

		Private Purpose Trust Fund <u>Pascagoula Port Commission Fund</u>	<u>Agency Fund Pascagoula Redevelopment Authority Fund</u>	<u>Total Fiduciary Funds</u>
Assets	\$			
Cash		60,163	736,485	796,648
Total Assets		<u>60,163</u>	<u>736,485</u>	<u>796,648</u>
Liabilities				
Due to other government agencies		-	736,485	736,485
Total Liabilities		<u>-</u>	<u>736,485</u>	<u>736,485</u>
Net Position		<u>60,163</u>	<u>-</u>	<u>60,163</u>
Restricted for Port Commission	\$	<u>60,163</u>	<u>-</u>	<u>60,163</u>

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

City of Pascagoula, Mississippi
Statement of Changes in Fiduciary Net Position
September 30, 2018

		<u>Private Purpose Trust Fund</u>	<u>Total Fiduciary Funds</u>
		<u>Pascagoula Port Commission Fund</u>	
Additions:			
Rental income	\$	<u>2,467</u>	<u>2,467</u>
Total additions		<u>2,467</u>	<u>2,467</u>
 Change in net position		 2,467	 2,467
 Net position - beginning of year		 57,696	 57,696
Net position - end of year	\$	<u><u>60,163</u></u>	<u><u>60,163</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

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City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies

The City of Pascagoula, Mississippi, (the "City") was incorporated September 14, 1896 under the laws of the State of Mississippi. The City operates under a Council-Manager form of government, which provides for an elected mayor and a six-member council. The following services are authorized by the City's charter: public safety, public works, public health and welfare, culture, recreation and water, sewer and gas system. The accounting and reporting policies of the City relating to the funds and accounts groups included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

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

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

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

Jackson County Utility Authority

This potential component unit was established by State Code and its governing board is appointed jointly by the area governments' governing bodies. This is an independent unit that selects management staff, sets user charges, establishes budgets and controls all aspects of its daily activities. The District has been determined to be a joint venture of the participating agencies. See Note 12 for details.

B. Basis of Presentation.

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year.

Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period.

MAJOR FUNDS

The City reports the following major Governmental Funds:

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

Parks and Recreation Bond Capital Project Fund – This fund accounts for the financial resources and expenditures of the 2017 General Obligation Bonds that are restricted to acquisition and/or construction of infrastructure to be used by the City's citizens for culture and recreation.

The City reports the following major Enterprise Funds:

Pascagoula Utilities Fund – This fund accounts for the operations of the City's water, sewer and gas system.

Solid Waste Fund – This fund accounts for the operation of the City's waste collection and disposal.

Energy Recovery Fund – This fund is dormant; however, amounts owed on debt and accrued interest determines this to be a major fund. For more information on this debt, see Note 10.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

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

Debt Service Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

PROPRIETARY FUNDS

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

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

Internal Service Funds - These funds are used to account for those operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The City's internal service funds report on self-insurance for employee medical benefits and risk management for City's legal contingencies.

FIDUCIARY FUNDS

Private-purpose Trust Funds - These funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the City, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications

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

E. Deposits and Investments

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

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

F. Receivables

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

G. Inter-Fund Transactions and Balances

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

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

H. Capital Assets

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

Governmental accounting and financial reporting standards allowed governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. The City meets these criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. However, as of September 30, 2018, the City has not systematically reported capital assets in accordance with generally accepted accounting principles.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

	Capitalization Threshold	Estimated Useful Life
Land	\$ -	N/A
Buildings	5,000	20 - 50 years
Water and sewer system	50,000	30 - 35 years
Machinery & equipment	5,000	7 - 10 years
Improvements	50,000	30 - 35 years
Other infrastructure	50,000	10 - 60 years
Vehicles	5,000	5 years
Property under capital leases	*	*

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

I. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

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

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

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

Deferred amounts associated with debt – For current refunding's and advance refunding's resulting in defeasance of debt, along with bond premiums, reported by governmental activities, business type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

J. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Long-term Liabilities

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

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

L. Compensated Absences

The City has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements.

The City accrues unpaid vacation leave at the end of the fiscal year. The total compensated absence liability is reported on the government-wide financial statements. In governmental fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured.

An employee may accumulate unused vacation leave hours up to two years generally, however, cash payments upon employee termination or retirement are limited to a maximum of 240 hours of an accumulated leave of pay. Employees have no claim for accumulated sick leave at termination, for retirement, lay-off, or cause. As such, no provision for unused sick leave has been provided in the financial statements. Unused vacation and sick leave balances may be credited to the Public Employee's Retirement System (PERS) as time worked.

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City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

M. Fund Balance Policies

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

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

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

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

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

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

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

N. Net Position

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

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

O. Intergovernmental Revenues in Governmental Funds

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

P. Property Tax Revenues

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

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

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

Q. Use of Estimates

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

R. Change in Accounting Standard

The City implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions of this standard have been incorporated into the financial statements and notes.

Note 2 – Stewardship, Compliance and Accountability

A. Budgetary Data

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

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

B. Budgetary – GAAP Reporting Reconciliations

Annual budgets are adopted for the major and non-major governmental 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 notes to the required supplementary information.

Note 3 – Prior Period Adjustments

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

Statement of Activities – Governmental Activities.

<u>Explanation</u>	<u>Amount</u>
Franchise Fees from prior period were unavailable for current expenditures in PY	\$ (107,715)
Sales tax revenues were under-reported in prior year	511,168
Revenue under-reported in PY	4,273
Capital assets not recorded in PY	619,378
Capital lease proceeds were not recorded in prior year	64,138
Total prior period adjustments	<u>\$ 1,091,242</u>

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 3 – Prior Period Adjustments (continued)

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

<u>Explanation</u>	<u>Amount</u>
Franchise Fees from prior period were unavailable for current expenditures in PY	\$ (107,715)
Sales tax revenues were under-reported in prior year	511,168
Revenue under-reported in PY	4,273
Total prior period adjustments	<u>\$ 407,726</u>

Note 4 – Cash

The carrying amount of the city's total deposits with financial institutions at September 30, 2018, was \$8,161,630 and the bank balance was \$8,219,340. Of this amount \$626,140 is restricted for utility customers' deposits. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

A summary of cash at September 30, 2018 is as follows:

	<u>Bank Balances</u>	<u>Carrying Value</u>
Pooled cash deposits		
Cash and cash equivalents	\$ 3,571,492	3,513,214
Non-pooled cash deposits		
Cash in financial institutions		
Bond funds	3,381,653	3,381,653
Payroll fund	393,709	390,012
Municipal court fund	45,428	48,475
SMMET	31,028	31,028
Petty cash	-	200
Cash drawer	-	400
Total government-wide	<u>7,423,310</u>	<u>7,364,982</u>
Fiduciary Funds	<u>796,030</u>	<u>796,648</u>
Total cash	<u>\$ 8,219,340</u>	<u>8,161,630</u>
Reconciliation to statements		
Government-wide		
Unrestricted		\$ 6,738,842
Restricted		626,140
Fiduciary		<u>796,648</u>
Total		<u>\$ 8,161,630</u>



City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 4 – Cash (continued)

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

Note 5 – Receivables

A. Governmental Activities

Receivables in the governmental activities at September 30, 2018, consisted of the following:

Taxes receivable:	
Property taxes	
Current	\$ 64,126
For future reporting period	12,213,354
Total property taxes receivable	<u>12,277,480</u>
Franchise taxes	481,565
Total taxes receivable	<u>12,759,045</u>
Intergovernmental receivable:	
Sales taxes	1,073,082
Shared revenue	57,708
Grants	313,663
Total intergovernmental receivable	<u>1,444,453</u>
Charges for services receivable:	
Court fines receivable	31,189,299
Less: allowance for doubtful accounts	<u>(30,844,238)</u>
Total court fines receivable, net	<u>345,061</u>
Rentals receivable	10,463
Business licenses	39,323
Total charges for services receivable, net	<u>394,847</u>
Total receivables - governmental activities	<u>\$ 14,598,345</u>

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 5 – Receivables (continued)

B. Business-type Activities

Receivable in the business-type activities at September 30, 2018, consisted of the following:

Customer accounts receivable:		
Customer utility charges (billed)	\$	2,131,757
Customer solid waste charges (billed)		294,464
Customer accounts, earned but unbilled		769,759
Less: allowance for doubtful accounts		<u>(1,780,498)</u>
Total customer accounts receivable, net		<u>1,415,482</u>
Taxes receivable:		
Property taxes		
Current		1,546
For future reporting period		<u>224,675</u>
Total property taxes receivable		<u>226,221</u>
Total receivables - business-type activities	\$	<u>1,641,703</u>

Note 6 – Interfund Transactions and Balances

Government-wide Financial Statements

A. Internal Balances

Receivable	Payable	Amount
Governmental Activities	Business-type Activities	<u>\$ 227,182</u>

These amounts represent cash amounts owed to the general fund of \$640,248 reduced by the cash deficit in the governmental fund of \$413,066 in the pooled cash account.

At September 30, 2018, the City had the following transfers:

Transfers In	Transfers Out	Amount
Governmental Activities	Business-type Activities	<u>\$ 186,448</u>

These amounts represent capital assets transferred from the business-type activities to the governmental-type activities.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 6 – Interfund Transactions and Balances (continued)

Fund Financial Statements

A. Due From/To Other Funds:

Receivable	Payable	Amount
General Fund	Energy Recovery Fund	\$ 640,248
Other Governmental Funds	General Fund	128,624
Pascagoula Utilities Fund	General Fund	413,066
Pascagoula Utilities Fund	Solid Waste Fund	141,321
Group Health Insurance Fund	General Fund	34,554
		\$ 1,357,813

Interfund transactions occur due to a time lag between the dates that the interfund goods and services are provided or reimbursable expenses occur and when payment is actually made.

B. Transfers In/Out:

Transfers In	Transfers Out	Amount
General Fund	Pascagoula Utilities	\$ 180,284
Other Governmental Funds	Pascagoula Utilities	6,164
		\$ 186,448

Transfers were made in the course of the year for capital assets transferred from the Pascagoula Utilities Fund to the governmental fund types.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 7 – Capital assets

A. Governmental Activities

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

	Balance 10/1/2017	Additions	Adjustments/ Sales	Balance 9/30/2018
Capital assets not being Depreciated:				
Land	\$ 13,079,365	3,237,501	(42,970)	16,273,896
Construction in progress	6,275,847	5,864,601	(9,332,117)	2,808,331
Total capital assets not being depreciated	<u>19,355,212</u>	<u>9,102,102</u>	<u>(9,375,087)</u>	<u>19,082,227</u>
Capital assets being depreciated:				
Buildings	8,207,053	-	-	8,207,053
Improvements - Other	38,019,960	-	9,546,981	47,566,941
Infrastructure	44,015,913	-	-	44,015,913
Mobile Equipment	7,993,072	402,845	(59,421)	8,336,496
Other Furniture & Equipment	2,171,538	9,284	(126,406)	2,054,416
Equipment under capital leases	565,996	214,878	592,629	1,373,503
Total capital assets being depreciated	<u>100,973,532</u>	<u>627,007</u>	<u>9,953,783</u>	<u>111,554,322</u>
Less accumulated depreciation for:				
Buildings	4,906,537	256,545	-	5,163,082
Improvements - Other	5,737,177	1,709,439	-	7,446,616
Infrastructure	23,982,448	844,126	-	24,826,574
Mobile Equipment	6,591,702	588,200	(94,190)	7,085,712
Other Furniture & Equipment	1,814,924	149,739	(110,370)	1,854,293
Equipment under capital leases	67,251	278,014	85,370	430,635
Total accumulated depreciation	<u>43,100,039</u>	<u>3,826,063</u>	<u>(119,190)</u>	<u>46,806,912</u>
Total capital assets being depreciated, net	<u>57,873,493</u>	<u>(3,199,056)</u>	<u>10,072,973</u>	<u>64,747,410</u>
Total governmental activities - capital assets, net	<u>\$ 77,228,705</u>	<u>5,903,046</u>	<u>697,886</u>	<u>83,829,637</u>

Depreciation expense was charged to the following governmental functions:

General Government	\$ 1,205,503
Public Safety	575,032
Public Works	1,309,005
Culture & Recreation	736,523
	<u>\$ 3,826,063</u>

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 7 – Capital assets (continued)

B. Business-type Activities

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

	Balance 10/1/2017	Additions	Adjustments/ Sales	Balance 9/30/2018
Capital assets not being Depreciated:				
Land	\$ 84,751	-	-	84,751
Construction in progress	722,891	1,970,959	(839,305)	1,854,545
Total capital assets not being depreciated	<u>807,642</u>	<u>1,970,959</u>	<u>(839,305)</u>	<u>1,939,296</u>
Capital assets being depreciated:				
Buildings	7,415,816	-	-	7,415,816
Infrastructure & Improvements - Other	58,917,906	-	601,684	59,519,590
Mobile Equipment	1,481,563	-	60,792	1,542,355
Other Furniture & Equipment	295,367	-	(229,406)	65,961
Equipment under capital leases	19,775	-	-	19,775
Total capital assets being depreciated	<u>68,130,427</u>	<u>-</u>	<u>433,070</u>	<u>68,563,497</u>
Less accumulated depreciation for:				
Buildings	2,039,348	370,791	-	2,410,139
Infrastructure & Improvements - Other	35,605,367	1,455,634	-	37,061,001
Mobile Equipment	1,024,040	124,978	75,796	1,224,814
Other Furniture & Equipment	295,367	11,027	(240,433)	65,961
Equipment under capital leases	2,966	3,955	-	6,921
Total accumulated depreciation	<u>38,967,088</u>	<u>1,966,385</u>	<u>(164,637)</u>	<u>40,768,836</u>
Total capital assets being depreciated, net	<u>29,163,339</u>	<u>(1,966,385)</u>	<u>597,707</u>	<u>27,794,661</u>
Total business-type activities capital assets, net	<u>\$ 29,970,981</u>	<u>4,574</u>	<u>(241,598)</u>	<u>29,733,957</u>

Depreciation expense of \$1,966,385 was charged to the Pascagoula Utilities Fund.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 7 – Capital assets (continued)

C. Construction in Progress

A summary of construction in progress transactions for the year ended September 30, 2018 are as follows:

	Expended to Date	Remaining Commitment
Hospital Widening Phase I	\$ 2,332,071	9,769
Hyland Drainage Improvements	409,878	288,156
Bramblewood Drainage Improvement	66,382	179,236
Total governmental activities	2,808,331	477,161
Hospital Road Widening Phase I	519,348	54,952
Martin Street Bond	1,220,460	31,242
Hyland Drainage Improvements	114,738	83,709
Total business-type activities	\$ 1,854,546	169,903



City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 8 – Other Postemployment Benefits and Self Insurance

Group Health Insurance

The City is exposed to risk of loss relating to employee health, accident and dental coverage. Pursuant to Section 25-15-101, Miss. Code Ann. (1972), the City established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss. The City's health insurance plan may be amended by the Council. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the County has a postemployment healthcare benefit reportable under GASB Statement 75 as a single employer defined benefit health care plan. The County does not issue a publicly available financial report for the Plan. Each employee/retiree pays a portion of his/her premium through a payroll deduction. The City pays the remaining portion of the premium on a single coverage policy for its respective employees. Employees desiring additional and/or dependent coverage pay the additional premium through a payroll deduction. Processing of claims is accomplished through a contract with the claims administration firm. Eighty percent of the first \$2,500 of preferred provider expenses and 100% of preferred provider expenses thereafter are payable by the plan after a \$500 deductible per participant per calendar year, with a maximum benefit of \$2,000,000. The City has purchased coinsurance which functions on specific stop loss coverage. This coverage is purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$50,000.

Changes in this claims liability during fiscal year 2018 and 2017 were as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal year
2017-2018	\$ 214,559	2,473,144	(2,459,214)	228,489
2016-2017	175,244	2,641,774	(2,602,459)	214,559

Note 9 – Pensions

I. Retirement Plans

The City participates in two retirement systems administered by the Public Employees' Retirement System of Mississippi (PERS). Both systems are defined benefit plans and include a multi-employer; cost-sharing pension plan and an agent multi-employer pension plan as described below:

A. Public Employee's Retirement System (PERS)

Plan Description and Provisions

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 9 – Pensions (continued)

Benefits Provided

Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public cities. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring.

Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007).

PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

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.

B. Municipal Retirement System (MRS)

Plan Description and Provisions

The City contributes to the Municipal Retirement Systems' Fire and Police Disability and Relief Funds (MRS), an agent multiple-employer defined benefit pension plan administered by the Public Employees' Retirement System of Mississippi. MRS provides retirement and disability benefits and death benefits to plan members and beneficiaries. At June 30, 2018, the date of the most recent actuarial verification available, the MRS are composed of 19 separate municipal retirement and fire and police disability and relief systems. Benefit provisions are established by Section 21-29, Articles 1,3,5,7, Mississippi Code Annotated (1972), and annual local and private legislation and may be amended only by the State of Mississippi Legislature.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 9 – Pensions (continued)

Benefits Provided

Membership in the Fire and Police Disability and Relief Systems was granted to all City uniformed police officers and fire fighters who were not already members of PERS and who were hired prior to July 1, 1976. Employees hired after July 1, 1976 automatically become members of PERS. MRS was fully closed to new members July 1, 1976. Members who terminate employment from all covered employers and are not eligible to receive monthly retirement benefits may request a refund of employee contributions. As of September 30, 2018, the plan has 66 inactive members or their beneficiaries are currently receiving benefits, no inactive members entitled to but not yet receiving benefits and no active members. Participating employees who retire regardless of age with at least 20 years of credited service are entitled to an annual retirement allowance payable monthly for life, in an amount equal to 50 percent of their average monthly compensation and an additional 1.7 percent for each year of credited service over 20 years not to exceed 66-2/3 percent of average monthly compensation.

Contributions

Plan contributions are based on the value of taxable property adjusted to reflect all property-related contributions, and the millage rates applied to the assessed property. The certified millage rate from the June 30, 2017 valuation is 1.29 mills, however, the millage rate effective October 1, 2017, was 3 mills.

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

At September 30, 2018, the City reported a liability of \$29,645,132 in the governmental activities and \$1,646,663 in the business-type activities for its proportionate share of the PERS and MRS 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 PERS and MRS net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2018, the City's proportion of PERS was .165%. For the year ended September 30, 2018, the City recognized PERS and MRS pension expense for governmental activities of \$2,390,552 and for the business-type activities of \$428,304.

At September 30, 2018, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources				
	Governmental Activities			Business-Type	
	PERS	MRS	Total	Activities	Total
Differences between expected and actual experience	\$ 113,098	-	113,098	7,219	120,317
Changes of assumptions	15,220	-	15,220	971	16,191
Net difference between projected and actual earnings on pension plan investments	-	10,316	10,316	-	10,316
Changes in proportion and differences between City contributions and proportionate share on contributions	575,284	-	575,284	36,720	612,004
City's contributions subsequent to the measurement date	350,291	47,912	398,203	22,360	420,563
Total deferred outflows related to pensions	<u>\$ 1,053,893</u>	<u>58,228</u>	<u>1,112,121</u>	<u>67,270</u>	<u>1,179,391</u>

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 9 – Pensions (continued)

At September 30, 2018, the City reported deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources				
	Governmental Activities			Business-Type	
	PERS	MRS	Total	Activities	Total
Differences between expected and actual experience	\$ 108,750	-	108,750	6,941	115,691
Changes of assumptions	14,248	-	14,248	909	15,157
Net difference between projected and actual earnings on pension plan investments	512,823	-	512,823	32,734	545,557
Changes in proportion and differences between City contributions and proportionate share on contributions	572,395	-	572,395	36,536	608,931
Total deferred outflows related to pensions	<u>\$ 1,208,216</u>	<u>-</u>	<u>1,208,216</u>	<u>77,120</u>	<u>1,285,336</u>

Within the deferred outflows, a net amount of \$420,563 of deferred outflows of resources is related to pensions resulting from the City's contributions subsequent to the measurement date and will be recognized as a reduction to the net pension liability in the year ended September 30, 2018.

The remaining amounts reported as deferred outflows of resources related to pensions of \$758,828 of deferred inflows of resources related to pensions of \$1,285,536 netting to (\$526,508) will be recognized in pension expense as follows:

Year Ending September 30,	Future Amortization
2019	\$ 654,216
2020	(120,760)
2021	(931,840)
2022	(128,124)
	<u>\$ (526,508)</u>

Actuarial assumptions

The total pension liabilities in the June 30, 2018, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PERS	MRS
Inflation	3.0 percent	3.0 percent
Salary increases	3.25 - 18.5 percent, including inflation	4.0 - 5.5 percent, including inflation
Investment rate of return	7.75 percent (net of pension plan investment expense, including inflation)	7.75 percent (net of pension plan investment expense, including inflation)
Assessed property value rate of increase	N/A	2.0 percent compounded annually, used in determining the millage rate under the funding policy

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 9 – Pensions (continued)

The table for post-retirement mortality rates used in evaluating allowances to be paid was the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2018 with male rates set forward one year. The RP-Disabled Retiree Table set forward five years for males and four years for females, was used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the four year period ending June 30, 2016. The experience report is dated April 18, 2017.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US 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 Assets	10.00	3.50
Private Equity	8.00	5.10
Emerging Debt	2.00	2.25
Cash	1.00	0.00
Total	100.00 %	

For the MRS pension plan, the actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return. The amount recognized each year is 20% of the difference between market value and expected actuarial value. Actuarial value of assets was set equal to the market value on September 30, 2006, and smoothing commenced in 2007. Actuarial assets were allocated to individual cities in the same proportion that their market value of assets was to the total market value of assets for all cities.

Discount rate

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

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 9 – Pensions (continued)

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

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75 percent) or one percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1 % Increase (8.75%)
City's Proportionate share of PERS	\$ 36,136,403	\$ 27,444,402	\$ 20,220,202
City's Proportionate share of MRS	4,647,504	3,847,393	3,142,571

Pension plan fiduciary net position

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

Three-year Trend Information

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

Fiscal Years Ending	Employer Contributions	
	PERS	MRS
2018	\$ 1,661,758	670,140
2017	1,647,953	677,726
2016	1,643,481	706,304

II. Deferred Compensation Plan

The Mississippi Public Employees' Retirement System (PERS) offers the City's employees voluntary participation in a deferred compensation plan created 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. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1997, the Plan was amended by the State in accordance with the provisions of IRC Section 457(g). On that date, assets of the Plan were placed in trust by the State for the exclusive benefit of participants and their beneficiaries. The requirements of that IRC Section prescribe that the assets are no longer subject to the claims of the City's general creditors. Accordingly, the assets and the liabilities for the compensation deferred by plan participants were removed from the City's financial statements during the year ended September 30, 1997.



City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 10 – Long-term Liabilities

Long-term liabilities are segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Long-term liability activity for the year ended September 30, 2018 are as follows:

	Balance 10/1/2017	Additions	Reductions	Balance 9/30/2018	Due within One Year
<u>Governmental Activities</u>					
Debt obligations					
General obligation debt	\$ 21,368,333	-	1,103,979	20,264,354	1,149,312
Notes payable	2,513,486	4,479,000	-	6,992,486	1,493,000
Capital leases	1,305,340	-	605,284	700,056	386,761
Total debt obligations	<u>25,187,159</u>	<u>4,479,000</u>	<u>1,709,263</u>	<u>27,956,896</u>	<u>3,029,073</u>
Other liabilities					
Compensated absences payable	761,240	657,019	694,684	723,575	52,975
Net pension liability	31,273,043	-	1,627,911	29,645,132	-
Total other liabilities	<u>32,034,283</u>	<u>657,019</u>	<u>2,322,595</u>	<u>30,368,707</u>	<u>52,975</u>
Total governmental activities	<u>\$ 57,221,442</u>	<u>5,136,019</u>	<u>4,031,858</u>	<u>58,325,603</u>	<u>3,082,048</u>
<u>Business-type Activities</u>					
Debt obligations					
Bonds payable	\$ 8,871,667	-	696,021	8,175,646	705,688
Notes payable	340,816	-	20,046	320,770	20,400
Energy Recovery Facility (ERF)	6,126,601	-	-	6,126,601	-
Capital leases	16,021	-	3,754	12,267	3,448
Total debt obligations	<u>15,355,105</u>	<u>-</u>	<u>719,821</u>	<u>14,635,284</u>	<u>729,536</u>
Other liabilities					
Compensated absences payable	45,133	37,831	45,703	37,261	1,199
Net pension liability	1,388,376	258,287	-	1,646,663	-
Total other liabilities	<u>1,433,509</u>	<u>296,118</u>	<u>45,703</u>	<u>1,683,924</u>	<u>1,199</u>
Total business-type activities	<u>16,788,614</u>	<u>296,118</u>	<u>765,524</u>	<u>16,319,208</u>	<u>730,735</u>
Total government - wide	<u>\$ 74,010,056</u>	<u>5,432,137</u>	<u>4,797,382</u>	<u>74,644,811</u>	<u>3,812,783</u>

* governmental activities capital leases beginning balance restated to include PPA dj.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 10 – Long-term Liabilities (continued)

Debt outstanding as of September 30, 2018, consisted of the following:

Description and Purpose	Original Issue Amount	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:				
A. General Obligation Bonds:				
General Obligation Refunding Bonds, Series 2006	\$ 4,255,000	\$ 1,125,000	3.53 - 4.2%	11/01/23
General Obligation Bonds, Series 2014 (53.33%)	8,000,000	6,989,354	1.31 - 3.291%	04/01/34
General Obligation Bonds, Series 2017	12,500,000	12,150,000	3.0 - 3.625%	07/01/40
Total General Obligation Bonds		<u>20,264,354</u>		
B. Notes Payable				
Community Disaster Loan	4,461,387	2,513,486	2.72%	09/30/35
Shortfall Note	4,479,000	4,479,000	4.75%	03/15/21
Total Notes Payable		<u>6,992,486</u>		
C. Capital Leases:				
AGJ Systems & Networks				
secured by hardware/software, \$16,754 annually	95,885	48,452	9.00%	08/15/18
Nissan Motor Auto Credit				
secured by 4 Nissan Leafs, \$19,775 annually.	79,100	50,620	2.42%	02/02/20
Government Capital Corp				
secured by public safety software, \$215,140 annually	743,369	410,184	3.25%	10/15/19
Axon Enterprises, Inc.				
secured by 52 Axom Tasers, \$13,728 annually	64,138	54,912	0.00%	11/20/21
Ford Motor Credit				
secured by 3 Ford Taurus', \$24,961 annually	71,045	23,659	5.50%	11/18/18
Ford Motor Credit				
secured by Ford F150 police vehicle, \$697 monthly	30,124	19,499	5.45%	04/21/21
Ford Motor Credit				
secured by 10 Ford Interceptors, \$97,599 annually	278,435	92,730	5.25%	06/22/19
Total Capital Leases		<u>700,056</u>		
Total governmental activities		<u>\$ 27,956,896</u>		
Business-type Activities:				
A. Bonds				
General Obligation Bonds, Series 2014 (46.67%)	\$ 4,160,000	\$ 2,060,000	2.0 - 2.5%	06/01/24
Revenue Refunding Bonds, Series 2012	7,000,000	6,115,646	1.31 - 3.291%	04/01/34
Revenue Bonds:				
Incinerator System Revenue Bonds, Series 1981	6,430,000	5,626,601		
Incinerator System Revenue Bonds, Series 1983	500,000	500,000		
Total Bonds		<u>14,302,247</u>		
B. Notes Payable				
State Revolving Fund Loan, 2013	429,865	320,770	1.75%	09/01/32
Total Notes Payable		<u>320,770</u>		
C. Capital Leases:				
Nissan Motor Auto Credit				
secured by 1 Nissan Leafs, \$3,754 annually.	19,775	12,267	2.42%	2/2/2020
Total Capital Leases		<u>12,267</u>		
Total business-type activities		<u>\$ 14,635,284</u>		

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 10 – Long-term Liabilities (continued)

A. Bonds Payable

General Obligation Bonds

General obligation debt represents direct obligations issued on pledge of the general taxing power of the City for the payment of its debt obligations. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. These bonds are direct obligation and pledge the full faith and credit of the City. Payments on these bonds will be made from general ad valorem tax collections through the debt service funds.

Revenue Refunding Bonds

On November 8, 2012, the City issued \$4,160,000 in revenue refunding bonds with an average rate of 2.15% to refund \$4,138,532 in outstanding general obligation bonds accounted for as business-type activities, with an interest rate of 3.0 – 4.0%. The refunding was undertaken to take advantage of favorable interest rates. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of 4.026%.

Revenue Bonds

In 1979, the U.S. Department of Commerce, National Oceanic and Atmospheric Administration (NOAA) purchased the City of Pascagoula's 6% Incinerator System Revenue Bonds, the proceeds of which were used in prior years for the construction of a resource recovery facility. Incinerator System Revenue Bonds debt service is payable solely from revenues from system operations. The system has not produced sufficient revenues to meet maturing revenue bond principal and interest, or to meet required "cushion" accumulations. On November 18, 1992, the City entered into an agreement with NOAA to effectively suspend principal and interest payments and modify the loan requirements. Due to the closure of the Transfer Station in December 2012, the Incinerator System did not incur operating income or expense in fiscal year 2018, with the exception of small outstanding allocations of income. Moreover, based on the terms with the agreement with NOAA, no payment is due for the year ended September 30, 2018.

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

Year ended September 30	Governmental Activities		Business-type Activities			
	General Obligation Bonds		Pascagoula Utilities		ERF (Incinerator)	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,149,312	578,156	705,688	271,611	-	-
2020	1,177,311	541,153	722,689	229,949	-	-
2021	832,977	601,286	742,023	231,626	-	-
2022	858,643	576,507	741,357	197,099	-	-
2023	881,643	550,513	548,357	169,188	-	-
2024-2028	4,577,535	2,301,616	2,067,465	596,077	-	-
2029-2033	5,339,845	1,451,820	2,170,155	259,574	-	-
thereafter	5,447,088	733,288	477,912	7,871	-	-
Suspended	-	-	-	-	6,126,601	1,177,627
	<u>\$ 20,264,354</u>	<u>7,334,339</u>	<u>8,175,646</u>	<u>1,962,995</u>	<u>6,126,601</u>	<u>1,177,627</u>

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 10 – Long-term Liabilities (continued)

B. Notes Payable

Community Disaster Loan

In fiscal year 2006, the City borrowed \$7,757,433 from the U.S. Department of Homeland Security (FEMA) under the Special Community Disaster Loan (SCDL) program. This is a shortfall note payable, and its purpose was to provide funds for a shortfall of the budget caused by damages to properties by Hurricane Katrina in August 2005 resulting in decreased tax assessments and related tax collection. Payments on the notes were deferred for a five-year period. In 2017, the City received another deferment of payments until an undesignated time. On February 27, 2011, pursuant to HR 2206 – Public Law 110-28, FEMA forgave \$2,924,496 with associated interest of \$411,116 of the City’s SCDL. In June 2014, the City was notified by FEMA of additional debt cancellation for the remaining portion of the enterprise activity balance of \$352,689, along with a partial principal cancellation of the portion of the governmental activity balance of \$1,118,804. The principal balance of \$2,513,486 remains outstanding at September 30, 2018.

Shortfall Note

In 2018, the City borrowed \$4,479,000 to provide funds for a shortfall of the budget. This note is to be repaid in three years beginning in 2019 and carries an interest rate of 4.75%.

C. Capital Leases Payable

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2018:

<u>Classes of Property</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Mobile equipment	\$ 467,065	19,775
Other equipment	906,438	-
Less: accumulated depreciation	(430,635)	(6,921)
Leased property under capital leases, net	<u>\$ 942,868</u>	<u>12,854</u>

The following is a schedule by years of the future minimum lease payments due as of September 30, 2018:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 390,209	24,904	415,113
2020	290,545	8,680	299,225
2021	17,842	66	17,908
2022	13,727	-	13,727
	<u>\$ 712,323</u>	<u>33,650</u>	<u>745,973</u>



City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 10 – Long-term Liabilities (continued)

D. 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. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2018, the amount of outstanding debt was equal to 8.55% of the latest property assessments.

E. Compensated Absences

Compensated absences will be paid from the funds from which the employees' salaries were paid which are generally the General Fund.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 11 – Net Investment in Capital Assets

Governmental Activities:

Net investment in capital assets:	
Capital Assets	
Nondepreciable capital assets	\$ 19,082,227
Other capital assets	111,554,322
Less: accumulated depreciation	(46,806,912)
Less: outstanding balances of borrowings for capital asset acquisition:	
General obligation bonds	(20,264,354)
Capital leases	(700,056)
Add: deferred outflows of resources attributable to capital asset acquisition	
Prepaid bond insurance	71,513
Deferred bond charges	74,549
Less: deferred inflows of resources attributable to capital asset acquisition	
Deferred premium	(373,639)
Less: material accounts payable at year end	(227,728)
Add: outstanding cash bond proceeds	8,878,081
Total Net Investment in Capital Assets - Governmental Activities	<u>\$ 71,288,003</u>

Business-type Activities

Pascagoula Utilities Fund

Net investment in capital assets:	
Capital Assets	
Nondepreciable capital assets	\$ 1,854,546
Other capital assets	68,563,495
Less: accumulated depreciation	(40,768,836)
Less: outstanding balances of borrowings for capital asset acquisition:	
General obligation bonds	(8,175,646)
Notes payable	(320,770)
Capital leases	(12,267)
Add: deferred outflows of resources attributable to capital asset acquisition	
Prepaid bond insurance	13,069
Less: deferred inflows of resources attributable to capital asset acquisition	
Deferred savings on refunding bond	(23,373)
Deferred premium	(31,200)
Net investment in capital assets - Pascagoula Utilities Fund	<u>21,099,018</u>

Energy Recovery Fund

Net investment in capital assets:	
Nondepreciable capital assets	84,751
Less: outstanding balances of borrowings for capital asset acquisition:	
Revenue bonds used to purchase capital assets	(6,126,601)
Net investment in capital assets - Energy Recovery Fund	<u>(6,041,850)</u>

Total Net Investment in Capital Assets - Business-type Activities	<u>\$ 15,057,168</u>
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City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 12 – Property and Sales Tax Revenue

A. Property Tax Revenues

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

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt but exclusive of school bond and interest for the year ended September 30, 2018 was 42.05 mills or \$42.05 per \$1,000 of assessed valuation.

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

B. Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Pascagoula) back to the City monthly. General sales tax revenue reported in the General Fund was \$5,365,998.

In addition, the State levies a 2% sales tax on prepared food for purposes assigned by the Council for the year ended September 30, 2018 for purposes of debt service and to supplement the 2014 Parks and Recreation Bond Project. Special sales tax revenue reported in the other governmental funds was \$1,042,401.

Note 13 – Commitments and Contingencies

A. Risk Management

Workman's Compensation Insurance - The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool.

The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 13 – Commitments and Contingencies (continued)

However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2018, to January 1, 2019. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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

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

Litigation - The City is potentially a party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the potential proceedings. However, the City's legal counsel believes that any ultimate liability resulting from these lawsuits, if any, will not have a material adverse effect on the financial condition of the City.

B. Commitments/Service Contracts

Contract for Operations of Utility Management, Operations and Public Works Maintenance Services – The City renewed a contract with Utility Partners, LLC for operation and maintenance of the City's water and sewer systems. In addition, the City contracted with Utility Partners, LLC to perform public works services including ditch maintenance. The fees under these contracts are approximately \$314,564/month for the year ended September 30, 2018. During the fiscal year ended September 30, 2018 the City paid a total of \$3,708,574 to Utility Partners, LLC under these contracts.

Contract for Operations of Solid Waste Collections – The City entered into a contract with Waste Pro/Delta Sanitation for the operations of solid waste collections. The fee under the contract is approximately \$95,000/month for the year ended September 30, 2018 and is billed on a per unit basis. This amount includes commercial and residential garbage collections. During the fiscal year ended September 30, 2018 the City paid a total of \$1,140,018 to Waste Pro/Delta Sanitation of MS, LLC under this contract. In addition, the City contracts with MacLand Ash Disposal, Inc. and Applewhite Recycling System, LLC for trash disposal. Expenses incurred for trash disposal for the year totaled \$72,353.

Contract for Computer Software Maintenance – The City renewed a contract with Tyler Technologies to maintain the city-wide computer software programs. The fee under the contract is \$1,036/month for miscellaneous software maintenance and \$20,240 every three months for support of the city-wide accounting software. During the fiscal year ended September 30, 2018 the City paid a total of \$104,259.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 13 – Commitments and Contingencies (continued)

Contract for Grass Cutting and Beautification Services – In 2018, the City eliminated its public works personnel and beautification departments in lieu of contracting with Turf Masters to provide grass cutting, weeding and general beautification projects for the city. This contract is by unit cost. During the fiscal year ended September 30, 2018, the City paid a total of \$910,074 to Turf Masters for these services.

C. Construction Contracts

The City has entered into various construction contracts for infrastructure improvements with an estimated remaining commitment of \$647,064. The majority of these commitments are being funded by bond funds. See Note 7(C) for more detailed information on these commitments.

Note 14 – Joint Ventures

Joint Venture - The City of Pascagoula is a member of the Jackson County Utility Authority (the "Authority"), whereby the Authority treats and disposes of the City's wastewater in compliance with water quality standards established by the Mississippi Air and Water Pollution Control law and the Federal Water Pollution Control Act.

The Authority provides for the operation and maintenance of the sewer treatment plants on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facilities. The costs associated with this contract totaled \$3,855,732 for the year.

The City's obligation to pay operational costs of the Authority is joint and several with the obligations of all other public agencies similarly contracting with the Authority. A complete copy of the 2018 financial statements should be soon on file at the administrative offices of the Authority which are located at 1225 Jackson Avenue, Pascagoula, MS 39567.

Note 15 – Jointly Governed Organizations

Jointly Governed Organization - On November 2, 1970, the City entered into an agreement with the Board of Trustees of the Jackson George Regional Library System, the City of Moss Point, City of Pascagoula, City of Ocean Springs, City of Lucedale, and the Board of Supervisors of Jackson County 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 Pascagoula has no equity interest in the organization; however, the city maintains a 1.14 millage rate for library purposes. A budget is approved every year by the County Library Board, which stipulates the amount of funds needed from the participating municipalities and various other funding sources. The City contributed \$268,376 to the Library for the year ended September 30, 2018.

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 16 – Tax Abatements

As of September 30, 2018, the City provides tax abatements through various state and local programs subject to the requirements of GASB Statement No. 77. State programs are authorized through Section §57-75-5(f) of Mississippi Code Ann. (1972) and local programs are authorized through resolutions by the Jackson County Supervisors and City Council. These programs are as follows:

Program	Benefit	Eligibility Requirements
Fee-in-Lieu	A company may be approved by local authorities to pay a fee in lieu of standard property taxes. This negotiated fee is valid for 10 years but cannot be less than 1/3 of the property tax levy.	The City may consider a fee-in-lieu agreement when a company's private investment in land, building(s) and equipment exceeds \$100 million.
Real and Personal Property Tax Exemptions	An exemption from property taxes on land, building and equipment is available for up to 10 years. School taxes are not exempt.	Eligible businesses include: manufacturers, processors, research and development facilities, refineries, warehouse and distribution facilities, data and information processing companies and telecommunications and technology-intensive industries. The City Council must approve the exemption.
Exemption on In-State Inventory	An exemption from property taxes on finished goods that will remain in Mississippi is available. School taxes are not exempt. Any taxes paid become a direct credit to Mississippi income tax.	Manufacturers, processors, distributors, wholesalers or retailers are eligible. The City Council must approve the exemption.
Free Port Warehouse Exemption	An exemption from property taxes paid on finished goods inventories leaving Mississippi is available. The exemption may be for all property taxes and may be perpetual.	The City Council must approve the exemption.
Broadband Technology Tax (income, franchise)	An exemption from state income taxes and franchise fees paid to local governments.	Approved by the State of Mississippi.

Total tax abatements as of September 30, 2018 are as follows:

Program	Term	Abatement		Assessed Value	Estimated Tax Abated
		Period	Ends		
Real and Personal Property Tax Exemptions	5 years	2018		\$ 337,450	\$ 50,618
	5 years	2020		2,949,550	442,433
	5 years	2021		1,251,200	187,680
	5 years	2021		1,429,740	214,461
Total tax abatements				<u>\$ 5,967,940</u>	<u>\$ 895,191</u>

City of Pascagoula, Mississippi
Notes to the Financial Statements
September 30, 2018

Note 17- Subsequent Events

Events that occur after the statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes.

Management of the City of Pascagoula, Mississippi evaluated the activity of the City through October 25, 2019, (the date the financial statements were available to be issued), and determined that there the following subsequent events require disclosure in the notes to the financial statements:

On November 6, 2018 the Council approved the Intention of the City to issue a Tax Anticipation Note, Series 2018, in the maximum amount not to exceed \$6,400,000 for purposes to providing funding for the current expenditures of the City. On December 6, 2018, the City made one draw on this note in the amount of \$1,750,000, which was subsequently repaid in February 2019 from the proceeds of ad valorem tax receipts.

On December 4, 2018, the Council approved the Sale and Award of a Taxable Negotiable Note, Series 2018, in the amount of \$2,300,000 to be paid over 5 years in equal installments of \$460,000 per year.

On December 19, 2018, the City approved the sale of its municipal gas system in entirety to a third party for \$3,000,000.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Pascagoula, Mississippi
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund

Budget to Actual - (Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2018

	Original Budget	Final Budget	Actual Budgetary Basis	Variances	
				Favorable (Unfavorable) Original to Final	Final to Actual
Revenues:					
Property taxes	\$ 10,023,721	8,243,671	7,975,634	(1,780,050)	(268,037)
Licenses and permits	2,211,299	1,472,636	1,509,819	(738,663)	37,183
Intergovernmental	8,627,868	8,575,845	8,368,789	(52,023)	(207,056)
Charges for services	2,313,037	2,170,043	2,098,215	(142,994)	(71,828)
Fines & Forfeitures	1,140,600	382,599	387,371	(758,001)	4,772
Miscellaneous	675,575	152,591	281,246	(522,984)	128,655
Investment earnings	74,364	62,066	7,381	(12,298)	(54,685)
Other financing sources	11,311,885	2,318,591	4,608,062	(8,993,294)	2,289,471
Transfers from/to other funds	-	198,409	198,409	198,409	-
Total available for appropriations	36,378,349	23,576,451	25,434,926	(12,801,898)	1,858,475
Expenditures:					
General Government:					
Personnel services	1,690,389	1,636,021	1,626,107	54,368	9,914
Supplies	108,055	103,516	94,831	4,539	8,685
Other services and charges	2,894,070	2,809,871	2,688,128	84,199	121,743
Capital outlay/Debt service	422,697	384,441	444,809	38,256	(60,368)
Total	5,115,211	4,933,849	4,853,875	181,362	79,974
Public Safety - Police					
Personnel services	8,202,405	7,382,697	7,271,780	819,708	110,917
Supplies	372,700	369,207	315,107	3,493	54,100
Other services and charges	523,645	580,291	473,940	(56,646)	106,351
Capital outlay/Debt service	765,887	767,360	945,180	(1,473)	(177,820)
Total	9,864,637	9,099,555	9,006,007	765,082	93,548
Public Safety - Fire					
Personnel services	4,325,759	4,255,956	4,242,499	69,803	13,457
Supplies	130,850	115,037	105,357	15,813	9,680
Other services and charges	32,425	26,025	21,863	6,400	4,162
Capital outlay/Debt service	-	6,496	6,496	(6,496)	-
Total	4,489,034	4,403,514	4,376,215	85,520	27,299
Planning, Bldg. & Code Enforcement					
Personnel services	594,109	624,459	619,814	(30,350)	4,645
Supplies	17,750	16,250	14,242	1,500	2,008
Other services and charges	225,600	244,174	200,430	(18,574)	43,744
Capital outlay/Debt service	-	-	-	-	-
Total	837,459	884,883	834,486	(47,424)	50,397
Public Works					
Personnel services	6,119	8,619	8,072	(2,500)	547
Supplies	301,500	253,000	230,331	48,500	22,669
Other services and charges	2,254,700	2,273,094	2,117,433	(18,394)	155,661
Capital outlay/Debt service	2,631,687	2,631,690	1,545,325	(3)	(1,086,365)
Total	5,194,006	5,166,403	4,991,161	27,603	1,265,242
Health & Welfare					
Personnel services	178,900	175,900	172,733	3,000	3,167
Supplies	12,500	10,800	8,997	1,700	1,803
Other services and charges	44,150	36,900	33,870	7,250	3,030
Total	235,550	223,600	215,600	11,950	8,000
Culture & Recreation					
Personnel services	1,336,731	1,207,805	1,240,033	128,926	(32,228)
Supplies	276,100	219,604	180,968	56,496	38,636
Other services and charges	1,351,850	1,207,386	1,243,793	144,464	(36,407)
Capital outlay/Debt Service	7,181,500	246,407	185,675	6,935,093	60,732
Total	10,146,181	2,881,202	2,850,469	7,264,979	30,733

City of Pascagoula, Mississippi
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund

Budget to Actual - (Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2018

	Original Budget	Final Budget	Actual Budgetary Basis	Variances Favorable (Unfavorable)	
				Original to Final	Final to Actual
Economic, Urban & Comm. Dev.					
Personnel services	328,521	227,221	214,744	101,300	12,477
Supplies	18,300	7,800	3,541	10,500	4,259
Other services and charges	136,450	200,093	166,594	(63,643)	33,499
Capital outlay/Debt Service	3,000	-	-	3,000	-
Total	<u>486,271</u>	<u>435,114</u>	<u>384,879</u>	<u>51,157</u>	<u>50,235</u>
Transfer to other funds	10,000	18,125	18,125	(8,125)	-
Total charges to appropriations	<u>36,378,349</u>	<u>28,046,245</u>	<u>26,440,817</u>	<u>8,332,104</u>	<u>1,605,428</u>
Excess (Deficiency) of Available Resources over Use of Resources	<u>\$ -</u>	<u>(4,469,794)</u>	<u>(1,005,891)</u>	<u>(21,134,002)</u>	<u>253,047</u>
Differences between budgetary and GAAP fund balances					
Change in fund balance - Budgetary Basis			\$ (1,005,891)		
Accruals for expenses incurred but not paid			1,486,673		
Accruals for revenues recognized but not yet received			(977,966)		
Net Change in fund balance - Fund Financials			<u>\$ (497,184)</u>		



City of Pascagoula, Mississippi
Notes to the Required
Supplementary Information-Budgetary Schedules
For the Fiscal Year Ended September 30, 2018

A. Budgetary Information.

State statutes authorize the State Auditor to regulate the municipal budget process. Expenditures must be defined to the minimum level prescribed by the State Auditor. The State Auditor has set this level at the purpose level. Municipalities are prohibited from spending in excess of the lowest level adopted in the budget except for capital outlay, election expense and emergency warrants.

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

D. Budgetary Data

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

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

City of Pascagoula, Mississippi
Schedule of the City's Proportionate Share of the
Net Pension Liability and Related Ratios
Mississippi Public Employees' Retirement System (PERS)
Last 10 Fiscal Years*
For the Fiscal Year Ended September 30, 2018**
(UNAUDITED)

	2018	2017	2016	2015
City's proportion of the net pension liability (asset)	0.170%	0.170%	0.160%	0.160%
City's proportionate share of the net pension liability (asset)	\$ 27,444,402	28,259,770	28,579,995	24,732,844
City's covered payroll	\$ 10,552,857	10,845,992	10,390,535	10,255,519
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	260.07%	260.55%	275.06%	241.17%
Plan fiduciary net position as a percentage of the total pension liability	62.54%	61.49%	57.47%	61.70%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE June 30, 2015, and, until a full 10-year trend is compiled, the Commission has only presented information for the years in which information is available.

**The amounts presented for each fiscal year were determined as of the measurement date of June 30 prior to the fiscal year presented.

City of Pascagoula, Mississippi
Schedule of the City's Contributions
and Related Ratios
Mississippi Public Employees' Retirement System (PERS)
Last 10 Fiscal Years*
For the Fiscal Year Ended September 30, 2018
(UNAUDITED)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,661,758	1,647,953	1,643,481	1,607,812
Contributions in relation to the contractually required contribution	<u>1,661,758</u>	<u>1,647,953</u>	<u>1,643,481</u>	<u>1,607,812</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 10,550,844	10,463,194	10,434,800	10,208,330
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%	15.75%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE June 30, 2015, and, until a full 10-year trend is compiled, the Commission has only presented information for the years in which information is available.

City of Pascagoula, Mississippi
Notes to the Required Supplementary Information
Mississippi Public Employees' Retirement System (PERS)
For the Fiscal Year Ended September 30, 2018

PERS Pension Schedules

- 2017
 - The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.
 - The wage inflation assumption was reduced from 3.75% to 3.25%.
 - Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
 - The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.
- 2016
 - The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.
- 2015
 - The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.
 - The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
 - Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
 - Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
 - The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

Changes in benefit provisions

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

Methods 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

City of Pascagoula, Mississippi
Schedule of Changes in the Net Pension Liability
Municipal Retirement System (MRS)
Last 10 Fiscal Years*
For the Fiscal Year Ended September 30, 2018**
(UNAUDITED)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability				
Interest	\$ 872,270	902,507	928,517	965,667
Differences between expected and actual experience	(182,259)	17,501	119,699	(40,288)
Changes of assumptions	-	52,812	-	395,634
Benefit payments, including refunds of employee contributions	(1,348,131)	(1,377,800)	(1,389,869)	(1,432,103)
Net change in total pension liability	<u>(658,120)</u>	<u>(404,980)</u>	<u>(341,653)</u>	<u>(111,090)</u>
Total pension liability-beginning	<u>11,929,166</u>	<u>12,334,146</u>	<u>12,672,799</u>	<u>12,786,889</u>
Total pensions liability-ending	<u>\$ 11,271,046</u>	<u>11,929,166</u>	<u>12,331,146</u>	<u>12,675,799</u>
Plan fiduciary net position				
Contributions-employer	678,093	677,726	706,304	695,520
Net investment income	580,428	979,439	39,757	247,097
Benefit payments, including refunds of employee contributions	(1,348,131)	(1,377,800)	(1,389,869)	(1,432,103)
Administrative expense	(13,562)	(13,555)	(14,126)	(13,910)
Other costs	(693)	3,658	43,964	-
Net change in plan fiduciary net position	<u>(103,865)</u>	<u>269,468</u>	<u>(613,970)</u>	<u>(503,396)</u>
Plan fiduciary net position-beginning	<u>7,527,517</u>	<u>7,258,049</u>	<u>7,872,019</u>	<u>8,375,415</u>
Plan fiduciary net position-ending	<u>\$ 7,423,652</u>	<u>7,527,517</u>	<u>7,258,049</u>	<u>7,872,019</u>
Net pension liability-ending	<u>\$ 3,847,394</u>	<u>4,401,649</u>	<u>5,073,097</u>	<u>4,803,780</u>
Plan fiduciary net position as a percentage of the total pension liability	65.9%	63.1%	58.9%	62.1%
Covered-employee payroll	N/A	N/A	N/A	N/A
Commission's net pension liability as a percentage of covered employee payroll	N/A	N/A	N/A	N/A

*This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE June 30, 2015, and, until a full 10-year trend is compiled, the Commission has only presented information for the years in which information is available.

**The amounts presented for each fiscal year were determined as of the measurement date of June 30 prior to the fiscal year presented.

City of Pascagoula, Mississippi
Schedule of the City's Contributions
and Related Ratios and Notes
Municipal Retirement System (MRS)
For the Fiscal Year Ended September 30, 2018

	2018	2017	2016	2015
Contractually required contribution	\$ 678,093	677,726	706,304	695,520
Contributions in relation to the contractually required contribution	678,093	677,726	706,304	695,520
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	N/A	N/A	N/A	N/A
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A

*This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE June 30, 2015, and, until a full 10-year trend is compiled, the Commission has only presented information for the years in which information is available.

**The amounts presented for each fiscal year were determined as of the measurement date of June 30 prior to the fiscal year presented.

Notes to the Municipal Retirement System Pension Schedules:

A Methods 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	Ultimate Asset Reserve
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	4.00 percent to 5.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

SUPPLEMENTAL INFORMATION

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City of Pascagoula, Mississippi
Schedule of the Expenditures of Federal Awards
For the Year Ended September 30, 2018

Federal Grantor/ <i>Passed-through Grantor/</i> Program Title or Cluster	Federal CFDA Number	Grant No. / Pass-Through Number	Federal Expenditures
U.S. Department of Commerce			
National Oceanic and Atmospheric Administration			
<i>Passed through the Mississippi Department of Marine Resources</i>			
Costal Zone Management Administration Awards	11.419	FY2014-P401-9PA	98,368
Costal Zone Management Administration Awards	11.419	FY2016-P604-02	102,139
Costal Zone Management Administration Awards	11.419	FY2017-P604-1	39,394
Costal Zone Management Administration Awards	11.419	FY18-P604-06PA	16,600
Total U.S. Department of Commerce			<u>256,501</u>
U.S. Department of Housing and Urban Development			
<i>Passed through Mississippi Development Authority</i>			
CDBG Entitlement Cluster			
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-28-0005	101
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-28-0005	6,500
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-28-0005	25,000
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-28-0005	64,468
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-28-0005	8,053
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-28-0005	27,675
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-28-0005	85,529
Total U.S. Department of Housing and Urban Development			<u>217,326</u>
U.S. Department of Interior Fish and Wildlife Service			
<i>Passed through the Mississippi Department of Environmental Quality</i>			
National Resource Damage Assessment, Restoration, and Implementation	15.658	MDEQ 15-00067	847,799 *
Total U.S. Department of Interior Fish and Wildlife Service			<u>847,799</u>
U.S. Department of Justice			
Bureau of Justice Assistance			
State and Local Equitable Sharing**	16.922	N/A	113,982
<i>Passed through Mississippi Department of Public Safety</i>			
Edward Byrne Memorial Justice Assistance Grant Program:			
High Intensity Drug Trafficking Areas Program	16.738	G-17-GC0003A	17,760
Bulletproof Vest Grant	16.738	252030003	581
Total U.S. Department of Justice			<u>132,323</u>
U.S. Department of Transportation			
Federal Highway Administration			
<i>Passed through Mississippi Department of Transportation</i>			
Highway Planning & Construction	20.205	STP-8971-00(005)LPA/	1,007,236 *
Highway Planning & Construction	20.205	SRSP-7872-00(004)-10	90,870 *
Highway Planning & Construction	20.205	SRSP-7872-00(004)-10	87,502 *
National Highway Traffic Safety Administration			<u>1,185,608</u>
<i>Passed through Mississippi Department of Highway Safety</i>			
National Priority Safety Programs	20.616	154-AL-2018-ST-22-61	12,312
Total U.S. Department of Transportation			<u>1,197,920</u>
Total Expenditures of Federal Awards			<u>\$ 2,651,869</u>

* Denotes major fund.

**Cash basis (see notes).

City of Pascagoula, Mississippi
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of Pascagoula, Mississippi (the "City). All federal awards received directly from federal agencies as well as federal awards passed through other government agencies to the City are included in the accompanying SEFA.

Note 2 – Basis of Accounting**

With the exception of the Department of Justice – Equity Sharing (CFDA# 16.922), the accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified-accrual basis of accounting. Differences between the granting-agency basis of accounting and the basis of accounting used by the City in preparing its financial fund statements may occur. Equity Sharing is reported on a cash basis of accounting.

Note 3 – Federal Loans

The City has the following federal loans outstanding as of September 30, 2018:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Current Year Expenditures</u>	<u>Unpaid Loan Balance</u>	<u>Original Loan Amount</u>
Environmental Protection Agency Passed-through the Mississippi Department of Environmental Quality				
SRF-08	66.458	-	320,770	429,865
Total federal loans		\$ -	\$ 320,770	\$ 429,865

City of Pascagoula, Mississippi
Schedule of Surety Bonds
(Required by State of Mississippi)
For the Fiscal Year Ended September 30, 2018

<u>Position</u>	<u>Name</u>	<u>Amount</u>
Mayor	Dane Maxwell	\$ 100,000
Council	Stephen Burrow	100,000
Council	Jennifer Colmer	100,000
Council	Willie Jones	100,000
Council	Matt Parker	100,000
Council	Scott Tipton	100,000
Council	George Wolverton	100,000
City Manager	Ryan Frederic	50,000
City Clerk	Karen Kennedy	50,000
Police Chief	Kenny Johnson	50,000
Fire Chief	Donnie Carlson	50,000
Comptroller	Sherria Trosclair	50,000

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SPECIAL REPORTS

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

To the Honorable Mayor and City Council
City of Pascagoula, 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 Pascagoula, Mississippi (the "City") as and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pascagoula, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-001.

City of Pascagoula, Mississippi's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Columbo, Harvey + associates PA.

Gulfport, Mississippi
October 25, 2019

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

To the Honorable Mayor and City Council
City of Pascagoula, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Pascagoula, Mississippi as of and for the year ended September 30, 2018, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

Culumber, Harvey & Associates, P.A.

Gulfport, Mississippi
October 25, 2019

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

To the Honorable Mayor and City Council
City of Pascagoula, Mississippi

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City'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 the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each of the Other Major Federal Programs

In our opinion, the City 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.

Report on Internal Control over Compliance

Management of the City 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's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of 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.

Purpose of this Report

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.

Columbo, Harvey + associates, P.A.

Gulfport, Mississippi
October 25, 2019

City of Pascagoula, Mississippi
 September 30, 2018
 Schedule of Findings and Questioned Costs

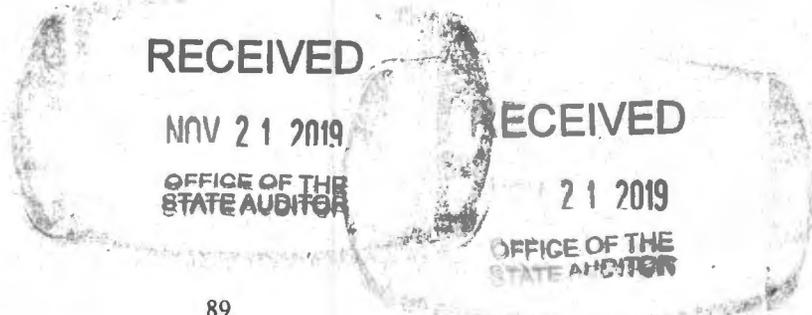
SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

- | | | |
|----|--|------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Unmodified |
| | Business-type activities | Unmodified |
| | General and other major funds | Unmodified |
| | Aggregate remaining fund information | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | 4. | Type of auditor's report issued on compliance for major programs: | Unmodified | | | | | | |
|-----------------------|---|-----------------------|---|--------|--|--------|--|--|
| 5. | Internal control over major programs: | | | | | | | |
| | a. Material weaknesses identified? | No | | | | | | |
| | b. Significant deficiencies identified? | None Reported | | | | | | |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | None | | | | | | |
| 7. | Federal programs identified as major: | | | | | | | |
| | <table border="0"> <thead> <tr> <th style="text-align: left;"><u>CFDA Number(s)</u></th> <th style="text-align: left;"><u>Name of Federal Program or Cluster</u></th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">15.658</td> <td>U. S. Department of Fish and Wildlife Services
National Resource Damage Assessment,
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| 15.658 | U. S. Department of Fish and Wildlife Services
National Resource Damage Assessment,
Restoration and Implementation | | | | | | | |
| 20.205 | U.S. Department of Transportation
Highway Planning & Construction | | | | | | | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$ 750,000 | | | | | | |
| 9. | Auditee qualified as low-risk auditee? | No | | | | | | |
| 10. | Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2 CFR 200.526(b)? | No | | | | | | |



City of Pascagoula, Mississippi
September 30, 2018
Schedule of Findings and Questioned Costs

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Significant Deficiencies

2018-001: Payroll Controls

Criteria: Payroll duties should be segregated and reviewed each payroll period to ensure accuracy and completeness.

Payroll each period should be reviewed by someone other than the payroll clerk. Electronic transmission to the banks for payroll direct deposits should also be done by another employee other than the payroll clerk.

Condition: The payroll clerk is preparing payroll, reviewing payroll, and sending electronic transmission to the banks for direct deposits. There is no segregation of duties. The City should establish a segregation of duties in the processing of payroll each pay period.

The City will develop a policy and procedures manual to help alleviate confusion on job duties for the payroll department.

Cause: No segregation of duties in the processing of payroll.

Effect: Inadequate segregation of duties may lead to errors, misstatements, or fraud in payroll reporting.

Recommendation: We recommend that there be another qualified employee to review the payroll for each payroll period along with a different employee sending electronic direct deposits to the banks. Payroll reports should be printed and reviewed for any unexpected variance in payroll checks.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings noted during the fiscal year ended September 30, 2018.

AUDITEE CORRECTIVE ACTION PLAN

DANE MAXWELL
MAYOR

RYAN A. FREDERIC
CITY ATTORNEY/CITY MANAGER

FRANK CORDER
ASSISTANT CITY MANAGER



CITY COUNCIL

WILLIE C. JONES	Councilman, Ward 1
GEORGE WOLVERTON	Councilman, Ward 2
STEPHEN BURROW	Councilman, Ward 3
MATT PARKER	Councilman, Ward 4
SCOTT TIPTON	Councilman, Ward 5
JENNIFER COLMER	Councilwoman at Large

603 WATTS AVE. • P.O. DRAWER 908
PASCAGOULA, MS 39568-0908 • TELEPHONE 228-762-1020
FAX 228-372-6851

**AUDITEE'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

Significant Deficiencies

Finding 2018-001: Payroll Controls

Corrective Action: The City will develop a better policy in the payroll processing and reviewing process. The City's human resources and payroll departments will work with one another to develop a better policy to segregate payroll duties.