

**CITY OF PASCAGOULA, MISSISSIPPI**

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

**CITY OF PASCAGOULA, MISSISSIPPI**

**CITY OFFICIALS**

For the Year Ended September 30, 2013

**CITY OFFICIALS**

Mayor Jim Blevins

**CITY COUNCIL**

Councilman at Large Brenda H. Simkins

Councilman Ward #1 Larry D. Taylor

Councilman Ward #2 Freddy L. Jackson

Councilman Ward #3 David Tadlock

Councilman Ward #4 Burton L. Hill

Councilman Ward #5 Scott Tipton

**DEPARTMENT HEADS**

City Manager Joseph R. Huffman

City Clerk/Comptroller Robert J. Parker

City Attorney Eddie Williams

Director of Operations Steve Mitchell

Community Development Jennifer Dearman

Director of Programs Jaci Turner

Fire Department Robert O'Sullivan

Police Department Kenny Johnson

Recreation Darcie Crew

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Pascagoula, Mississippi, as of and for the year ended September 30, 2013, 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 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.

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

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

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

## Independent Auditor's Report

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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pascagoula, Mississippi, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 9 - 17 and 70 - 76 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.

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, combining and individual nonmajor fund financial statements, and statistical section, 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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining 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.

## **Independent Auditor's Report**

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In accordance with Government Auditing Standards, we have also issued our report dated June 24, 2014, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Pascagoula, Mississippi's internal control over financial reporting and compliance.

Pascagoula, MS  
June 24, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

The discussion and analysis of the City of Pascagoula, Mississippi's (the City's) financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2013. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the City's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the City's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

### **FINANCIAL HIGHLIGHTS**

- In 2013 and 2012, the City's net position amounted to \$90,375,557 and \$93,695,551, respectively. The net position for governmental activities totaled \$68,257,738 in 2013 and \$72,876,454 in 2012, contributing 76% and 78%, respectively, of total net position; business-type activities contributed 24% and 22%, totaling \$22,117,819 in 2013 and \$20,819,097 in 2012.
- General revenues for 2013 and 2012 were \$18,741,663 and \$18,449,633, equaling 41% and 38% of all revenues, respectively. Program specific revenues in the form of charges for services and grants and contributions were \$26,428,485 and \$30,695,882 for 2013 and 2012, equaling 59% and 62% of total revenues.
- In 2013 and 2012, the City had \$42,984,989 and \$32,020,053 in expenses, respectively; only \$26,428,485 and \$30,695,882 of these expenses were offset by program specific charges for services, grants and contributions.
- Capital assets, net of accumulated depreciation, totaled \$100,504,360 in 2013, and \$98,215,619 in 2012.

### **BASIC FINANCIAL FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operation in more detail than the government-wide statements.
- The governmental funds statements show how basic services like port operations were financed in the short-term as well as what remains for future spending.
- Proprietary funds statements offer short-term and long-term financial information about the activities the City operates like businesses.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

- Fiduciary funds statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and deferred outflows of resources and liabilities and deferred inflows of resources.

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

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

The government-wide financial statements outline functions of the City that are principally supported by charges for services (governmental activities). The governmental activities of the City include general government operations, public safety, public works, culture and recreation, urban renewal and economic development, and debt service interest. The government-wide financial statements can be found in the Basic Financial Statements section of this report.

## **FUND FINANCIAL STATEMENTS**

Fund financial statements show how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements are comprised of both governmental and proprietary (enterprise) funds. Fund financial statements can be found in Basic Financial Statements section of this report.

Fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and some by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes. The City's three kinds of funds – governmental, proprietary, and fiduciary – use different accounting approaches.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's current financing requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can easily be converted to cash. The governmental funds statements provide a detailed short-term view of the City's operations. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's current financing decisions. Reconciliations are provided on pages 25 and 27 which show the differences between the government-wide reporting basis and the fund reporting basis.

***Proprietary Funds*** – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Activities. These funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows. The City's proprietary funds include Pascagoula Utilities, Energy Recovery Facility, Pascagoula Transfer Station, Solid Waste Management, Pascagoula Group Insurance, and Unemployment Insurance.

***Fiduciary Funds*** - The City is the trustee, or fiduciary, for assets that belong to others, such as the Pascagoula Redevelopment Authority Fund and the Pascagoula Port Commission Fund. The City is responsible for ensuring that the assets reported in this fund is used only for their intended purposes and by those to whom the assets belong.

***Notes to the Financial Statements*** – The notes provide additional information that is essential to a user's understanding of the basic financial statements. The notes to the financial statements can be found after the Basic Financial Statements section of this report.

***Budgetary Statement*** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual operating budget for all governmental funds. A Budgetary Comparison Statement has been provided for the General Fund. The budgetary statement demonstrates compliance with the budget ordinance and performance of services planned at budget adoption. The budgetary comparison statement uses the budgetary basis of accounting and are presented using the same format, language, and classifications as the legal budget document. The statements show four columns: the original budget as adopted by the Council, the final budget as amended, the actual resources, charges to appropriations and ending balances, and the difference or variance between the final budget and the actuals. This required supplementary information can be found after the Notes to Basic Financial Statements section of this report.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 8,593,767	18,378,164	3,997,621	5,233,799	12,591,388	23,611,963
Capital assets	68,543,536	67,722,259	31,960,824	30,493,360	100,504,360	98,215,619
Total assets	<u>77,137,303</u>	<u>86,100,423</u>	<u>35,958,445</u>	<u>35,727,159</u>	<u>113,095,748</u>	<u>121,827,582</u>
Long-term debt						
outstanding	6,246,570	6,874,286	9,404,137	9,744,783	15,650,707	16,619,069
Other liabilities	4,043,077	6,349,683	4,436,489	5,163,279	8,479,566	11,512,962
Total liabilities	<u>10,289,647</u>	<u>13,223,969</u>	<u>13,840,626</u>	<u>14,908,062</u>	<u>24,130,273</u>	<u>28,132,031</u>
Net assets:						
Invested in capital assets, net of debt	60,617,406	60,192,884	21,995,285	20,058,657	82,612,691	80,251,541
Restricted	1,093,632	-	1,096,845	1,096,845	2,190,477	1,096,845
Unrestricted	6,546,700	12,683,570	(974,311)	(336,405)	5,572,389	12,347,165
Total net position	<u>\$ 68,257,738</u>	<u>72,876,454</u>	<u>22,117,819</u>	<u>20,819,097</u>	<u>90,375,557</u>	<u>93,695,551</u>

Net position – Net position may serve over time as a useful indicator of a governmental entity’s financial position. The City’s combined net position for the year totaled \$90,375,557.

The City’s restricted net position (e.g. revenue source, sales tax, water, sewer and garbage revenue, CDBG, ad valorem tax) accounted for 2% of total net position in 2013 and 1% in 2012. Investment in capital assets (e.g. land, construction in progress, buildings, equipment, and infrastructure) accounted for 91% and 86% in 2013 and 2012, respectively. The remaining balance consisted of unrestricted net position, the part of net position used to finance everyday operations without constraints of legal requirements.

The following are significant current year transactions that have had an impact on the Statement of Net Position:

- The City completed approximately \$5 million of construction-in-process during the year.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

**Changes in net position** – The City’s total revenues for the fiscal years ended September 30, 2013 and 2012 were \$45,170,148 and \$49,145,515, respectively. The total cost of all programs and services was \$42,984,989 and \$46,186,363 for 2013 and 2012, respectively. The following table presents a summary of the changes in net position for the fiscal years ended September 30, 2013 and 2012.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 6,229,524	3,251,529	11,487,381	12,067,084	17,716,905	15,318,613
Operating grants and contributions	4,919,592	554,596	-	-	4,919,592	554,596
Capital grants and contributions	3,791,988	14,822,673	-	-	3,791,988	14,822,673
General revenues:						
Property taxes	9,221,096	9,254,828	251,134	253,428	9,472,230	9,508,256
Franchise taxes	1,437,447	1,397,150	-	-	1,437,447	1,397,150
Sales tax	5,684,154	5,365,038	-	-	5,684,154	5,365,038
Other taxes	1,849,144	1,855,069	-	-	1,849,144	1,855,069
Other general revenues	259,564	1,522,139	39,124	(1,198,019)	298,688	324,120
Total revenues	<u>33,392,509</u>	<u>38,023,022</u>	<u>11,777,639</u>	<u>11,122,493</u>	<u>45,170,148</u>	<u>49,145,515</u>
<b>Program expenses</b>						
General government	11,279,124	12,041,344	-	-	11,279,124	12,041,344
Public safety	12,204,309	11,386,122	-	-	12,204,309	11,386,122
Public works	4,309,801	4,107,635	-	-	4,309,801	4,107,635
Culture and recreation	1,577,163	1,707,766	-	-	1,577,163	1,707,766
Urban renewal and econ. dev	790,387	2,372,608	-	-	790,387	2,372,608
Debt service - interest	152,691	404,578	-	-	152,691	404,578
Water, sewer and gas	-	-	11,212,859	11,955,557	11,212,859	11,955,557
Transfer station	-	-	38,525	718,231	38,525	718,231
Energy recovery and solid waste	-	-	1,420,130	1,492,522	1,420,130	1,492,522
Total expenses	<u>30,313,475</u>	<u>32,020,053</u>	<u>12,671,514</u>	<u>14,166,310</u>	<u>42,984,989</u>	<u>46,186,363</u>
Excess(deficiency) of revenues over (under) expenditures	<u>3,079,034</u>	<u>6,002,969</u>	<u>(893,875)</u>	<u>(3,043,817)</u>	<u>2,185,159</u>	<u>2,959,152</u>
Transfers in (out)	<u>(18,450)</u>	<u>-</u>	<u>18,450</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>\$ 3,060,584</u>	<u>6,002,969</u>	<u>(875,425)</u>	<u>(3,043,817)</u>	<u>2,185,159</u>	<u>2,959,152</u>

**Governmental Activities** - The City’s revenues from governmental activities totaled \$33,392,509 while total expenses were \$30,313,475. Significant occurrences which affected governmental activities are discussed below:

- A significant portion of the City’s governmental revenue comes from operating and capital grants from the State of Mississippi. For the current year, the City received \$8,711,580 in operating and capital grants and contributions for its governmental activities compared to \$15,377,269 received in the prior fiscal year.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

**Business-type activities** - The City's business-type activities generated a change in net position of \$(875,425). This represents a decrease of approximately \$2,168,392 from the previous year. The factors contributing to this decrease include:

- The Transfer Station Fund revenues decreased approximately 99% from the previous year.
- The Water and Sewer Fund revenues decreased approximately 1% from the previous year.

The following table presents the cost of major City functional activities: general government, public safety, public works, culture and recreation, urban and economic development, and debt service-interest. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

	<b>Governmental Activities</b>			
	<b>2013</b>		<b>2012</b>	
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
General government	\$ 11,279,124	(2,799,584)	12,041,344	(4,858,500)
Public safety	12,204,309	12,036,884	12,929,722	9,912,660
Public works	4,309,801	4,309,801	4,107,635	4,107,635
Culture and recreation	1,577,163	931,619	1,707,766	1,452,274
Urban renewal and econ. dev.	790,387	740,960	2,372,608	2,372,608
Debt service - interest	152,691	152,691	404,578	404,578
Total expenses	<u>\$ 30,313,475</u>	<u>15,372,371</u>	<u>33,563,653</u>	<u>13,391,255</u>

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** - The focus of the City's governmental funds is on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing City's financing requirements.

As the City completed the year, its governmental funds reported a combined fund balance of \$5,974,525, compared to \$9,177,671 in the previous year. Activities within the general fund contributed to 103% and 122% of the fund balances in 2013 and 2012, respectively. Other items that influenced the fund balances are as follows:

- The City had a decrease of approximately 11% in intergovernmental revenue from the prior year.
- The City had a decrease of approximately 34% in grant revenue from the prior year.
- The City had an decrease of approximately 24% in general government expenditures from the prior year.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

**General Fund Budgetary Highlights** - Over the course of the year, adjustments made in the budget were minor. The changes were due to the following: 1) amendments were made shortly after the beginning of the year, 2) the Council made changes in the middle of the year to prevent shortages from the addition or extension of service contracts, and 3) Council approved several increases in appropriations to prevent budget overruns and to recognize receipt of funds not expected.

With these adjustments, the actual expenditures were \$23,055,245 compared to \$28,426,212 of the final budget. A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided on pages 70 to 76 as required supplementary information.

**Proprietary Funds** - The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Enterprise Funds at the end of the fiscal year were \$123,038 for the Pascagoula Utilities Fund, \$1,304,142 for the Transfer Station Fund. Pascagoula Utilities Fund showed a decrease in fund balance while Transfer Station Fund and all other major enterprise funds showed increases. Other factors concerning the finances of these funds are addressed in the discussion of the City's business-type activities.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets** – The City's total capital assets for 2013 and 2012 were \$100,504,360 and \$98,215,619, respectively. The City mainly invested in infrastructure improvements for the area. The following table presents a summary of the City's capital assets (net of depreciation) for the fiscal years ended September 30, 2013 and 2012.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 13,122,097	12,874,397	84,751	84,751	13,206,848	12,959,148
Construction in progress	18,824,280	23,672,418	-	-	18,824,280	23,672,418
Buildings	4,439,868	4,552,262	5,476,920	5,851,893	9,916,788	10,404,155
Improvements - other	6,620,162	6,967,791	26,145,214	24,286,941	32,765,376	31,254,732
Equipment	2,399,920	2,562,138	253,939	269,774	2,653,859	2,831,912
Infrastructure	23,137,209	17,093,254	-	-	23,137,209	17,093,254
Total	<u>\$ 68,543,536</u>	<u>67,722,260</u>	<u>31,960,824</u>	<u>30,493,359</u>	<u>100,504,360</u>	<u>98,215,619</u>

This year's major projects as well as more detailed information about the City's capital assets are detailed at Note 3 D of the accompanying financial statements.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

**Debt Administration** - At September 30, 2013, the City had \$18,228,655 in general obligation bonds and other long-term debt outstanding, of which \$2,845,597 is due within one year. The following table presents a summary of the City's outstanding debt for the fiscal years ended September 30, 2013 and 2012.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General obligation bonds (backed by the City)	\$ 2,985,000	3,280,000	-	-	2,985,000	3,280,000
Revenue bonds and notes (backed by specific tax and fee revenues)	4,251,089	4,249,375	9,908,188	10,434,702	14,159,277	14,684,077
Capital leases	479,743	-	-	-	479,743	-
Compensated absences	587,381	622,535	17,254	31,138	604,635	653,673
Total	<u>\$ 8,303,213</u>	<u>8,151,910</u>	<u>9,925,442</u>	<u>10,465,840</u>	<u>18,228,655</u>	<u>18,617,750</u>

The City continues to decrease debt according to established amortization schedules. More detailed information about the City's long-term liabilities is presented in Note 3 F to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Pascagoula is in an overall good position in terms of its economic climate. 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, VT Halter Marine, and Rolls Royce Naval 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.

According to a study conducted by the United States Council of Mayors, Pascagoula experienced a 6.2% increase in gross metropolitan product in 2013, making it the nation's third fastest growing economy. It also ranked number one nationally in construction job growth, with a 51% increase over 2012 – a rate of increase which was more than double that of any other metropolitan statistical area examined in the study conducted by Associated General Contractors.

Pascagoula has also had an increase in sales tax. The Mississippi Department of Revenue diverted \$5.4 million to Pascagoula in 2013, up slightly from \$5.2 million in 2012. Its unemployment rate also fell from 14.4% in 2013 to 10.2% in 2014. Although the unemployment rate decreased, it is still higher than the State of Mississippi's current unemployment rate of 7.9%.

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 systems, and recreational facilities are in need of considerable upgrades. The current City Council has reached a consensus to move forward with a \$25 million bond issue as a means of financing these upgrades. In the meantime, further growth is projected for the city's gross metropolitan product. A proposed 2% prepared food tax is projected to generate an additional \$800,000 in revenue, which will offset the cost of the debt service on the recreation bond.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2013

**Ad valorem taxes** also decreased from \$9,254,828 in 2012 to \$9,221,096 2013, and are projected to bring in \$10,415,230 in the next fiscal year.

Given the information above, Pascagoula is positioned to achieve more economic growth as a community. This growth will bring more revenue to the City, and will improve its fiscal standing as an organization.

**BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2014**

In the fiscal year 2013/14 Budget, General Fund revenues are budgeted at \$27,521,580, a decrease of \$2,448,591 from the 2012/13 budgeted revenues of \$29,970,171. That represents an 8.2% decrease. The major factor contributing to this decrease is in the amount budgeted in Other Financing Sources for loan proceeds which represented a decrease of \$1,539,000. The primary sources of revenue for the General Fund are property taxes and sales taxes, which amount to 32.3% and 21.8%, respectively, of the revenue budgeted for the fiscal year 2014.

General Fund expenditures for the fiscal year 2013/14 are budgeted at \$32,485,666, an increase of \$2,285,175 (7.6%) over fiscal year 2013 budget of \$30,200,491. The major portion of the General Fund's budget goes to Public Safety which represents 42.4% of the budget for fiscal year 2013/14. The General Fund budget for 2013/2014 includes \$6,823,447 in capital outlay which will only be expended if financed by some type of financing instrument, such as a bond issue, which is being contemplated by the governing board. The increase of 7.6% referred to above in General Fund expenditures would revert to a decrease of \$4,538,272 (15.0%) in expenditures if the budgeted capital projects are not funded.

Utility Fund revenues are budgeted to be \$17,018,996 for 2013/2014. This represents a decrease of \$46,219 from fiscal year 2013 budget, which totaled \$17,065,215. The principal source of revenue for the Utility Fund is charges for utility services which amounts to \$13,689,100, or 80.4%, of the Utility Fund's total budgeted revenue for fiscal year 2014.

Utility Fund expenditures are budgeted to be \$18,255,884 for fiscal year 2014, an increase of \$1,190,669 (7.0%) over the \$17,065,215 budgeted for fiscal year 2012/13. The Utility Fund budget includes \$2,959,000 for fiscal year 2014 in capital outlay which will only be utilized if funded by some type of debt instrument, such as a bond issue. Funding options for these capital outlay items is also being considered by the governing board. The increase of 7.0% referred to above in Utility Fund expenditures would revert to a decrease of \$1,768,331 (10.4%) in expenditures if the budgeted capital projects are not funded.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Comptroller's Office at 603 Watts Avenue, Pascagoula, Mississippi.

## **BASIC FINANCIAL STATEMENTS**

For the Year Ended September 30, 2013

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
  - Governmental funds
  - Proprietary (enterprise) funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
September 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,767,806	974,974	6,742,780
Restricted cash and cash equivalents	-	1,742,517	1,742,517
Receivables, net	2,344,143	1,094,877	3,439,020
Prepaid items	667,071	-	667,071
Internal balances	(185,253)	185,253	-
Capital assets:			
Land and construction in progress	31,946,377	84,751	32,031,128
Other capital assets, net of depreciation	36,597,159	31,876,073	68,473,232
Total capital assets	<u>68,543,536</u>	<u>31,960,824</u>	<u>100,504,360</u>
Total assets	<u>77,137,303</u>	<u>35,958,445</u>	<u>113,095,748</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred bond charges	<u>136,669</u>	-	<u>136,669</u>
Total deferred bond issuance fees	<u>136,669</u>	-	<u>136,669</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	1,771,703	3,212,161	4,983,864
Unearned revenues	4,433	-	4,433
Customer deposits	-	645,672	645,672
Long-term liabilities:			
Due within one year			
Bonds and notes payable	2,167,123	576,123	2,743,246
Compensated absences	99,818	2,533	102,351
Due in more than one year			
Bonds and notes payable	5,759,007	9,389,416	15,148,423
Compensated absences	487,563	14,721	502,284
Total liabilities	<u>10,289,647</u>	<u>13,840,626</u>	<u>24,130,273</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net pension obligation	<u>(1,273,413)</u>	-	<u>(1,273,413)</u>
Total deferred inflows of resources	<u>(1,273,413)</u>	-	<u>(1,273,413)</u>
<b>NET POSITION</b>			
Investment in capital assets (net of related debt)	60,617,406	21,995,285	82,612,691
Restricted net position:			
Capital projects	(220,084)	-	(220,084)
Debt service	1,313,716	1,096,845	2,410,561
Unrestricted net position	<u>6,546,700</u>	<u>(974,311)</u>	<u>5,572,389</u>
Total net position	<u>\$ 68,257,738</u>	<u>22,117,819</u>	<u>90,375,557</u>

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

**CITY OF PASCAGOULA, MISSISSIPPI**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2013

	<b>Program revenue</b>				<b>Net (expense) revenue and changes in net position</b>		
	Expenses	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental activities	Business-type activities	Total
<b>Governmental activities:</b>							
General government	\$ 11,279,124	5,367,128	4,919,592	3,791,988	2,799,584	-	2,799,584
Public safety	12,204,309	167,425	-	-	(12,036,884)	-	(12,036,884)
Public works	4,309,801	-	-	-	(4,309,801)	-	(4,309,801)
Culture and recreation	1,577,163	645,544	-	-	(931,619)	-	(931,619)
Urban renewal and econ. dev.	790,387	49,427	-	-	(740,960)	-	(740,960)
Debt service - interest	152,691	-	-	-	(152,691)	-	(152,691)
Total governmental activities	<u>30,313,475</u>	<u>6,229,524</u>	<u>4,919,592</u>	<u>3,791,988</u>	<u>(15,372,371)</u>	<u>-</u>	<u>(15,372,371)</u>
<b>Business-type activities:</b>							
Water, sewer and gas fund	11,212,859	10,193,654	-	-	-	(1,019,205)	(1,019,205)
Transfer station	38,525	-	-	-	-	(38,525)	(38,525)
Energy recovery and solid waste	1,420,130	1,293,727	-	-	-	(126,403)	(126,403)
Total business-type activities	<u>12,671,514</u>	<u>11,487,381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,184,133)</u>	<u>(1,184,133)</u>
Total primary	<u>\$ 42,984,989</u>	<u>17,716,905</u>	<u>4,919,592</u>	<u>3,791,988</u>	<u>(15,372,371)</u>	<u>(1,184,133)</u>	<u>(16,556,504)</u>
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes, levied for general purposes					7,640,354	-	7,640,354
Property taxes, levied for debt service					1,580,742	251,134	1,831,876
Franchise taxes					1,437,447	-	1,437,447
Sales tax					5,684,154	-	5,684,154
Other taxes					1,849,144	-	1,849,144
Contributions in aid					13,980	-	13,980
Unrestricted investment earnings					28,222	39,341	67,563
Insurance proceeds					19,790	-	19,790
Gain (loss) on the sale of capital assets					41,022	1,450	42,472
Miscellaneous					156,550	(1,667)	154,883
Transfers in (out)					(18,450)	18,450	-
Total general revenues					<u>18,432,955</u>	<u>308,708</u>	<u>18,741,663</u>
<b>CHANGES IN NET POSITION</b>					3,060,584	(875,425)	2,185,159
Net position - beginning					72,876,454	20,819,097	93,695,551
Prior period adjustments					(7,679,300)	2,174,147	(5,505,153)
Net position - ending					<u>\$ 68,257,738</u>	<u>22,117,819</u>	<u>90,375,557</u>

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

**FUND FINANCIAL STATEMENTS**

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
September 30, 2013

	<u>General Fund</u>	<u>Community Development Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,895,852	341,875	875,005	5,112,732
Receivables, net	1,417,122	571,260	87,694	2,076,076
Due from other funds	8,570,307	-	826,617	9,396,924
Prepaid expenses	667,071	-	-	667,071
	<u>14,550,352</u>	<u>913,135</u>	<u>1,789,316</u>	<u>17,252,803</u>
Total assets				
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	492,511	309,638	-	802,149
Other accrued liabilities	671,663	-	-	671,663
Compensated absences, current	99,818	-	-	99,818
Unearned revenue	4,433	-	-	4,433
Due to other funds	7,114,355	1,835,650	331,494	9,281,499
	<u>8,382,780</u>	<u>2,145,288</u>	<u>331,494</u>	<u>10,859,562</u>
Total liabilities				
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-grants	-	372,716	46,000	418,716
	<u>-</u>	<u>372,716</u>	<u>46,000</u>	<u>418,716</u>
Total deferred inflows of resources				
<b>FUND BALANCES</b>				
Nonspendable	667,071	-	-	667,071
Restricted for:				
Debt Service	-	-	1,313,716	1,313,716
Capital projects	-	-	(220,084)	(220,084)
Unassigned	5,500,501	(1,604,869)	318,190	4,213,822
	<u>6,167,572</u>	<u>(1,604,869)</u>	<u>1,411,822</u>	<u>5,974,525</u>
Total fund balances				
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,550,352</u>	<u>913,135</u>	<u>1,789,316</u>	<u>17,252,803</u>

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

**CITY OF PASCAGOULA, MISSISSIPPI**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
September 30, 2013

**Total governmental funds balance** **\$ 5,974,525**

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 lives and reported as depreciation expense.

Governmental capital assets	\$ 103,410,313	
less: accumulated depreciation	<u>(34,866,777)</u>	68,543,536

Other long-term assets are not available to pay for current period expenditures.	686,783
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Internal service funds are used by management to charge the costs of certain insurance activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position less any portion allocated to business-type activities.	137,740
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Bond issuance costs are reported as an asset and amortized over the life of the loan at the government-wide level and expensed as incurred at the fund level.	136,669
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued interest payable	(61,219)
Bonds and notes	(6,652,717)
Compensated absences	(487,563)
Other accrued expenses	<u>(20,016)</u>

**Net position of governmental activities** **\$ 68,257,738**

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

**CITY OF PASCAGOULA, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2013

	<u>General Fund</u>	<u>Community Development Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 7,640,354	-	1,580,742	9,221,096
Franchise fees	1,437,447	-	-	1,437,447
Fees and fines	742,087	-	-	742,087
Licenses and permits	167,425	-	-	167,425
Intergovernmental	7,533,298	-	-	7,533,298
Charges for services	1,856,952	-	-	1,856,952
Investment earnings	21,284	-	6,938	28,222
Contribution in aid	13,980	-	-	13,980
Grants	4,348,613	3,431,296	521,932	8,301,841
Miscellaneous	76,550	-	80,000	156,550
Total revenues	<u>23,837,990</u>	<u>3,431,296</u>	<u>2,189,612</u>	<u>29,458,898</u>
<b>EXPENDITURES</b>				
Current:				
General government	4,931,193	-	1,371,686	6,302,879
Public safety	12,204,309	-	-	12,204,309
Public works	4,309,801	-	-	4,309,801
Culture and recreation	1,577,163	-	-	1,577,163
Urban renewal and econ development	515,190	215,072	60,125	790,387
Debt service:				
Principal payments	97,093	-	345,000	442,093
Interest and fiscal charges	20,738	-	131,953	152,691
Capital outlay	846,937	3,345,859	8,891	4,201,687
Total expenditures	<u>24,502,424</u>	<u>3,560,931</u>	<u>1,917,655</u>	<u>29,981,010</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(664,434)</u>	<u>(129,635)</u>	<u>271,957</u>	<u>(522,112)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	44,061	-	-	44,061
Insurance recoveries	19,790	-	-	19,790
Transfers in (out)	289,824	849,685	210,682	1,350,191
Total other financing sources (uses)	<u>353,675</u>	<u>849,685</u>	<u>210,682</u>	<u>1,414,042</u>
Net changes in fund balances	<u>(310,759)</u>	<u>720,050</u>	<u>482,639</u>	<u>891,930</u>
Fund balance - beginning of year	11,207,663	(2,682,272)	652,280	9,177,671
Prior period adjustments	(4,729,332)	357,353	276,903	(4,095,076)
Fund balance - end of year	<u>\$ 6,167,572</u>	<u>(1,604,869)</u>	<u>1,411,822</u>	<u>5,974,525</u>

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

**CITY OF PASCAGOULA, MISSISSIPPI**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2013

**Net change in fund balances - total governmental funds** **\$ 891,930**

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	\$ 4,115,318	
Depreciation expense	<u>2,096,726</u>	
Excess of capital outlay over depreciation expense		2,018,591

Governmental funds report the entire net sales price (proceeds) from the sale of an asset as revenue. However, the statement of activities reports only the gain or loss on the sale. Thus, the change in net position differs from the change in fund balance by the net book value of the asset sold. (3,039)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 435,754

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 718,166

Internal service funds are used by management to charge the costs of certain activities, such as insurance and therefore, are not reported as expenditures in governmental funds. (18,964)

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 the funds:

Accrued compensated absences	\$ 72,932	
Accrued interest payable	22,309	
Net pension obligation	311,562	
Other expenses	<u>(1,388,657)</u>	<u>(981,854)</u>

**Changes in net position of governmental activities** **\$ 3,060,584**

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

**PROPRIETARY FUNDS FINANCIAL STATEMENTS**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
September 30, 2013

	<b>Enterprise Funds</b>					
	<b>Major Funds</b>			<b>Other Nonmajor Funds</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Fund</b>
	<b>Water, Sewer and Gas Fund</b>	<b>Transfer Station Fund</b>	<b>Energy Recovery Facility Fund</b>			
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ (442,279)	1,253,328	(494,765)	658,690	974,974	655,074
Restricted cash and cash equivalents	645,672	303,446	793,399	-	1,742,517	-
Accounts receivable, net	761,626	-	-	333,250	1,094,876	-
Due from other funds	320,285	65,828	-	171,332	557,445	-
Total current assets	<u>1,285,304</u>	<u>1,622,602</u>	<u>298,634</u>	<u>1,163,272</u>	<u>4,369,812</u>	<u>655,074</u>
Noncurrent assets:						
Capital assets:						
Land and construction in progress	-	-	84,751	-	84,751	-
Other capital assets, net of accumulated depreciation	31,594,729	281,344	-	-	31,876,073	-
Deferred bond issuance fees	-	-	-	-	-	-
Total noncurrent assets	<u>31,594,729</u>	<u>281,344</u>	<u>84,751</u>	<u>-</u>	<u>31,960,824</u>	<u>-</u>
Total assets	<u>32,880,033</u>	<u>1,903,946</u>	<u>383,385</u>	<u>1,163,272</u>	<u>36,330,636</u>	<u>655,074</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and accrued liabilities	287,646	-	2,832,960	91,555	3,212,161	216,656
Compensated absences	2,533	-	-	-	2,533	-
Due to other funds	211,694	15,014	145,483	-	372,191	300,678
Bonds and notes payable	576,123	-	-	-	576,123	-
Total current liabilities	<u>1,077,996</u>	<u>15,014</u>	<u>2,978,443</u>	<u>91,555</u>	<u>4,163,008</u>	<u>517,334</u>
Noncurrent liabilities:						
Deposits	645,672	-	-	-	645,672	-
Compensated absences	14,721	-	-	-	14,721	-
Bonds and notes payable	3,943,109	-	5,446,307	-	9,389,416	-
Total noncurrent liabilities:	<u>4,603,502</u>	<u>-</u>	<u>5,446,307</u>	<u>-</u>	<u>10,049,809</u>	<u>-</u>
Total liabilities	<u>5,681,498</u>	<u>15,014</u>	<u>8,424,750</u>	<u>91,555</u>	<u>14,212,817</u>	<u>517,334</u>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	27,075,497	281,344	(5,361,556)	-	21,995,285	-
Restricted:						
Debt service	-	303,446	793,399	-	1,096,845	-
Unrestricted	123,038	1,304,142	(3,473,208)	1,071,717	(974,311)	137,740
Total net position	<u>\$ 27,198,535</u>	<u>1,888,932</u>	<u>(8,041,365)</u>	<u>1,071,717</u>	<u>22,117,819</u>	<u>137,740</u>

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

**CITY OF PASCAGOULA, MISSISSIPPI**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS

For the Year Ended September 30, 2013

	<b>Enterprise Funds</b>					<b>Internal Service Fund</b>
	<b>Major Funds</b>			<b>Other Nonmajor Funds</b>	<b>Total Enterprise Funds</b>	
	<b>Water, Sewer and Gas Fund</b>	<b>Transfer Station Fund</b>	<b>Energy Recovery Facility Fund</b>			
<b>OPERATING REVENUES</b>						
Charges for services	\$ 10,193,654	-	-	1,293,727	11,487,381	-
Property taxes	-	-	-	251,134	251,134	-
Miscellaneous	298	-	-	(1,965)	(1,667)	3,154,633
<b>Total operating revenues</b>	<b>10,193,952</b>	<b>-</b>	<b>-</b>	<b>1,542,896</b>	<b>11,736,848</b>	<b>3,154,633</b>
<b>OPERATING EXPENSES</b>						
Personnel services	691,688	-	-	12,817	704,505	-
Insurance claims and expenses	-	-	-	-	-	3,173,597
Administrative expenses	3,079,932	-	-	-	3,079,932	-
Wastewater treatment	1,901,388	-	-	-	1,901,388	-
Natural gas purchases	1,476,531	-	-	-	1,476,531	-
Waste collection	-	-	-	767,786	767,786	-
Waste disposal	-	-	-	326,376	326,376	-
Utilities	1,152,815	-	-	-	1,152,815	-
Supplies	739,618	9,601	-	-	749,219	-
Depreciation	1,738,118	28,924	-	-	1,767,042	-
Other services and charges	256,228	-	-	313,151	569,379	-
<b>Total operating expenses</b>	<b>11,036,318</b>	<b>38,525</b>	<b>-</b>	<b>1,420,130</b>	<b>12,494,973</b>	<b>3,173,597</b>
Operating income (loss)	(842,366)	(38,525)	-	122,766	(758,125)	(18,964)
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Gain (loss) of sale of assets	1,450	-	-	-	1,450	-
Interest earnings	27,900	7,839	-	3,602	39,341	-
Interest expense	(176,541)	-	-	-	(176,541)	-
Transfers in (out)	-	-	-	18,450	18,450	-
<b>Total nonoperating revenues</b>	<b>(147,191)</b>	<b>7,839</b>	<b>-</b>	<b>22,052</b>	<b>(117,300)</b>	<b>-</b>
Change in net position	(989,557)	(30,686)	-	144,818	(875,425)	(18,964)
Total net position - beginning of year	26,333,178	1,781,093	(8,041,365)	746,191	20,819,097	(45,406)
Prior period adjustments	1,854,914	138,525	-	180,708	2,174,147	202,110
<b>Total net position - end of year</b>	<b>\$ 27,198,535</b>	<b>1,888,932</b>	<b>(8,041,365)</b>	<b>1,071,717</b>	<b>22,117,819</b>	<b>137,740</b>

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

**CITY OF PASCAGOULA, MISSISSIPPI**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2013

	<b>Enterprise Funds</b>					
	<b>Major Funds</b>					<b>Internal Service Fund</b>
	<b>Water, Sewer and Gas Fund</b>	<b>Transfer Station Fund</b>	<b>Energy Recovery Facility Fund</b>	<b>Other Nonmajor Funds</b>	<b>Total Enterprise Funds</b>	
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 11,691,376	-	-	1,498,450	13,189,826	-
Payments for goods and services	(8,971,471)	(9,600)	-	(1,319,762)	(10,300,833)	(3,105,988)
Payments to employees	(705,572)	-	-	(12,817)	(718,389)	-
Other receipts (payments)	298	-	-	(1,965)	(1,667)	3,154,633
Net cash provided (used) by operating activities	<u>2,014,631</u>	<u>(9,600)</u>	<u>-</u>	<u>163,906</u>	<u>2,168,937</u>	<u>48,645</u>
<b>Cash flows from NonCapital financing activities:</b>						
Transfers to / from other funds	-	-	-	18,450	18,450	-
Net cash used in noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,450</u>	<u>18,450</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>						
Purchase and construction of capital assets	(1,379,592)	-	-	-	(1,379,592)	-
Proceeds from sale of capital assets	1,450	-	-	-	1,450	-
Proceeds from capital debt	4,217,350	-	-	-	4,217,350	-
Principal paid on capital debt	(4,686,514)	-	-	-	(4,686,514)	-
Bond issuance costs	(69,153)	-	-	-	(69,153)	-
Interest paid on capital debt	(107,387)	-	-	-	(107,387)	-
Net cash used in capital and related financing activities	<u>(2,023,846)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,023,846)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>						
Restricted customer deposits	12,253	-	-	-	12,253	-
Interest received	27,900	7,839	-	3,602	39,341	-
Net cash provided by investing activities	<u>40,153</u>	<u>7,839</u>	<u>-</u>	<u>3,602</u>	<u>51,594</u>	<u>-</u>
Net decrease in cash and cash equivalents	30,938	(1,761)	-	185,958	215,135	48,645
Cash and cash equivalents:						
Beginning of the year	172,455	1,558,535	298,634	472,732	2,502,356	606,429
End of the year	<u>\$ 203,393</u>	<u>1,556,774</u>	<u>298,634</u>	<u>658,690</u>	<u>2,717,491</u>	<u>655,074</u>

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

**CITY OF PASCAGOULA, MISSISSIPPI**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2013

	<b>Enterprise Funds</b>					
	<b>Major Funds</b>			<b>Other Nonmajor Funds</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Fund</b>
	<b>Water, Sewer and Gas Fund</b>	<b>Transfer Station Fund</b>	<b>Energy Recovery Facility Fund</b>			
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>						
Operating income (loss)	\$ (842,366)	(38,525)	-	122,766	(758,125)	(18,964)
Adjustments to reconcile operating income (loss) to net cash						
Depreciation expense	1,738,118	28,925	-	-	1,767,043	-
(Increase) decrease in current assets:						
Accounts receivable	(44,964)	-	-	(17,494)	(62,458)	-
Due from other funds	1,542,686	-	-	(28,917)	1,513,769	-
Increase (decrease) in current liabilities:						
Accounts payable	(364,959)	-	-	87,551	(277,408)	67,609
Compensated absences	(13,884)	-	-	-	(13,884)	-
Net cash provided (used) by operating activities	<u>\$ 2,014,631</u>	<u>(9,600)</u>	<u>-</u>	<u>163,906</u>	<u>2,168,937</u>	<u>48,645</u>

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

**FIDUCIARY FUNDS FINANCIAL STATEMENTS**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**STATEMENT OF FIDUCIARY NET POSITION**  
September 30, 2013

	<b>Pascagoula Redevelopment Authority Fund</b>	<b>Pascagoula Port Commission Fund</b>	<b>Total Fiduciary Funds</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 14,461	50,450	64,911
Total assets	\$ 14,461	50,450	64,911
<b>LIABILITIES</b>			
Due to Pascagoula Redevelopment Authority	\$ 14,461	-	14,461
Due to Pascagoula Port Commission	-	50,450	50,450
Total liabilities	\$ 14,461	50,450	64,911

**NOTES TO BASIC FINANCIAL STATEMENTS**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

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

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City with the option of electing to apply FASB pronouncements issued after that date. The City has chosen not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**A. Financial Reporting Entity**

The City of Pascagoula, Mississippi (the City) was incorporated on September 14, 1896. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, public health and welfare, culture, recreation and water, sewer and gas system.

These financial statements present the City (the primary government) only. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Pascagoula, Mississippi has no component units.

**B. Basis of Presentation**

**Government-Wide Financial Statements**

The statement of net position and statement of activities display information about the reporting government as a whole. They included all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to function in the statement of activities. Program revenues include 1) charges to customer or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position/fund equity, revenues, and expenditures/expenses. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and its liabilities and deferred inflows of resources as fund balance.

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The proprietary funds are classified as enterprise funds.

Fiduciary funds are those used to account for funds held by the City in trust for others that cannot be used to support the City's programs.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are a least 10 percent of the corresponding total for all funds of that category or type, and
2. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is a least 5 percent of the corresponding total for all governmental and enterprise funds combined.
3. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

**CITY OF PASCAGOULA, MISSISSIPPI**  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The City reports the following major funds:

*Major Governmental Funds*

- General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes, (other than debt service or capital projects). Currently, there is one major special revenue fund, the Community Development Fund. This fund separately identifies transactions incurred for the specific purpose of enhancing the community.

*Major Enterprise Funds*

- Pascagoula Utilities fund accounts for operations of the City's water, sewer, and gas system.
- Transfer Station fund accounts for operations of the transfer station.
- Energy Recovery Facility fund accounts for operations of the energy recovery facility.

The City reports the following non-major funds:

*Non-Major Governmental Funds*

- Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes, (other than debt service or capital projects) as follows:
  - FEMA Acquisition Fund
  - Historic Preservation Fund
  - Lighthouse Preservation Fund
  - Rental Rehabilitation Fund
  - Hurricane Katrina Fund
  - Fire and Police Disability Fund
- Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of general long-term debt principal, interest and related costs, other than enterprise debt. Currently, there is one debt service fund, the General Obligation Debt Service fund.
- Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). During the year ended September 30, 2013, the City had two capital project funds: the Bond Capital Improvements Fund and the Capital Projects Fund.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In addition, the City reports the following fund types:

- Internal Service Funds are used to account for the financing of goods or services provided by one department/agency to other departments/agencies of the City, or to other governments on a cost reimbursement basis. The City's internal service funds are:
  - Group Insurance Fund
  - Self-funded Unemployment Insurance Fund

*Fiduciary Funds*

- The Pascagoula Redevelopment Authority fund and Pascagoula Port Commission fund are private-purpose trust funds which are used to report all other trust arrangements under which principal and/or income benefit individuals, private organizations or other governments. The purpose of the funds are to manage the assets for the benefit of the respective entities.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and unearned revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Intergovernmental aids and grants are recognized as revenues in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

The City reports unearned revenues on its governmental funds balance sheet. Unearned revenues arise from taxes levied in the current year which are for subsequent year's operations. For governmental fund financial statements, unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

The enterprise funds follow all pronouncements of the Governmental Accounting Standards Board. The proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**D. Assets, Liabilities, and Fund Equity**

**Cash and Cash Equivalents**

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. All cash and cash equivalents are reported at their carrying amounts, which reasonably approximates fair value.

**Receivables**

All trade receivables are reported net of an allowance for uncollectible amounts, where applicable. Unbilled charges are accrued as receivables and revenue at September 30, 2013.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Allowance for Uncollectible Amounts**

An allowance for uncollectible amounts relates to the estimated uncollectible balance of the revenues earned or accrued that have been included in accounts receivable at year end. An allowance is recorded on receivable balances based on historical bad debt experience related to the nature of each receivable balance.

**Interfund Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/interfund payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond September 30, 2013, are recorded as prepaid items using the consumption method by recording assets for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reported as nonspendable as this amount is not available for general appropriation.

**Capital Assets**

General capital assets are those capital assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the governmental fund financial statements. Capital position utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

Capital assets purchased or acquired with an original cost of \$5,000 or more (\$50,000 for improvements) are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

**CITY OF PASCAGOULA, MISSISSIPPI**  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Water and sewer system	30-35 years
Machinery and equipment	7-10 years
Improvements	30-35 years
Other infrastructures	10-60 years
Vehicles	5 years

**Compensated Absences:**

Vacation benefits and sick leave are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means.

All compensated absences liabilities include salary-related payments, where applicable.

The City accrues accumulated unpaid vacation leave at the end of the fiscal year. The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated absence liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only "when due". The non-current portion (the amount estimated to be used beyond the next fiscal year) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to two years generally. Upon termination, any accumulated vacation will be paid to the employee. Sick leave is not paid upon termination.. Any earned vacation hours in excess of 240 hours is certified and sent to the Public Employees Retirement System (PERS). Sick leave is not paid upon termination, however, any unused sick time is also certified and sent to PERS.

**Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Capital leases are recognized as a liability in the governmental fund financial statements when due.

**CITY OF PASCAGOULA, MISSISSIPPI**  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Debt Premiums, Discounts and Issuance Costs**

On the governmental-wide and proprietary fund type statement of activities, unamortized debt premiums and discounts, are deferred and amortized over the life of the debt using the straight-line method that approximates the effective interest method.

At the governmental fund reporting level, debt fund reporting level, debt premiums and discounts are reported as other financing sources and uses, separately from the face amount of the debt issued. Debt issuance costs are reported as debt service expenditures.

**Net Position/Fund Equity**

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

In the Government-Wide financial statements, the difference between the City's total assets and deferred outflows of resources, total liabilities and deferred inflows of resources represents net position. Net position displays three components:

1. Invested in capital assets, net of related debt - 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, constructions or improvement of those assets.
2. Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditor, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.
3. Unrestricted net position - All other net position not meeting the definition of "restricted" or "invested in capital assets, net of related debt." Unrestricted net position represents the net position available for future operations.

Additionally, the City has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Generally, governmental fund balances represent the difference between assets and deferred outflows of resources, liabilities and deferred inflows of resources. Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- Nonspendable - Includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.
- Restricted - Includes amounts that have constraints placed upon the use of the resources either by external party or imposed by law through a constitutional provision or enabling legislation.
- Committed - Includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council as approved in the board minutes.
- Assigned - 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 the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed.
- Unassigned - 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 an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

The City does not have a minimum fund balance policy.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenues**

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

**Expenditures:**

Expenditures are recognized when the related fund liability is incurred.

**Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in the proprietary funds. Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business-type activities column are eliminated.

**Estimates**

The preparation of the financial statements in conformity with account principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**New GASB Pronouncements**

The Governmental Accounting Standards Board has issued several new pronouncements that the City has reviewed for application to their accounting and reporting.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, is effective for periods beginning after December 15, 2011. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows or resources. The City has implemented this reporting for the year ended September 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for financial statement periods beginning after December 15, 2012 – this statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The implementation of this statement resulted in reclassification of certain liabilities to deferred inflows and the retroactive reclassification of bond issuance costs to expenses/expenditures.

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

**A. Fund Accounting Requirements**

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

<u>Fund:</u>	<u>Required By:</u>
Cemetery Care Fund	State Law
CDBG Fund	Grant Agreement
Gas, Water and Sewer Fund	Trust Indenture
Energy Recovery Fund	Trust Indenture
Transfer Station Fund	Trust Indenture
Solid Waste Fund	State Law

**B. Deposits and Investments Laws and Regulations**

State law requires that all deposits in excess of FDIC insurance limits be 105% collateralized by U.S. Government obligations or by state municipal obligations that have a fair value of not less than the principal amount of the deposits. The collateral for public entities' deposits in financial institutions are 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 FDIC.

At year-end, the carrying amount of the City's deposits was \$8,485,298, and the respective bank balances totaled \$8,879,705. There were no certificates of deposits outstanding at September 30, 2013.

The City's deposits were fully insured or collateralized as required by statute at September 30, 2013.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)**

**C. Revenue Restrictions**

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source:</u>	<u>Legal Restrictions in Use:</u>
Sales Tax	Sewer Rehabilitation Notes
Gasoline Excise & Commercial Vehicle Tax	Street and Road purposes
Water, Sewer and Gas Revenue	Debt Service and Utility Operations
Cemetery Revenue	Cemetery Capital Improvements
Grant Program Expenditures	Grant agreements
Ad Valorem Tax	Debt Service

For the year ended September 30, 2013, the City complied, in all material respects, with these revenue restrictions.

**D. Debt Restrictions and Covenants**

General obligation debt represents direct obligations issued on a pledge of the general taxing power of the City for the payment of its debt obligations.

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

**A. Cash and Investments**

The City's policies regarding deposits of cash are discussed in Note 1 D. The City deposits funds in financial institutions selected by the City Council in accordance with Mississippi statutes. The approved city depositories for the 2012-2013 calendar years is The First and Merchants and Marine Bank.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

Deposits at September 30, 2013, (including restricted deposits) are as follows:

	<b>Bank Balances</b>	<b>Total Carrying Value</b>
Pooled deposits:		
Cash and cash equivalents	\$ 8,398,818	7,543,020
Non-pooled deposits:		
Cash and cash equivalents:		
Payroll fund	297,867	751,385
Municipal court fund	119,644	126,654
SMMET	63,376	63,376
Petty cash	-	263
Cash drawer	-	600
	\$ 8,879,705	8,485,298
Reconciliation to government-wide statement of net assets:		
Restricted cash		\$ 1,742,517
Unrestricted cash		6,742,781
		\$ 8,485,298

**B. Restricted Cash**

The amounts reported as restricted assets are cash and accrued interest held by the trustee bank on behalf of the various public trusts (authorities) related to their required note payable accounts and amounts held in trust for customer utility meter deposits.

The restricted assets as of September 30, 2013, are as follows:

<b>Restricted Assets</b>	<b>Cash Including Time Deposits</b>
<b>Business-type activities:</b>	
Customer deposits	\$ 645,672
Revenue bonds equipment replacement	1,096,845
	\$ 1,742,517

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**C. Accounts Receivable**

Accounts receivable at September 30, 2013, consisted of the following:

	<u>Accounts Receivable</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net Accounts Receivable</u>
General Fund:			
Ad valorem taxes	\$ 119,025	-	119,025
Franchise taxes	370,537	-	370,537
Sales tax	456,909	-	456,909
Grants	(686,783)	-	(686,783)
Police court fines	419,756	-	419,756
Other	63,165	-	63,165
	<u>742,609</u>	<u>-</u>	<u>742,609</u>
Special Revenue:			
Grants	46,000	-	46,000
Other	7,508	489	7,019
Debt Service:			
Ad valorem taxes	22,406	-	22,406
Community Development Fund:			
Grants	571,260	-	571,260
Total governmental activities	<u>1,389,783</u>	<u>489</u>	<u>1,389,294</u>
Enterprise Funds:			
Water, sewer and gas services	2,124,644	1,363,018	761,626
Solid waste management	333,250	-	333,250
Total business-type activities	<u>2,457,894</u>	<u>1,363,018</u>	<u>1,094,876</u>
Total government-wide activities	<u>\$ 3,847,677</u>	<u>1,363,507</u>	<u>2,484,170</u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**D. Capital Assets**

Capital asset activity for the year ended September 30, 2013, was as follows:

	<b>Primary Government</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases/ Adjustments</b>	
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 12,874,397	247,700	-	13,122,097
Construction in progress	23,672,418	2,441,098	(7,289,236)	18,824,280
Total capital assets not being depreciated	<u>36,546,815</u>	<u>2,688,798</u>	<u>(7,289,236)</u>	<u>31,946,377</u>
Capital assets being depreciated:				
Buildings	8,533,773	148,101	-	8,681,874
Improvements - other	9,029,105	28,558	-	9,057,663
Infrastructure	37,019,929	6,717,553	-	43,737,482
Equipment	9,515,793	627,269	(156,144)	9,986,918
Total capital assets being depreciated	<u>64,098,600</u>	<u>7,521,481</u>	<u>(156,144)</u>	<u>71,463,937</u>
Less accumulated depreciation for:				
Buildings	(3,981,511)	(260,495)	-	(4,242,006)
Improvements - other	(2,061,314)	(376,187)	-	(2,437,501)
Infrastructure	(19,926,678)	(673,595)	-	(20,600,273)
Equipment	(6,953,653)	(786,450)	153,105	(7,586,998)
Total accumulated depreciation	<u>(32,923,156)</u>	<u>(2,096,727)</u>	<u>153,105</u>	<u>(34,866,778)</u>
Total capital assets being depreciated, net	<u>31,175,444</u>	<u>5,424,754</u>	<u>(3,039)</u>	<u>36,597,159</u>
Total governmental activities capital assets, net	<u>\$ 67,722,259</u>	<u>8,113,552</u>	<u>(7,292,275)</u>	<u>68,543,536</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 84,751	-	-	84,751
Total capital assets not being depreciated	<u>84,751</u>	<u>-</u>	<u>-</u>	<u>84,751</u>
Capital assets being depreciated:				
Buildings	8,369,386	-	-	8,369,386
Infrastructure and improvements - other	53,739,446	3,137,711	-	56,877,157
Equipment	6,549,112	96,795	(82,507)	6,563,400
Total capital assets being depreciated	<u>68,657,944</u>	<u>3,234,506</u>	<u>(82,507)</u>	<u>71,809,943</u>
Less accumulated depreciation for:				
Buildings	(2,517,493)	(374,973)	-	(2,892,466)
Infrastructure and improvements - other	(29,452,505)	(1,279,438)	-	(30,731,943)
Equipment	(6,279,338)	(112,630)	82,507	(6,309,461)
Total accumulated depreciation	<u>(38,249,336)</u>	<u>(1,767,041)</u>	<u>82,507</u>	<u>(39,933,870)</u>
Total capital assets being depreciated, net	<u>30,408,608</u>	<u>1,467,465</u>	<u>-</u>	<u>31,876,073</u>
Total business-type activities capital assets, net	<u>\$ 30,493,359</u>	<u>1,467,465</u>	<u>-</u>	<u>31,960,824</u>
<b>Primary Government</b>				
Total capital assets, net	<u>\$ 98,215,618</u>	<u>9,581,017</u>	<u>(7,292,275)</u>	<u>100,504,360</u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

A summary of general fixed assets transactions for the year ended September 30, 2013, follows:

	<b>Expended through September 30, 2013</b>	<b>Remaining Commitment</b>
	<u>                    </u>	<u>                    </u>
<b>Primary Government</b>		
Governmental Activities:		
FY 2004 Tidelands	\$ 20,650	8,850
Match Promenade	177,982	197,399
Unallocated Pathway	145	14,855
Historic Pathway- Frederick St Rail Crossing	-	124,360
MDOT - Promenade	695,103	331,682
Riverfront Phase II	7,739,716	126,616
Front Street Reconnection/Streetscape	3,987,197	1,062,357
CDBG-Lowry Island	321,504	3,185,171
Community Development Utilities - Sr. Center	3,050	-
City Hall	1,551	-
FY 2004 Tidelands Historic Pathway	149,733	-
MDOT Historic Pathway	416,209	-
HUD-EDI-Promenade	146,089	403,999
11th Street Drainage Channel Bulkhead	913,776	-
CDBG-Round Island Lighthouse	90,102	5,473
Relocate Round Island Lighthouse	710,691	-
CIAP-Communy & Emerson	254,986	280,519
Tidelands Point Phase I	60,809	-
Historic Pathway-Bike Path	-	120,000
Historic Pathway	2,231,764	20,631
City Match Point Phase I	6,398	-
Tidelands Point Match	20,000	-
FY 2006 Tidelands Point Park	210,682	-
Promenade	-	150,000
FY 2010 Tidelands-lighthouse	125,000	125,000
MCIAP Point Park	14,108	992,570
FY 2012 CDBG Lake Elementary		
Sidewalk/Bike	109,208	13,196
FY 2011 CDBG 11th St Community Park	-	25,000
FY 2012 CDBG I G Levy	-	50,000
FY 2012 CDBG Bike Trail	50,050	104,950
FY 2012 CDBG Round Island Lighthouse	45,568	-
FY 2013 Tidelands RI Lighthouse	316,896	16,019
FY 2013 Tidelands Environmental Trail	5,313	16,268
Total governmental construction in process	<u>\$ 18,824,280</u>	<u>7,374,915</u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

Depreciation expense was charged to programs for the year ended September 30, 2013 as follows:

Governmental activities:	
General government	<u>\$ 2,096,726</u>
Business-type activities:	
Water, sewer and gas fund	\$ 1,738,118
Transfer station	28,924
Total business-type activities depreciation expense	<u>\$ 1,767,042</u>

**F. Long-Term Debt**

The City's long-term debt is 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, 2013, is shown below:

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds and notes payable:					
General obligation debt	\$ 3,280,000	-	295,000	2,985,000	305,000
Notes payable	4,461,387	-	-	4,461,387	1,862,123
Tax increment financing bonds	50,000	-	50,000	-	-
Capital leases	-	479,743	-	479,743	-
	<u>7,791,387</u>	<u>479,743</u>	<u>345,000</u>	<u>7,926,130</u>	<u>2,167,123</u>
Less deferred amounts on issues	<u>(262,012)</u>	<u>-</u>	<u>51,714</u>	<u>(210,298)</u>	<u>-</u>
Total bonds and notes payable	<u>7,529,375</u>	<u>479,743</u>	<u>396,714</u>	<u>7,715,832</u>	<u>2,167,123</u>
Other liabilities:					
Compensated absences	<u>622,535</u>	<u>-</u>	<u>35,154</u>	<u>587,381</u>	<u>99,818</u>
Total other liabilities	<u>622,535</u>	<u>-</u>	<u>35,154</u>	<u>587,381</u>	<u>99,818</u>
Total governmental activities long-term liabilities	<u>\$ 8,151,910</u>	<u>479,743</u>	<u>431,868</u>	<u>8,303,213</u>	<u>2,266,941</u>
<b>Business-type activities:</b>					
Bonds and notes payable:					
Water and sewer debt	\$ 4,988,395	4,160,000	4,686,514	4,461,881	576,123
Energy Recovery Facility (ERF)	5,446,307	-	-	5,446,307	-
Less deferred amounts on issues	<u>-</u>	<u>12,876</u>	<u>1,073</u>	<u>(11,803)</u>	<u>-</u>
Total bonds and notes payable	<u>10,434,702</u>	<u>4,160,000</u>	<u>4,686,514</u>	<u>9,896,385</u>	<u>576,123</u>
Other liabilities:					
Compensated absences	<u>31,138</u>	<u>-</u>	<u>13,884</u>	<u>17,254</u>	<u>2,533</u>
Total other liabilities	<u>31,138</u>	<u>-</u>	<u>13,884</u>	<u>17,254</u>	<u>2,533</u>
Total business-type activities long-term liabilities	<u>\$ 10,465,840</u>	<u>4,160,000</u>	<u>4,700,398</u>	<u>9,913,639</u>	<u>578,656</u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**Description of Debt**

At September 30, 2013, long-term debt consisted of the following individual issues:

	<u><b>General Long- Term Debt</b></u>
<b>Governmental activities:</b>	
<b>Bonds and notes:</b>	
Unsecured community disaster loan, in 2011 this loan was restructured for semi-annual payments in the amount of \$541,266, maturing in 2015. In 2014, a portion of this loan was forgiven (see subsequent events at Note 4 G).	\$ 4,461,387
2006 General Obligation Refunding Bonds, payable in various annual installments, bearing annual interest at 3.53% - 4.20%, interest payable semiannually, maturing in 2023, secured by tax revenues	2,985,000
	7,446,387
<b>Capital Leases:</b>	
Capitalized equipment lease obligation due in annual installments of \$111,492 which includes interest at 3.49% through August 2018	\$ <u>479,743</u>
<b>Compensated absences</b>	587,381
	8,513,511
Less deferred amount on issues	(210,298)
Less current portion of long-term debt	<u>(2,266,941)</u>
Total governmental activities long-term debt due beyond one year	<u><u>\$ 6,036,272</u></u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**Business-type activities:**

**Bonds and notes:**

2012 Combined Water & Sewer System Revenue Refunding Bonds. Dated November 8, 2012, payable in various annual installments, bearing annual interest at 2.00% - 2.50%, interest payable annually, maturing in 2024	\$ 3,955,000
Unsecured community disaster loan, bearing interest at 2.83%, payable in lump sum, maturing March 2011. In 2011, \$2,942,496 of this loan balance was forgiven by FEMA. In 2014, the remaining balance was forgiven by FEMA (see subsequent events at Note 4 G).	325,689
State Revolving Fund Loan, payable in monthly installments of \$4,662, bearing interest at 2.00%, maturing January 2017, secured by utility system revenues	181,193
1981 Incinerator System Revenue Bonds, dated January 1, 1981, principal and interest suspended	4,946,307
1983 Incinerator System Revenue Bonds, dated January 1, 1981, principal and interest suspended	<u>500,000</u>
Total general obligation bonds and notes	9,908,189
<b>Compensated absences</b>	17,254
Less current portion of long-term debt	<u>(578,656)</u>
Total business-type activities long-term debt due beyond one year	<u><u>\$ 9,346,787</u></u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**Revenue Refunding Bonds**

On November 8, 2012 the City issued \$4,160,000 in revenue refunding bonds with an average interest rate of 2.15% to refund \$4,138,532 in outstanding general obligation bonds accounted for as business-type activities, with an average interest rate of 3.00% - 4.00%. 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, Mississippi'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 operation. System revenues are derived from tonnage charges for garbage dumping and from sale of generated steam through a contract with a single commercial customer. Terms of that contract tie the price to be paid for steam to the price of natural gas. The price of natural gas has declined substantially, resulting in a decline in system revenues. Accordingly, the system has not produced sufficient revenues to meet maturing revenue bond principal and interest, or to meet required "cushion" accumulations. For the fiscal year ended September 30, 2013, the principal balance was \$5,446,307. NOAA, the U.S. Department of Commerce, and the City entered into an agreement as of November 18, 1992, which provided for the following loan modifications:

1. The City's obligation to make principal and interest payments was suspended through December 31, 1996.
2. Interest accruals were suspended until at least January 1998. Income generated by the system was to be re-evaluated in 1997 to determine whether it was sufficient to reinstate the payment of interest.
3. Beginning in 1997, 50% of net income before depreciation was to be paid on the obligation, which consists of \$6,920,000 principal and \$2,832,960 interest accrued to November 18, 1992, plus any interest subsequently reinstated.
4. All remaining net income is to be placed in a reserve for equipment replacement, the use of which requires prior written approval of NOAA. Upon execution of the agreement, NOAA authorized the use of reserve funds for necessary repairs.

The following represents a calculation of the amount due based on Incinerator System net loss for the year ended September 30, 2013:

Incinerator System net income (loss)	\$	-
Transfer Station net income		(30,686)
Depreciation expense		28,924
Net income (loss) before depreciation		(1,762)
Required rate		50%
Principal payment required	\$	(881)

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**Community Disaster Loans**

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 program. This is a shortfall note payable, and its purpose was to provide funds for a shortfall in the local budget that was caused because of damages to properties and tax assessments and related tax collection as a result of Hurricane Katrina in August 2005. Payments on the notes were deferred for a five-year period. On February 27, 2011, Pursuant to HR 2206 - Public Law 110-28, FEMA forgave \$2,942,496 and associated interest of \$411,116, of the City's Community Disaster Loan. In 2014, FEMA forgave the remaining balance of \$325,689 (see subsequent events at Note 4 G).

**Annual Debt Service Requirements**

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of September 30, 2013, are as follows:

	<b>Governmental Activities</b>	
	<b>Bonds and Notes</b>	
	<b>Principal</b>	<b>Interest</b>
2014	\$ 2,261,044	129,345
2015	1,480,890	113,416
2016	1,532,179	95,678
2017	2,568,083	77,054
2018	107,732	57,622
2019-2023	-	79,583
2024-2029	-	1,575
Total	<u>\$ 7,949,928</u>	<u>554,273</u>

	<b>Business-type Activities - Bonds and Notes</b>			
	<b>Water, Sewer and Gas</b>		<b>Incinerator/ERF</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 576,123	82,223	-	-
2015	506,414	113,416	-	-
2016	519,839	95,678	-	-
2017	404,507	77,054	-	-
2018	395,000	57,622	-	-
2019-2023	1,850,000	79,583	-	-
2024-2029	210,000	5,250	-	-
suspended	-	-	5,446,307	2,832,960
Total	<u>\$ 4,461,883</u>	<u>510,826</u>	<u>5,446,307</u>	<u>2,832,960</u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**Capital Leases**

Tax-Exempt Leasing Corp Capital Lease – On August 15, 2011, the City entered into a capital lease agreement at an interest rate of 3.489% with Tax-Exempt Leasing Corp to acquire the 2012 E-One HP78 Aerial Fire Truck. The lease obligation is effective during the period from April 12, 2012 through August 15, 2018. Annual payments of interest and principal began on August 15, 2012. Total payments for the equipment are \$780,440.92 (principal payments of \$681,989 and interest payments of \$98,451.92). Annual amortization expense is included in depreciation expense.

The following is an amortization schedule for this lease:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 93,921	17,571	111,492
2015	97,199	14,293	111,492
2016	100,590	10,902	111,492
2017	104,100	7,392	111,492
2018	107,733	3,759	111,492
Total	<u>\$ 503,543</u>	<u>53,917</u>	<u>557,460</u>

**G. Interfund Balances**

Interfund balances at September 30, 2013, consisted of the following:

	<u>DUE TO:</u>					<u>Total</u>
	<u>Governmental Activities</u>		<u>Business-type Activities</u>			
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Water, Sewer and Gas Fund</u>	<u>Transfer Station Fund</u>	<u>Other Enterprise Funds</u>	
<b><u>DUE FROM:</u></b>						
Governmental activities:						
General fund	\$ 6,086,925	786,617	236,633	4,180	-	7,114,355
Community development fund	1,835,650	-	-	-	-	1,835,650
Other governmental funds	291,494	40,000	-	-	-	331,494
Internal service funds	300,678	-	-	-	-	300,678
Business-type activities:						
Water, Sewer and Gas	39,999	-	-	-	171,695	211,694
Transfer Station	15,014	-	-	-	-	15,014
Other enterprise funds	15,560	-	83,652	61,648	(363)	160,497
Total	<u>\$ 8,585,320</u>	<u>826,617</u>	<u>320,285</u>	<u>65,828</u>	<u>171,332</u>	<u>9,969,382</u>

Interfund balances resulted from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**H. Interfund Transfers**

Interfund transfers for the year ended September 30, 2013 are as follows:

	TRANSFERS IN:				Total
	Governmental Activities			Business- type Activities	
	General Fund	Community Development Funds	Other Governmental Funds	Other Enterprise Funds	
	General Fund	Community Development Funds	Other Governmental Funds	Other Enterprise Funds	
<b>TRANSFERS OUT:</b>					
Governmental activities:					
General fund	\$ 55,724	-	98,889	18,450	173,063
Community development fund	351,438	-	-	-	351,438
Other governmental funds	-	1,201,124	210,682	-	1,411,806
Internal service funds	-	-	-	-	-
Business-type activities:					
Water, Sewer and Gas	-	-	-	-	-
Other enterprise funds	-	-	-	-	-
Total	\$ 407,162	1,201,124	309,571	18,450	1,936,307

Transfers are used to (a) move revenues from the fund that statute or budget requires collecting to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 4. OTHER NOTES**

**A. Property Tax**

Property tax is levied on the assessed (appraised) value as compiled by the Jackson County Tax Assessor for all real and business personal property located in the City. The assessment roll is approved and the levy is set before September 30 following a series of public hearings to receive citizen objections. Resulting taxes are due on or before February 1. Installment payments are accepted on or before February 1, May 1, and August 1. An inter-local government agreement effective October 1, 1989, provided for billing and collection of City and Pascagoula School District taxes by Jackson County, Mississippi.

Included in revenues are taxes for automobile tags, which are assessed and collected by Jackson County. Such taxes, less a collection fee, are remitted to the City monthly.

Property tax revenues are recognized as the related ad valorem taxes are collected. 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 generally accepted accounting principles have been recognized as revenue.

Increases in taxes are generally limited by State law to 10% of the taxes collected for the prior assessment year, excluding taxes from property added to the tax assessment rolls in the current year.

The City is required by law to assess and collect taxes necessary for operation of the Pascagoula School District (PSD) and for service of certain related debt. PSD provides services to residents of inside and outside the geographic boundaries of the City and has a separate appointed and/or elected board. The school district is not included as a component unit of the City's financial reporting entity because the City does not have the ability to exercise control over school operations or approve budgets. A similar situation exists with the Jackson-George Regional Library System, who receives a portion of the City's tax levy for library operation.

For the year ended September 30, 2013, the City's 2013 tax rate was as follows:

	<u>MILLS</u>
General Fund	31.17
Firemen and Policemen Disability and Relief Fund	4.00
Library	1.14
City Bonds and Interest	2.24
Garbage	1.00
PSD Operations	46.39
	<u>85.94</u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**B. Pension Plans**

**Firemen and Policemen Disability and Relief Fund**

Plan Description:

The Firemen and Policemen Disability and Relief Fund is a defined benefit pension plan providing retirement and disability benefits, cost of living adjustments, and death benefits to members and beneficiaries. The plan was established by City ordinance effective May 20, 1951, pursuant to Section 3472-3494 of the Mississippi Code of 1942. Senate Bill 2746, Regular Session of 1976 prohibited further employee entrance into a local Firemen and Policemen Disability and Relief Fund. Firemen and Policemen hired after the effective date of that bill are covered under the Public Employees Retirement System of Mississippi along with employees of other departments of the City. The Plan has been administered since July 1, 1987, by the Public Employees' Retirement System of Mississippi as the Mississippi Municipal Retirement Systems, an agent multiple-employer pension plan. The Public Employees' Retirement System of Mississippi issues a publicly available financial report that includes financial statements and required supplementary information for Mississippi Municipal Retirement Systems. That report may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy:

The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Plan is funded by a portion of the City's tax levy and member contributions of 10% of annual covered salary. The City is required to assess a rate of tax for plan contributions sufficient to amortize the unfunded actuarial accrued liability over 27 years from September 30, 1993, but any increase in tax rate is limited by statute to .50 mills per year. Contributions at a rate of 3.57 mills were determined by the actuary, and this contribution rate was not limited by statute.

During the year ended September 30, 2013, contributions totaling approximately \$1,019,663 (\$1,013,103 (employer) and \$4,560 (employee)) were made in accordance with contribution requirements determined by the actuarial valuation of the system as of September 30, 2012.

Funding Status and Progress:

The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to (a) help users assess the plan's funding status on a going-concern basis; (b) assess progress being made in accumulating sufficient assets to pay benefits when due; and (c) allow for comparisons among public employee retirement plans. The measure is independent of the actual funding method used to determine contributions to the plan.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

Components of annual pension cost and net pension obligation for the current year and the two preceding years are as follows:

	<b>Fiscal Year Ending</b>		
	<b>September 30, 2013</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Pension benefit obligation:			
Annual required contribution	\$ 631,153	631,694	628,255
Interest on net pension obligation	76,948	54,259	21,289
Adjustment to annual required contribution	-	-	-
Annual pension cost	708,101	685,953	649,544
Contributions made	1,019,663	969,569	1,061,665
Increase (decrease) in net pension obligation	(311,562)	(283,616)	(412,121)
Net pension obligation (benefit) beginning of year	(961,851)	(678,235)	(266,114)
Net pension obligation (benefit) end of year	<u>\$ (1,273,413)</u>	<u>(961,851)</u>	<u>(678,235)</u>

Employees' Retirement System:

The pension benefit obligation was determined as part of the June 30, 2013, actuarial valuation. The actuarial assumptions included: (a) investment return rate of 8.0%-net of investment expenses including price inflation at 3.50% (b) salary increase of 4.5% - 6.0% per year including 4.25% for wage inflation; and (c) cost of living adjustments of 2.5% per year, not to exceed 15%. Unfunded actuarial accrued liabilities are amortized over a closed thirty year period from September 30, 1990, as a level percent of each municipality's assessed property valuation. Assets were included at fair value. Contributions, as a percentage of annual pension costs, were 144.0%, 141.3% and 163.4%, respectively, for the years ended September 30, 2013, 2012 and 2011.

At June 30, 2013, the unfunded actuarial accrued liability was determined as follows:

Actuarial accrued liability:	
Retirees and beneficiaries currently receiving benefits	\$ 13,174,517
Active members	<u>377,007</u>
Total actuarial accrued liability	13,551,524
Actuarial value of assets	<u>7,118,749</u>
Unfunded actuarial accrued liability	<u>\$ 6,432,775</u>

During the year ended September 30, 2013, the plan experienced an estimated net decrease of approximately \$423,518 in the actuarial accrued liability.

The date of the valuation was June 30, 2013, compared to September 30, 2012 for fiscal year 2012. Due to the new Governmental Accounting Standards Board (GASB) Statements Nos. 67 and 68, the actuary recommended that the valuation date change to match the measurement date, which for all PERS plans is June 30th of each year.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**Defined Benefit Pension Plan**

Other than those employees described above, all eligible employees of the City of Pascagoula, Mississippi participate in the Plan described below.

Plan Description:

The City of Pascagoula, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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 Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy:

PERS members are required to contribute 9% of their annual covered salary and the City of Pascagoula is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature.

City of Pascagoula, Mississippi and participant contributions to PERS for the years ended September 30, 2013, 2012, and 2011 were \$2,533,277, \$2,388,935, and \$2,193,067 respectively, representing 100% of the required contributions for the year.

**Deferred Compensation Plan**

The City, through PERS, offers its employees a voluntary 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.

The assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The requirements of Internal Revenue Code Section 457(g) prescribes that the City does not own the amounts deferred by employees, including the related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and the liability for compensation deferred by plan participants, including earnings on plan assets, are not included in the City's financial statements.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**C. Commitments and Contingencies**

**Group Insurance**

Since 1991, the City has maintained the Group Insurance Fund to account for the City's employee health care coverage which is self-insured by the City. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. Processing of claims is accomplished through a contract with a 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 lifetime maximum benefit of \$2,000,000. For non-preferred provider expenses, there is no out-of-pocket expense limit and covered expenses are payable at 50%, unless otherwise specified in the plan. The plan carries insurance to cover claims in excess of \$50,000 per participant. At September 30, 2013, a liability of \$146,137 has been recorded, which represents estimated claims incurred but not yet reported.

Changes in this claims liability during fiscal year 2013 and 2012 were as follows:

	<b>Balance at Beginning of Fiscal Year</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balance at End of Fiscal Year</b>
2012 - 2013	\$ 181,368	2,545,816	2,581,047	146,137
2011 - 2012	196,992	2,181,799	2,197,423	181,368

**Unemployment Insurance**

The City became self-insured for unemployment claims effective January 1, 2005. As claims are presented, they are paid directly by the City. The amount of future claims against the City attributable to prior year wages paid cannot be determined, therefore a contingent liability has not been recorded.

**Related Party Transactions**

No known transactions requiring disclosure occurred between the City and its employees or elected officials.

**Grants and Awards**

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed by management to be material.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**Litigation**

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

**Contract Commitments**

Service Contracts:

The City contracts with private contractors for various services.

On December 19, 2006, the City entered into a contract with Utility Partners, LLC to provide utility management, operations and maintenance services. The contract calls for amounts payable as follows:

<u>Period</u>	<u>Monthly Payments</u>	<u>Annual Payments</u>
December 1, 2013 - November 30, 2014	\$ 291,530	3,498,360
December 1, 2012 - November 30, 2013	285,813	3,429,756

Any extensions to the contract will call for a 3% increase per year, due to cost of living adjustments.

The City has a two-year term contract with Delta Sanitation Services. The contractor is paid on a per unit basis.

Construction Contracts:

The City has entered into various construction contracts for infrastructure improvements with an estimated remaining commitment of \$7,374,915. The majority of these commitments are being funded by various state and federal grants. See Note 3 D for more detailed information on these commitments.

**Operating Leases**

The City is committed under various operating leases for police motorcycles and vehicles. Lease expenditures for police vehicles for the year ended September 30, 2013 amounted to approximately \$62,051.

<u>Fiscal Year Ending September 30, 2013,</u>	<u>Minimum Equipment Lease Payment</u>
2014	\$ 22,500
2015	3,750
Thereafter	-
	<u>\$ 26,250</u>

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**D. Joint Venture**

The City is a member of the joint venture Jackson County Utility Authority (the Authority), which was established by an act of the Mississippi Legislature to design and implement a water pollution abatement plan. The Authority is responsible for the operations and maintenance of the wastewater treatment plants for the cities of Gautier, Moss Point, Ocean Springs and Pascagoula. The Authority enters into subscription agreements with each of the governing bodies and districts to fund its operations. The City of Pascagoula, Mississippi's subscription agreement called for monthly payments of \$159,449 for 2012-2013 fiscal year.

The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2013, a complete copy of which is on file at the administrative offices of the Authority located at 1225 Jackson Avenue, Pascagoula, MS 39567.

**STATEMENT OF NET POSITION**

**ASSETS**

Current assets	\$ 2,828,776
Restricted investments	3,124,829
Capital assets	135,840,387
Total assets	\$ 141,793,992

**LIABILITIES**

Current liabilities	\$ 6,651,372
Noncurrent liabilities	8,268,820
Total liabilities	14,920,192

**NET POSITION**

	126,873,800
Total liabilities and net position	\$ 141,793,992

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION**

Operating revenues	\$ 9,212,044
Operating expenses	(14,625,320)
Non-operating revenues	1,788
Non-operating expenses	(241,999)
Capital contributions and grants	2,203,654
Change in net position	\$ (3,449,833)

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**E. Deficit fund balances/Retained earnings**

Deficit fund balances of individual funds are as follows:

**Governmental activities:**

Hurricane Ivan Fund	\$ 31,884
Community Development Fund	1,604,869
FEMA Acquisition Fund	213,996
Special Revenue Projects Fund	68,727
ISTEA Fund	6
Capital Projects Fund	261,125
Fire and Police Disability Fund	1,428

**Business-type activities:**

Energy Recovery Fund	8,041,365
Group Insurance Fund	9,325

**F. Prior Period Adjustments**

A prior period adjustment of \$5,505,153 was made to correct September 30, 2013 net position related to the overstatement of capital assets, debt, grant receivables, trade receivables, and accounts payable.

Net position, September 30, 2012 as originally presented	\$ 93,695,551
To correct overstatement	<u>(5,505,153)</u>
As restated	<u>\$ 88,190,398</u>

**G. Subsequent events**

Events that occur after the statement of net assets 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 assets date are recognized in the accompanying financial statements. Subsequent events that provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the City evaluated the activity of the City through June 24, 2014, (the date the financial statements were available to be issued) and determined that subsequent events have occurred that require disclosure in the notes to the financial statements.

In June 2014, the City was notified by FEMA of debt cancellation. The City's Special Community Disaster Loan (SCDL), with a principal balance of \$352,689 outstanding as of September 30, 2013, was fully cancelled. The City's SCDL with a principal balance of \$4,461,387 outstanding as of September 30, 2013 was partially cancelled. The partial principal cancellation amounted to \$1,118,804.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
(Dollars in Thousands)  
September 30, 2013

**Fireman and Policeman Disability and Relief Fund:**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
09/30/13*	\$ 7,119	\$ 13,552	\$ 6,433	52.5%	\$ 47	13,687.2%
09/30/12	7,058	13,910	6,852	50.7%	47	14,578.7%
09/30/11	7,592	14,197	6,605	53.5%	49	13,479.6%

\* The date of the valuation was June 30, 2013, which is a change from last year's timing of the valuation. Due to the new Governmental Accounting Standards Board (GASB) Statements Nos. 67 and 68, Cavanaugh MacDonald Consulting, LLC (actuary) recommended that the valuation date change to match the measurement date, which for all PERS plans is June 30th of each year.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)**  
**GENERAL FUND**  
For the Year Ended September 30, 2013

	<b>Original Budgeted Amounts</b>	<b>Final Budgeted Amounts</b>	<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget Over (Under)</b>
Budgetary fund balance, October 1, 2012	\$ 20,823,745	11,060,613	9,960,602	(1,100,011)
<b>Resources (inflows):</b>				
Taxes	8,900,175	8,900,175	7,790,247	(1,109,928)
Licenses and permits	1,813,700	1,813,700	1,566,566	(247,134)
Grants	6,649,391	7,021,997	4,378,613	(2,643,384)
Inter-governmental revenues	7,653,000	7,683,000	7,357,543	(325,457)
Charges for services	1,962,040	1,962,040	1,904,068	(57,972)
Fines and forfeitures	1,015,000	1,017,888	930,598	(87,290)
Interest	105,600	105,600	21,245	(84,355)
Rents	116,600	116,600	115,711	(889)
Miscellaneous	181,000	246,982	121,668	(125,314)
Transfers	2,792,295	2,792,295	-	(2,792,295)
Other financing sources	5,185,000	5,185,000	52,449	(5,132,551)
Amounts available for appropriations	<u>\$ 57,197,546</u>	<u>47,905,890</u>	<u>34,199,310</u>	<u>(13,706,580)</u>

The accompanying notes are an integral part of this statement.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)**  
**GENERAL FUND**  
For the Year Ended September 30, 2013  
(continued)

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Over (Under)</u>
<b>Charges to appropriations (outflows):</b>				
<i>General Government</i>				
Personnel services	\$ 1,856,576	1,856,576	1,792,049	64,527
Supplies	172,500	172,500	149,097	23,403
Other charges	671,335	696,772	585,288	111,484
Capital outlay	130,600	130,600	122,390	8,210
<i>General Administration</i>				
Other charges	1,528,200	1,581,922	1,499,836	82,086
Transfers	100,000.0	186,778	113,889	72,889
<i>Police</i>				
Personnel services	6,709,382	6,743,843	6,345,587	398,256
Supplies	346,600	381,978	366,089	15,889
Other charges	253,950	285,185	277,649	7,536
Debt service	8,398	8,398	6,339	2,059
Capital outlay	51,000	51,500	51,487	13
<i>Fire</i>				
Personnel services	4,243,494	4,243,679	4,118,387	125,292
Supplies	108,050	109,175	105,254	3,921
Other charges	34,800	34,800	17,791	17,009
Capital outlay	34,000	34,000	28,878	5,122
<i>Code Enforcement</i>				
Personnel services	655,708	655,708	628,011	27,697
Supplies	26,400	26,400	15,302	11,098
Other charges	18,400	18,400	16,568	1,832
Other services	24,890	20,890	8,505	12,385
Capital outlay	59,000	74,400	66,411	7,989
<i>Public works</i>				
Personnel services	211,202	228,202	220,767	7,435
Supplies	429,100	446,500	394,436	52,064
Other charges	3,798,989	3,812,413	3,612,264	200,149
Capital outlay	2,312,500	2,305,515	129,686	2,175,829
Other services	231,600	231,600	206,787	24,813
<i>Culture &amp; Recreation</i>				
Personnel services	1,101,573	1,101,573	1,001,379	100,194
Supplies	174,050	175,601	153,766	21,835
Other charges	463,950	464,350	412,265	52,085
Capital outlay	1,353,000	1,353,000	6,290	1,346,710
<i>Grants &amp; Economic Development</i>				
Personnel services	394,805	394,805	369,356	25,449
Supplies	40,750	40,750	29,891	10,859
Other charges	559,669	498,399	152,945	345,454
Capital outlay	60,000	60,000	50,606	9,394
Total charges to appropriations	<u>28,164,471</u>	<u>28,426,212</u>	<u>23,055,245</u>	<u>5,370,967</u>
Budgetary fund balance, September 30, 2013	<u>\$ 29,033,075</u>	<u>19,479,678</u>	<u>11,144,065</u>	<u>(8,335,613)</u>

The accompanying notes are an integral part of this statement.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)**  
**GENERAL FUND**  
For the Year Ended September 30, 2013

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on the budgetary basis, which is a cash basis mandated by State statute. Since accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

**Sources/inflows of resources:**

	<b>General Fund</b>
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 34,199,310
Difference - budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(9,960,602)
The budget is prepared on the cash basis whereas the fund statements are on the modified accrual basis. This is the net effect of accrual transactions.	<u>(400,718)</u>
Total revenues as reported on the statement of revenue, expenditures, and changes in fund balances - governmental funds, general fund	<u>\$ 23,837,990</u>

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 23,055,245
Differences - budget to GAAP	
The budget is prepared on the cash basis whereas the fund statements are on the modified accrual basis. This is the net effect of accrual transactions.	<u>1,447,179</u>
Total expenditures as reported on the Statement of revenues, expenditure, and changes in fund balances - governmental funds, general fund	<u>\$ 24,502,424</u>

The accompanying notes are an integral part of this statement.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)**  
**COMMUNITY DEVELOPMENT FUND**  
For the Year Ended September 30, 2013

	<b>Original Budgeted Amounts</b>	<b>Final Budgeted Amounts</b>	<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget Over (Under)</b>
Budgetary fund balance, October 1, 2012	\$ -	-	(2,324,919)	(2,324,919)
<b>Resources (inflows):</b>				
Grants	14,289,601	15,069,698	3,431,296	(11,638,402)
Miscellaneous	-	115,000	-	(115,000)
Transfers	90,000	95,000	849,685	754,685
Amounts available for appropriations	<u>\$ 14,379,601</u>	<u>15,279,698</u>	<u>1,956,062</u>	<u>(13,323,636)</u>
<b>Charges to appropriations (outflows):</b>				
Other charges	\$ 12,716,564	15,939,245	3,560,931	12,378,314
Total charges to appropriations	12,716,564	15,939,245	3,560,931	12,378,314
Budgetary fund balance, September 30, 2013	<u>\$ 1,663,037</u>	<u>(659,547)</u>	<u>(1,604,869)</u>	<u>(945,322)</u>

The accompanying notes are an integral part of this statement.

**CITY OF PASCAGOULA, MISSISSIPPI**  
 BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)  
 COMMUNITY DEVELOPMENT FUND  
 For the Year Ended September 30, 2013

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on the budgetary basis, which is a cash basis mandated by State statute. Since accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

**Sources/inflows of resources:**

	<b>Community Development Fund</b>
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,956,062
Difference - budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	2,324,919
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	<u>(849,685)</u>
Total revenues as reported on the statement of revenue, expenditures, and changes in fund balances - governmental funds, general fund	<u>\$ 3,431,296</u>

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	<u>\$ 3,560,931</u>
Total expenditures as reported on the Statement of revenues, expenditure, and changes in fund balances - governmental funds, general fund	<u>\$ 3,560,931</u>

The accompanying notes are an integral part of this statement.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BUDGETARY COMPARISON SCHEDULES**  
For the Fiscal Year Ended September 30, 2013

**NOTE A. BUDGETARY BASIS OF ACCOUNTING**

All legal operating budgets are prepared using the statutory basis of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments for future payment and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year end. Encumbered appropriations are not re-appropriated in the ensuing year's budget but are carried forward until liquidated or canceled. Accordingly, the data presented in the budgetary comparison schedule differ from the data presented in the financial statements prepared in accordance with GAAP. The reconciliation is presented after the budgetary comparison schedule.

The Budgetary Comparison Schedule presents the originally legally adopted budget, the final legally adopted budget, and 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 the Community Development Fund.

**NOTE B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At September 30, 2013, the City did not have expenditures over appropriations.

**NOTE C. BUDGETARY DATA**

The procedures used by the City in establishing the budgetary data are as follows:

1. The City Comptroller's office prepares estimates of available revenue.
2. Department directors submit proposed expenditure budgets to the Comptroller by June 1 each year.
3. The City Manager and the department directors review expenditure budgets and necessary revisions are made.
4. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the City Council.
5. The City Manager submits the proposed budget to the Board by August 1.
6. A public hearing is conducted to obtain taxpayer comments.
7. The final budget is approved by September 15 and must be published in a local newspaper on or before September 30.
8. Budget revisions are made throughout the year (prior to September), as reallocations of funds are necessary or circumstances change which dictate the need for a budget amendment.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO BUDGETARY COMPARISON SCHEDULES**  
For the Fiscal Year Ended September 30, 2013

**NOTE C. BUDGETARY DATA (continued)**

9. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
  
10. The general fund budget is adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is the department level. The City Comptroller's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Board approval. However, department heads may make transfers of appropriations within a department. Budgetary controls are implemented through the City Comptroller's office through the use of budget to actual reports. Any purchase requisition that will cause a line item to exceed its budget will be disallowed by the City Comptroller. The department head will then be required to make an inter-department budget transfer or request a budget amendment.

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**SCHEDULE OF SURETY BONDS OF MUNICIPAL OFFICIALS**  
For the Year Ended September 30, 2013

Name	Position	Amount
Jim Blevins	Mayor	\$ 100,000
Larry Taylor	Councilman	100,000
Freddy Jackson	Councilman	100,000
David Tadlock	Councilman	100,000
Burt Hill	Councilman	100,000
Scott Tipton	Councilman	100,000
Jim Milstead	Councilman	100,000
Joseph R. Huffman	City Manager	162,000
Eddie Williams	City Attorney	162,000
Kenneth Johnson	Chief of Police	50,000
Robert J Parker	City Clerk / Comptroller	50,000

**CITY OF PASCAGOULA, MISSISSIPPI**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2013

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>Department of Commerce National Oceanic and Atmospheric Administration (NOAA)</b>			
Passed through State of Mississippi:			
Coastal Zone Management Administration			
Awards	11.419	FY2006-P111	60,125
	11.419	FY2010-P414	125,000
	11.419	FY2013-P112	120,504
	11.419	FY2010 M301-1	<u>13,725</u>
Total Department of Commerce National Oceanic and Atmospheric Administration (NOAA)			<u>319,354</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through State of Mississippi:			
Community Development Block			
Grants/Entitlement Grants	14.218	B-11-MC-28-0005	76,542
	14.218	B-12-MC-28-0005	5,498
	14.218	R-103-290-01-KED	740,117
	14.218	R-109-290-05-KCR	82,165
	14.218	B-11-MC-28-0005	515
	14.218	B-12-MC-28-0005	12,711
	14.218	B-11-MC-28-0005	50,170
	14.218	B-10-MC-28-0005	62,096
	14.218	B-11-MC-28-0005	45,500
	14.218	B-12-MC-28-0005	<u>45,568</u>
			<u>1,120,882</u>
Community Development Block Grant- State Administered CDBG Cluster			
Community Development Block Grants/State's Program	14.228	AD-12132012	7,184
	14.228	R-103-290-04-KCR	243,518
	14.228	R-103-290-01-KCR	<u>11,544</u>
			<u>262,246</u>
Total U.S. Department of Housing and Urban Development			<u>1,383,128</u>
<b>U.S. Department of the Interior Fish and Wildlife Service</b>			
Passed through State of Mississippi:			
Coastal Impact Assistance Program			
	15.668	F12AP00069	179,064
	15.668	F12AF00398	229,128
	15.668	F13AF00078	<u>14,108</u>
Total U.S. Department of the Interior Fish and Wildlife Service			<u>422,300</u>
<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Justice</b>			
Direct program:			
Bullet Proof Vest Partnership Program	16.607		<u>1,174</u>

The accompanying notes are an integral part of this statement.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2013

Edward Byrne Memorial Justice Assistance	16.738	2012-DJ-BX-0032	<u>13,130</u>
Total U.S. Department of Justice			<u>14,304</u>
 <b>U.S. Department of Transportation</b>			
Passed through State of Mississippi:			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	STP-8961-00(006)LPA/106061-701000	49,941
Recreation Trails Program	20.219	28-RTP-0179	<u>29,449</u>
			<u>79,390</u>
Highway Training and Education	20.215	STP-9999-09(032)/106638-316000	<u>30,713</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I			
Total U.S. Department of Transportation	20.601	13-K8-226-1	<u>55,446</u>
			<u>165,549</u>
 <b>U.S. Department of Health and Human Services</b>			
Passed through State of Mississippi:			
Family Smoking Prevention and Tobacco Control Act Regulator Research			
Total U.S. Department of Health and Human Services	93.077		<u>2,824</u>
			<u>2,824</u>
 <b>U.S. Department of Homeland Security</b>			
Passed through State of Mississippi:			
Hazard Mitigation Grant	97.039	DR-1906-MS-0005	<u>37,308</u>
Port Security Grant Program	97.056	10PG290	298,294
	97.056	11PG290	<u>357,127</u>
			<u>655,421</u>
Total U.S. Department of Homeland Security			<u>692,729</u>
 <b>Total expenditures of federal awards</b>			 <b><u>\$ 3,000,188</u></b>

The accompanying notes are an integral part of this statement.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2013

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pascagoula and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**NOTE 3. CORRECTION OF AN ERROR**

After issuance of the audit report, the Schedule of Expenditures of Federal Awards was revised to correct an error. No revisions were made to the basic financial statements.

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

**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***

The Honorable Mayor and Members of the 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Pascagoula, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Pascagoula, Mississippi's basic financial statements and have issued our report thereon dated June 24, 2014.

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-B-2 and 2013-B-3 to be material weaknesses.

**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***  
**Page 2**

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-B-1 and 2013-B-4 to be significant deficiencies.

As part of obtaining reasonable assurance about whether 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.

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.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pascagoula, Mississippi  
June 24, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

The Honorable Mayor and Members of the City Council  
City of Pascagoula, Mississippi

We have audited City of Pascagoula, Mississippi's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Pascagoula, Mississippi's major federal programs for the year ended September 30, 2013. City of Pascagoula, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Our responsibility is to express an opinion on compliance for each of City of Pascagoula, Mississippi's major federal programs 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 City of Pascagoula, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

In our opinion, City of Pascagoula, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

**Independent Auditor's Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required  
by OMB Circular A-133  
Page 2**

Management of City of Pascagoula, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Pascagoula, Mississippi'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 OMB Circular A-133, 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 City of Pascagoula, Mississippi's internal control over compliance.

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

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pascagoula, Mississippi  
July 16, 2014

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

The Honorable Mayor and Members of the City Council  
City of Pascagoula, Mississippi

We have audited the accompanying financial statements of the City of Pascagoula, Mississippi as of and for the year ended September 30, 2013, and have issued our report dated June 24, 2014. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures and our audit of the basic financial statements disclosed no material instances of noncompliance with state laws and regulations.

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

Pascagoula, Mississippi  
June 24, 2014

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CITY OF PASCAGOULA, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2013

**A. SUMMARY OF AUDIT RESULTS**

Financial Statements:

- |   |             |
|---|-------------|
| 1. Type of auditor's report issued on the primary government financial statements:        | Unqualified |
| 2. Internal control over financial reporting:   |             |
| a. Material weaknesses identified?  | Yes         |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes         |
| 3. Noncompliance material to the financial statements:                                    | No          |

Federal Awards:

- |  |             |
|--|-------------|
| 4. Internal control over major programs:   |             |
| a. Material weaknesses identified?   | No          |
| b. Significant deficiencies identified that are not considered to be material weaknesses?      | No          |
| 5. Type of auditor's report issued on compliance for major federal programs:                   | Unqualified |
| 6. Any audit findings reported as required by Section _____.510(a) of Circular A-133?          | No          |
| 7. Federal programs identified as major programs:  |             |
| U.S. Department of Commerce-National Oceanic and Atmospheric Administration<br>CFDA No. 11.419 |             |
| U.S. Department of the Interior Fish and Wildlife Service<br>CFDA No. 15.668                   |             |
| U.S. Department of Transportation<br>CFDA No. 20.205 and 20.219                                |             |
| U.S. Department of Transportation<br>CFDA No. 20.215   |             |
| U.S. Department of Homeland Security<br>CFDA No. 97.056  |             |
| 8. The dollar threshold used to distinguish between Type A and Type B programs:                | \$300,000   |
| 9. Auditee qualified as a low-risk auditee?  | No          |

**CITY OF PASCAGOULA, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2013

**A. SUMMARY OF AUDIT RESULTS (Continued)**

10. Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_\_\_ .315(b) of OMB Circular A-133? No

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

Reportable instances of noncompliance and reportable conditions and material weaknesses

2013-B-1

Finding

Prior to 2004, Municipal Court Receivables were not accrued due to the uncertainty of collection. However, with the implementation of GASB 34 in 2004, full accrual financial statements were required. In 2004, the City began working on a system to record these receivables. A new financial subsidiary system was purchased; however old receivables cannot be transferred over to the new system unless payments are collected on them. Currently, the City is operating under both systems until payments can be collected on old accounts. In 2011, the City was able to generate an aged receivable report to substantiate its balances. As of September 30, 2013, the City is still trying to resolve the matter.

According to the vendor, the computer system that was installed to handle this operation was compatible with the existing accounting software. After nearly a year of attempting the reconciliation, it was determined that the software is not compatible, and the City is working with the vendor to remedy the situation.

Recommendation

We recommend that the City continue to work on reconciling the Municipal Court Receivables.

Auditee's Response

The City has brought together all of the relevant vendors in order to find a cost effective solution to the problem. This collaboration has resulted in a process that is extremely complicated, labor-intensive and expensive. This process is ongoing and we hope to have a resolution in the near future.

2013-B-2

Finding

The City has not established procedures to ensure that its external financial statements are free from material errors. As a result, it was necessary for the auditor to identify account balances where material adjustments were required in order for the information to be presented in accordance with generally accepted accounting principles.

Recommendation

We recommend that the City implement additional internal controls over financial reporting such as additional review processes, including the addition of controls surrounding the conversion of account balances from the current financial resources measurement focus to the accrual basis of accounting.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2013

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)**

Auditee's Response

The City is in the process of implementing control procedures which will ascertain the required adjustments for conversion of their financial statements to the accrual basis of accounting. This implementation will include a reorganization of the accounting department and potentially adding staff as well.

2013-B-3

Finding

During our test of cash balances, we noted that the City does not record daily cash activity from the municipal court system in the general ledger. Transactions that are not recorded in the City's books and records are more susceptible to misappropriation. Also, because this information was not recorded in the general ledger, the City was unable to perform a cash reconciliation for this account.

Recommendation

We recommend that the City implement internal controls over financial reporting to ensure that all transactions are recorded in the general ledger.

Auditee's Response

Numerous steps have been taken to ensure the integrity of the court records. Cash from municipal court is deposited every day by the Court Clerk and a report is generated that ties into that cash amount. Those reports are sent to the Accounting Department in a timely manner to be entered into a spreadsheet which the City uses to reconcile cash and payable figures from the Encode report.

2013-B-4

Finding

During our testing of cash balances, we noted that the City had not cleared unreconciled differences on their monthly bank account reconciliations which could result in misstatements on the financial statements.

Recommendation

We recommend that all cash accounts be reconciled regularly and all differences be cleared in a timely manner.

Auditee's Response

A number of measures have been implemented to assure the timely reconciliation of all bank accounts are completed in a timely manner. All differences are cleared and adjustments made on a monthly basis.

**CITY OF PASCAGOULA, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2013

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS  
AUDIT**

None.