

CITY OF PASCAGOULA, MISSISSIPPI

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2014

CITY OF PASCAGOULA, MISSISSIPPI

CITY OFFICIALS

For the Year Ended September 30, 2014

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

Community Development Jennifer Dearman

City Engineer Jaci Turner

Fire Department Robert O'Sullivan

Human Resources Valarie Moore

Parks & Recreation Darcie Crew

Planning & Inspections Donovan Scruggs

Police Department Kenny Johnson

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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, each major fund, and the aggregate remaining fund information of City of Pascagoula, Mississippi, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pascagoula, Mississippi, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 9 - 18 and 72 - 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pascagoula, Mississippi's basic financial statements. The introductory section, and other supplementary information 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 schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and other supplementary information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015, 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 15, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2014

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, 2014. 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 2014 and 2013, the City's net position amounted to \$85,747,441 and \$90,375,557, respectively. The net position for governmental activities totaled \$65,115,363 in 2014 and \$68,257,738 in 2013, contributing 76% and 76%, respectively, of total net position; business-type activities contributed 24% and 24%, totaling \$20,632,078 in 2014 and \$22,117,819 in 2013.
- General revenues for 2014 and 2013 were \$20,632,528 and \$18,741,663, equaling 49% and 41% of all revenues, respectively. Program specific revenues in the form of charges for services and grants and contributions were \$21,119,123 and \$26,428,485 for 2014 and 2013, equaling 51% and 59% of total revenues.
- In 2014 and 2013, the City had \$47,080,360 and \$42,984,989 in expenses, respectively; only \$21,119,123 and \$26,428,485 of these expenses were offset by program specific charges for services, grants and contributions.
- Capital assets, net of accumulated depreciation, totaled \$101,919,655 in 2014, and \$100,504,360 in 2013.

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 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, 2014

- 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 the 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, 2014

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 26 and 28 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 are 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, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|-------------------|---------------------------------|-------------------|--------------------|--------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Assets | | | | | | |
| Current and other assets | \$ 5,802,274 | 9,579,531 | 2,653,787 | 3,997,621 | 8,456,061 | 13,577,152 |
| Capital assets | 71,213,518 | 68,543,536 | 30,706,137 | 31,960,824 | 101,919,655 | 100,504,360 |
| Total assets | <u>77,015,792</u> | <u>78,123,067</u> | <u>33,359,924</u> | <u>35,958,445</u> | <u>110,375,716</u> | <u>114,081,512</u> |
| Deferred outflows of resources | | | | | | |
| | <u>124,245</u> | <u>136,669</u> | <u>-</u> | <u>-</u> | <u>124,245</u> | <u>136,669</u> |
| Liabilities | | | | | | |
| Long-term debt outstanding | 8,329,813 | 6,246,570 | 9,898,128 | 9,631,958 | 18,227,941 | 15,878,528 |
| Other liabilities | 3,694,861 | 2,769,664 | 2,738,757 | 4,436,489 | 6,433,618 | 7,206,153 |
| Total liabilities | <u>12,024,674</u> | <u>9,016,234</u> | <u>12,636,885</u> | <u>14,068,447</u> | <u>24,661,559</u> | <u>23,084,681</u> |
| Deferred inflows of resources | | | | | | |
| | <u>-</u> | <u>-</u> | <u>90,961</u> | <u>57,350</u> | <u>90,961</u> | <u>57,350</u> |
| Net assets | | | | | | |
| Invested in capital assets, net of debt | 65,403,247 | 60,617,406 | 20,463,208 | 21,995,285 | 85,866,455 | 82,612,691 |
| Restricted | 1,528,987 | 1,093,632 | - | 1,096,845 | 1,528,987 | 2,190,477 |
| Unrestricted | (1,816,871) | 7,532,464 | 168,870 | (1,259,482) | (1,648,001) | 6,272,982 |
| Total net position | <u>\$ 65,115,363</u> | <u>69,243,502</u> | <u>20,632,078</u> | <u>21,832,648</u> | <u>85,747,441</u> | <u>91,076,150</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 \$85,747,441.

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 2014 and 2% in 2013. Investment in capital assets (e.g. land, construction in progress, buildings, equipment, and infrastructure) accounted for 100% and 91% in 2014 and 2013, 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 \$11 million of construction-in-process during the year.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2014

Changes in net position – The City’s total revenues for the fiscal years ended September 30, 2014 and 2013 were \$41,751,651 and \$45,170,148, respectively. The total cost of all programs and services was \$47,080,360 and \$42,984,989 for 2014 and 2013, respectively. The following table presents a summary of the changes in net position for the fiscal years ended September 30, 2014 and 2013.

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|--|--------------------------------|-------------------|---------------------------------|-------------------|--------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 6,195,954 | 6,229,524 | 12,443,443 | 11,487,381 | 18,639,397 | 17,716,905 |
| Operating grants and contributions | 1,476,413 | 4,919,592 | - | - | 1,476,413 | 4,919,592 |
| Capital grants and contributions | 1,003,313 | 3,791,988 | - | - | 1,003,313 | 3,791,988 |
| General revenues: | | | | | | |
| Property taxes | 9,247,704 | 9,221,096 | 250,888 | 251,134 | 9,498,592 | 9,472,230 |
| Franchise taxes | 1,550,223 | 1,437,447 | - | - | 1,550,223 | 1,437,447 |
| Sales tax | 6,092,958 | 5,684,154 | - | - | 6,092,958 | 5,684,154 |
| Other taxes | 1,424,244 | 1,849,144 | - | - | 1,424,244 | 1,849,144 |
| Other general revenues | 1,734,544 | 259,564 | 331,967 | 39,124 | 2,066,511 | 298,688 |
| Total revenues | <u>28,725,353</u> | <u>33,392,509</u> | <u>13,026,298</u> | <u>11,777,639</u> | <u>41,751,651</u> | <u>45,170,148</u> |
| Program expenses | | | | | | |
| General government | 14,199,944 | 11,279,124 | - | - | 14,199,944 | 11,279,124 |
| Public safety | 12,300,244 | 12,204,309 | - | - | 12,300,244 | 12,204,309 |
| Public works | 3,912,106 | 4,309,801 | - | - | 3,912,106 | 4,309,801 |
| Culture and recreation | 1,717,989 | 1,577,163 | - | - | 1,717,989 | 1,577,163 |
| Urban renewal and econ. dev | 538,311 | 790,387 | - | - | 538,311 | 790,387 |
| Debt service - interest | 157,833 | 152,691 | - | - | 157,833 | 152,691 |
| Water, sewer and gas | - | - | 13,019,977 | 11,212,859 | 13,019,977 | 11,212,859 |
| Transfer station | - | - | 13,711 | 38,525 | 13,711 | 38,525 |
| Energy recovery and solid waste | - | - | 1,220,245 | 1,420,130 | 1,220,245 | 1,420,130 |
| Total expenses | <u>32,826,427</u> | <u>30,313,475</u> | <u>14,253,933</u> | <u>12,671,514</u> | <u>47,080,360</u> | <u>42,984,989</u> |
| Excess(deficiency) of revenues over (under) expenditures | <u>(4,101,074)</u> | <u>3,079,034</u> | <u>(1,227,635)</u> | <u>(893,875)</u> | <u>(5,328,709)</u> | <u>2,185,159</u> |
| Transfers in (out) | <u>(27,065)</u> | <u>(18,450)</u> | <u>27,065</u> | <u>18,450</u> | <u>-</u> | <u>-</u> |
| Change in net position | <u>\$ (4,128,139)</u> | <u>3,060,584</u> | <u>(1,200,570)</u> | <u>(875,425)</u> | <u>(5,328,709)</u> | <u>2,185,159</u> |

Governmental Activities - The City’s revenues from governmental activities totaled \$28,725,353 while total expenses were \$32,826,427. 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 \$2,479,726 in operating and capital grants and contributions for its governmental activities compared to \$8,711,580 received in the prior fiscal year.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2014

Business-type activities - The City's business-type activities generated a change in net position of \$(1,200,570). This represents a decrease of approximately \$325,145 from the previous year. The factors contributing to this decrease include:

- The costs of the Water Sewer Fund increased nearly 17% from prior year due in large part to the rise in the costs of wastewater treatment services and natural gas.

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.

| | Governmental Activities | | | |
|------------------------------|--------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | 2014 | | 2013 | |
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| General government | \$ 14,199,944 | 6,339,442 | 11,279,124 | (2,799,584) |
| Public safety | 12,300,244 | 12,167,714 | 12,204,309 | 12,036,884 |
| Public works | 3,912,106 | 3,912,106 | 4,309,801 | 4,309,801 |
| Culture and recreation | 1,717,989 | 1,078,010 | 1,577,163 | 931,619 |
| Urban renewal and econ. dev. | 538,311 | 495,642 | 790,387 | 740,960 |
| Debt service - interest | 157,833 | 157,833 | 152,691 | 152,691 |
| Total expenses | \$ 32,826,427 | 24,150,747 | 30,313,475 | 15,372,371 |

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 \$1,015,922, compared to \$5,974,525 in the previous year. Activities within the general fund contributed 258% and 103% of the fund balances in 2014 and 2013, respectively. Other items that influenced the fund balances are as follows:

- The City had a decrease of approximately 69% in grant revenue from the prior year.
- The City had an increase of approximately 20% in capital outlay expenditures over the previous fiscal year.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2014

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 \$22,788,278 compared to \$34,109,746 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 72 to 78 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 \$(997,188) for the Pascagoula Utilities Fund, \$1,607,588 for the Transfer Station Fund. Pascagoula Utilities Fund and Transfer Station Fund showed decreases in fund balance while the ERF fund had no change in fund balance 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 net capital assets for 2014 and 2013 were \$101,919,655 and \$100,504,360, 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, 2014 and 2013.

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|--------------------------|--------------------------------|-------------------|---------------------------------|-------------------|--------------------|--------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Land | \$ 13,141,042 | 13,122,097 | 84,751 | 84,751 | 13,225,793 | 13,206,848 |
| Construction in progress | 11,634,997 | 18,824,280 | - | - | 11,634,997 | 18,824,280 |
| Buildings | 4,174,188 | 4,439,868 | 5,101,947 | 5,476,920 | 9,276,135 | 9,916,788 |
| Improvements - other | 17,295,931 | 6,620,162 | 25,261,502 | 26,145,214 | 42,557,433 | 32,765,376 |
| Equipment | 2,668,532 | 2,399,920 | 257,937 | 253,939 | 2,926,469 | 2,653,859 |
| Infrastructure | 22,298,828 | 23,137,209 | - | - | 22,298,828 | 23,137,209 |
| Total | <u>\$ 71,213,518</u> | <u>68,543,536</u> | <u>30,706,137</u> | <u>31,960,824</u> | <u>101,919,655</u> | <u>100,504,360</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, 2014

Debt Administration - At September 30, 2014, the City had \$16,053,200 in general obligation bonds and other long-term debt outstanding, of which \$1,182,565 is due within one year. The following table presents a summary of the City's outstanding debt for the fiscal years ended September 30, 2014 and 2013.

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|------------------|---------------------------------|-------------------|-------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| General obligation bonds (backed by the City) | \$ 2,680,000 | 2,985,000 | - | - | 2,680,000 | 2,985,000 |
| Revenue bonds and notes (backed by specific tax and fee revenues) | 2,513,486 | 4,461,387 | 10,242,929 | 11,827,328 | 12,756,415 | 16,288,715 |
| Capital leases | 616,785 | 479,743 | - | - | 616,785 | 479,743 |
| Total | <u>\$ 5,810,271</u> | <u>7,926,130</u> | <u>10,242,929</u> | <u>11,827,328</u> | <u>16,053,200</u> | <u>19,753,458</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 continues to project a mostly positive outlook in terms of its economic environment. It is the home of 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.

As it did in 2013, Pascagoula had another increase in sales tax collections in 2014. The Mississippi Department of Revenue diverted over \$5.5 million to Pascagoula in 2014, up again from \$5.4 million in 2013. Its unemployment rate also fell from 8.0% in 2013 to 7.3% in 2014. Although the unemployment rate decreased, it is still higher than the State of Mississippi's current unemployment rate of 6.6%.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2014

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 \$25.15 million bond issue as a means of financing these infrastructure upgrades. Also, plans are still in the works for a potential \$10 million bond issue for the needed recreational facility enhancements. In the meantime, further growth is projected for the city's gross metropolitan product. A proposed 2% prepared food tax is expected to generate an additional \$800,000 plus in revenue, which will offset the cost of the debt service on the recreation bond.

Ad valorem taxes also increased from \$9,472,230 in 2013 to \$9,498,592 in 2014, and are projected to bring in \$10,975,118 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, 2015

In the fiscal year 2014/15 Budget, General Fund revenues are budgeted at \$31,725,153, an increase of \$4,203,573 from the 2013/14 budgeted revenues of \$27,521,580. That represents a 15.3% increase. The major factor contributing to this increase is in the amount budgeted in Other Financing Sources for loan proceeds that represented an increase of \$5,959,000. The primary sources of revenue for the General Fund are property taxes and sales taxes, which amount to 27.9% and 18.9%, respectively, of the revenue budgeted for the fiscal year 2015.

General Fund expenditures for the fiscal year 2014/15 are budgeted at \$33,510,860, an increase of \$1,025,194 (3.2%) over fiscal year 2014 budget of \$32,485,666. The major portion of the General Fund's budget goes to Public Safety, which represents 38.5% of the budget for fiscal year 2014/15. The General Fund budget for 2014/15 includes \$7,008,766 in capital outlay most of which is to be financed by a bond issue.

Utility Fund revenues are budgeted to be \$21,422,928 for 2014/15. This represents an increase of \$4,403,932 from the fiscal year 2014 budget, which totaled \$17,018,996. The principal source of revenue for the Utility Fund is charges for utility services which amounts to \$12,770,190, or 59.6%, of the Utility Fund's total budgeted revenue for the fiscal year 2015.

Utility Fund expenditures are budgeted to be \$21,125,594 for fiscal year 2015, an increase of \$2,869,710 (15.7%) over the \$18,255,884 budgeted for fiscal year 2013/14. The Utility Fund budget includes \$7,575,115 in the fiscal year 2015 for capital outlay that will be financed in large part by a bond issue. A large proportion of the increase of 15.7% referred to above in Utility Fund expenditures is made up of the increase of \$4,482,943 in capital outlay.

CITY OF PASCAGOULA, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2014

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, 2014

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, 2014

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|--------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 279,877 | 2,255,796 | 2,535,673 |
| Restricted cash and cash equivalents | - | 645,911 | 645,911 |
| Receivables, net | 2,601,193 | 1,072,107 | 3,673,300 |
| Prepaid items | 342,513 | - | 342,513 |
| Internal balances | 1,320,027 | (1,320,027) | - |
| Net pension obligation | 1,258,664 | - | 1,258,664 |
| Capital assets: | | | |
| Land and construction in progress | 24,776,039 | 84,751 | 24,860,790 |
| Other capital assets, net of depreciation | 46,437,479 | 30,621,386 | 77,058,865 |
| Total capital assets | <u>71,213,518</u> | <u>30,706,137</u> | <u>101,919,655</u> |
| Total assets | <u>77,015,792</u> | <u>33,359,924</u> | <u>110,375,716</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred bond charges | <u>124,245</u> | - | <u>124,245</u> |
| Total deferred outflows of resources | <u>124,245</u> | - | <u>124,245</u> |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | 2,551,292 | 1,643,697 | 4,194,989 |
| Unearned revenues | 410,153 | - | 410,153 |
| Customer deposits | - | 645,911 | 645,911 |
| Long-term liabilities: | | | |
| Due within one year | | | |
| Bonds and notes payable | 631,360 | 442,910 | 1,074,270 |
| Compensated absences | 102,056 | 6,239 | 108,295 |
| Due in more than one year | | | |
| Bonds and notes payable | 5,178,911 | 9,800,019 | 14,978,930 |
| Compensated absences | 3,150,902 | 98,109 | 3,249,011 |
| Total liabilities | <u>12,024,674</u> | <u>12,636,885</u> | <u>24,661,559</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unamortized premium on bond | - | 52,136 | 52,136 |
| Deferred savings on revenue refundings | - | 38,825 | 38,825 |
| Total deferred inflows of resources | <u>-</u> | <u>90,961</u> | <u>90,961</u> |
| NET POSITION | | | |
| Investment in capital assets (net of related debt) | 65,403,247 | 20,463,208 | 85,866,455 |
| Restricted net position: | | | |
| Capital projects | 68,602 | - | 68,602 |
| Debt service | 1,460,385 | - | 1,460,385 |
| Unrestricted net position | (1,816,871) | 168,870 | (1,648,001) |
| Total net position | <u>\$ 65,115,363</u> | <u>20,632,078</u> | <u>85,747,441</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, 2014

| | Expenses | Program revenue | | | Net (expense) revenue and changes in net position | | |
|---|----------------------|---------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for service | Operating Grants and Contributions | Capital Grants and Contributions | Governmental activities | Business-type activities | Total |
| Governmental activities: | | | | | | | |
| General government | \$ 14,199,944 | 5,380,776 | 1,476,413 | 1,003,313 | (6,339,442) | - | (6,339,442) |
| Public safety | 12,300,244 | 132,530 | - | - | (12,167,714) | - | (12,167,714) |
| Public works | 3,912,106 | - | - | - | (3,912,106) | - | (3,912,106) |
| Culture and recreation | 1,717,989 | 639,979 | - | - | (1,078,010) | - | (1,078,010) |
| Urban renewal and econ. dev. | 538,311 | 42,669 | - | - | (495,642) | - | (495,642) |
| Debt service - interest | 157,833 | - | - | - | (157,833) | - | (157,833) |
| Total governmental activities | <u>32,826,427</u> | <u>6,195,954</u> | <u>1,476,413</u> | <u>1,003,313</u> | <u>(24,150,747)</u> | <u>-</u> | <u>(24,150,747)</u> |
| Business-type activities: | | | | | | | |
| Water, sewer and gas fund | 13,019,977 | 11,164,747 | - | - | - | (1,855,230) | (1,855,230) |
| Transfer station | 13,711 | - | - | - | - | (13,711) | (13,711) |
| Energy recovery and solid waste | 1,220,245 | 1,278,696 | - | - | - | 58,451 | 58,451 |
| Total business-type activities | <u>14,253,933</u> | <u>12,443,443</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,810,490)</u> | <u>(1,810,490)</u> |
| Total primary | <u>\$ 47,080,360</u> | <u>18,639,397</u> | <u>1,476,413</u> | <u>1,003,313</u> | <u>(24,150,747)</u> | <u>(1,810,490)</u> | <u>(25,961,237)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 7,931,440 | - | 7,931,440 |
| Property taxes, levied for debt service | | | | | 1,316,264 | 250,888 | 1,567,152 |
| Franchise taxes | | | | | 1,550,223 | - | 1,550,223 |
| Sales tax | | | | | 6,092,958 | - | 6,092,958 |
| Other taxes | | | | | 1,424,244 | - | 1,424,244 |
| Contributions in aid | | | | | 62,201 | - | 62,201 |
| Unrestricted investment earnings | | | | | 29,943 | 4,899 | 34,842 |
| Insurance proceeds | | | | | 31,633 | - | 31,633 |
| Forgiveness of debt | | | | | 1,118,804 | 325,689 | 1,444,493 |
| Gain (loss) on the sale of capital assets | | | | | 113,932 | - | 113,932 |
| Miscellaneous | | | | | <u>378,031</u> | <u>1,379</u> | <u>379,410</u> |
| Total general revenues | | | | | <u>20,049,673</u> | <u>582,855</u> | <u>20,632,528</u> |
| Change in net position before transfers | | | | | (4,101,074) | (1,227,635) | (5,328,709) |
| Transfers | | | | | <u>(27,065)</u> | <u>27,065</u> | <u>-</u> |
| Change in net position | | | | | (4,128,139) | (1,200,570) | (5,328,709) |
| Net position - beginning | | | | | 68,257,738 | 22,117,819 | 90,375,557 |
| Prior period adjustments | | | | | <u>985,764</u> | <u>(285,171)</u> | <u>700,593</u> |
| Net position - ending | | | | | <u>\$ 65,115,363</u> | <u>20,632,078</u> | <u>85,747,441</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, 2014

| | <u>General Fund</u> | <u>Community Development Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------------------|----------------------|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ - | - | 1,001,208 | 1,001,208 |
| Receivables, net | 1,264,534 | 441,824 | 16,189 | 1,722,547 |
| Due from other funds | 10,023,298 | - | 840,886 | 10,864,184 |
| Prepaid expenses | 342,513 | - | - | 342,513 |
| | <u>11,630,345</u> | <u>441,824</u> | <u>1,858,283</u> | <u>13,930,452</u> |
| LIABILITIES | | | | |
| Liabilities: | | | | |
| Accounts payable | 1,083,387 | 1,341,854 | 6,705 | 2,431,946 |
| Other accrued liabilities | 726,896 | - | - | 726,896 |
| Compensated absences, current | 102,056 | - | - | 102,056 |
| Unearned revenue | 22,026 | 388,127 | - | 410,153 |
| Due to other funds | 7,076,335 | 1,835,650 | 331,494 | 9,243,479 |
| | <u>9,010,700</u> | <u>3,565,631</u> | <u>338,199</u> | <u>12,914,530</u> |
| FUND BALANCES | | | | |
| Nonspendable | 342,513 | - | - | 342,513 |
| Restricted for: | | | | |
| Debt Service | - | - | 1,460,385 | 1,460,385 |
| Capital projects | - | - | 68,602 | 68,602 |
| Unassigned | 2,277,132 | (3,123,807) | (8,903) | (855,578) |
| | <u>2,619,645</u> | <u>(3,123,807)</u> | <u>1,520,084</u> | <u>1,015,922</u> |
| Total fund balances | <u>2,619,645</u> | <u>(3,123,807)</u> | <u>1,520,084</u> | <u>1,015,922</u> |
| Total liabilities and fund balances | <u>\$ 11,630,345</u> | <u>441,824</u> | <u>1,858,283</u> | <u>13,930,452</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, 2014

Total governmental funds balance **\$ 1,015,922**

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 | \$ 108,053,330 | |
| less: accumulated depreciation | <u>(36,839,812)</u> | 71,213,518 |

Other long-term assets are not available to pay for current period expenditures. 878,646

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. (340,838)

Bond deferred charges 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. 124,245

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

| | | |
|--------------------------|------------------|--------------------|
| Accrued interest payable | \$ (73,621) | |
| Bonds and notes | (5,810,271) | |
| Compensated absences | (3,150,902) | |
| Other accrued expenses | <u>1,258,664</u> | <u>(7,776,130)</u> |

Net position of governmental activities **\$ 65,115,363**

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, 2014

| | <u>General Fund</u> | <u>Community Development Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|---|
| REVENUES | | | | |
| Property taxes | \$ 7,931,440 | - | 1,316,264 | 9,247,704 |
| Franchise fees | 1,550,223 | - | - | 1,550,223 |
| Fees and fines | 885,996 | - | - | 885,996 |
| Licenses and permits | 132,530 | - | - | 132,530 |
| Intergovernmental | 7,517,202 | - | - | 7,517,202 |
| Charges for services | 1,922,329 | - | - | 1,922,329 |
| Investment earnings | 25,993 | - | 3,950 | 29,943 |
| Contribution in aid | 62,201 | - | - | 62,201 |
| Grants | 446,104 | 2,053,565 | 108,269 | 2,607,938 |
| Miscellaneous | 366,735 | - | 11,296 | 378,031 |
| Total revenues | <u>20,840,753</u> | <u>2,053,565</u> | <u>1,439,779</u> | <u>24,334,097</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 4,374,252 | - | 789,347 | 5,163,599 |
| Public safety | 12,300,244 | - | - | 12,300,244 |
| Public works | 3,912,106 | - | - | 3,912,106 |
| Culture and recreation | 1,717,989 | - | - | 1,717,989 |
| Urban renewal and econ development | 503,826 | 33,025 | 1,460 | 538,311 |
| Debt service: | | | | |
| Principal payments | 204,281 | - | 305,000 | 509,281 |
| Interest and fiscal charges | 18,731 | - | 114,276 | 133,007 |
| Capital outlay | 906,976 | 4,049,519 | 74,917 | 5,031,412 |
| Total expenditures | <u>23,938,405</u> | <u>4,082,544</u> | <u>1,285,000</u> | <u>29,305,949</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(3,097,652)</u> | <u>(2,028,979)</u> | <u>154,779</u> | <u>(4,971,852)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 156,808 | - | - | 156,808 |
| Insurance recoveries | 31,633 | - | - | 31,633 |
| Transfers in (out) | (335,338) | 308,273 | - | (27,065) |
| Total other financing sources (uses) | <u>(146,897)</u> | <u>308,273</u> | <u>-</u> | <u>161,376</u> |
| Net changes in fund balances | <u>(3,244,549)</u> | <u>(1,720,706)</u> | <u>154,779</u> | <u>(4,810,476)</u> |
| Fund balance - beginning of year | 6,167,572 | (1,604,869) | 1,411,822 | 5,974,525 |
| Prior period adjustments | (303,378) | 201,768 | (46,517) | (148,127) |
| Fund balance - end of year | <u>\$ 2,619,645</u> | <u>(3,123,807)</u> | <u>1,520,084</u> | <u>1,015,922</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, 2014

Net change in fund balances - total governmental funds **\$ (4,810,476)**

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 | \$ 5,031,413 | |
| Depreciation expense | <u>2,405,605</u> | |
| Excess of capital outlay over depreciation expense | | 2,625,807 |

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.

| | | |
|---|----------------|----------|
| Proceeds from sale of assets | \$ (156,808) | |
| (Gain) or loss on disposition of assets | <u>113,932</u> | (42,876) |

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

| | | |
|---------------------------------|------------------|-----------|
| Fees and fines, net of bad debt | \$ 230,908 | |
| Operating grant income | (128,212) | |
| Forgiveness of debt | <u>1,118,804</u> | 1,221,500 |

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 214,186

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. (653,382)

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 | \$ (2,663,339) | |
| Accrued interest payable | (24,826) | |
| Net pension obligation | (14,749) | |
| Other expenses | <u>20,016</u> | <u>(2,682,898)</u> |

Changes in net position of governmental activities **\$ (4,128,139)**

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, 2014

| | Enterprise Funds | | | | | Internal Service Fund |
|---|----------------------------------|------------------------------|--------------------------------------|-----------------------------|-------------------------------|------------------------------|
| | Major Funds | | | Other Nonmajor Funds | Total Enterprise Funds | |
| | Water, Sewer and Gas Fund | Transfer Station Fund | Energy Recovery Facility Fund | | | |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 254,078 | 1,556,774 | - | 939,709 | 2,750,561 | 220,009 |
| Restricted cash and cash equivalents | 645,911 | - | - | - | 645,911 | - |
| Accounts receivable, net | 740,462 | - | - | 331,645 | 1,072,107 | - |
| Due from other funds | 93,405 | 65,828 | - | 196,356 | 355,589 | - |
| Total current assets | <u>1,733,856</u> | <u>1,622,602</u> | <u>-</u> | <u>1,467,710</u> | <u>4,824,168</u> | <u>220,009</u> |
| Noncurrent assets: | | | | | | |
| Capital assets: | | | | | | |
| Land and construction in progress | - | - | 84,751 | - | 84,751 | - |
| Other capital assets, net of accumulated depreciation | 30,353,753 | 267,633 | - | - | 30,621,386 | - |
| Total noncurrent assets | <u>30,353,753</u> | <u>267,633</u> | <u>84,751</u> | <u>-</u> | <u>30,706,137</u> | <u>-</u> |
| Total assets | <u>32,087,609</u> | <u>1,890,235</u> | <u>84,751</u> | <u>1,467,710</u> | <u>35,530,305</u> | <u>220,009</u> |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued liabilities | 374,705 | - | 1,672,392 | 91,365 | 2,138,462 | 260,169 |
| Compensated absences | 6,239 | - | - | - | 6,239 | - |
| Due to other funds | 1,515,119 | 15,014 | 145,483 | - | 1,675,616 | 300,678 |
| Bonds and notes payable | 442,910 | - | - | - | 442,910 | - |
| Total current liabilities | <u>2,338,973</u> | <u>15,014</u> | <u>1,817,875</u> | <u>91,365</u> | <u>4,263,227</u> | <u>560,847</u> |
| Noncurrent liabilities: | | | | | | |
| Deposits | 645,911 | - | - | - | 645,911 | - |
| Compensated absences | 98,109 | - | - | - | 98,109 | - |
| Bonds and notes payable | 3,673,418 | - | 6,126,601 | - | 9,800,019 | - |
| Total noncurrent liabilities: | <u>4,417,438</u> | <u>-</u> | <u>6,126,601</u> | <u>-</u> | <u>10,544,039</u> | <u>-</u> |
| Total liabilities | <u>6,756,411</u> | <u>15,014</u> | <u>7,944,476</u> | <u>91,365</u> | <u>14,807,266</u> | <u>560,847</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unamortized premium on bond | 52,136 | - | - | - | 52,136 | - |
| Deferred savings on revenue refundings | 38,825 | - | - | - | 38,825 | - |
| Total deferred inflows of resources | <u>90,961</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>90,961</u> | <u>-</u> |
| NET POSITION | | | | | | |
| Invested in capital assets, net of related debt | 26,237,425 | 267,633 | (6,041,850) | - | 20,463,208 | - |
| Restricted: | | | | | | |
| Debt service | - | - | - | - | - | - |
| Unrestricted | (997,188) | 1,607,588 | (1,817,875) | 1,376,345 | 168,870 | (340,838) |
| Total net position | <u>\$ 25,240,237</u> | <u>1,875,221</u> | <u>(7,859,725)</u> | <u>1,376,345</u> | <u>20,632,078</u> | <u>(340,838)</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, 2014

| | Enterprise Funds | | | | | |
|---|--|----------------------------------|--|-------------------------------------|---------------------------------------|----------------------------------|
| | Major Funds | | | Other Nonmajor Funds | Total Enterprise Funds | Internal Service Fund |
| | Water, Sewer and Gas Fund | Transfer Station Fund | Energy Recovery Facility Fund | | | |
| OPERATING REVENUES | | | | | | |
| Charges for services | \$ 11,164,747 | - | - | 1,278,696 | 12,443,443 | - |
| Property taxes | - | - | - | 250,888 | 250,888 | - |
| Miscellaneous | 1,379 | - | - | - | 1,379 | 3,024,191 |
| Total operating revenues | 11,166,126 | - | - | 1,529,584 | 12,695,710 | 3,024,191 |
| OPERATING EXPENSES | | | | | | |
| Personnel services | 836,183 | - | - | 11,991 | 848,174 | - |
| Insurance claims and expenses | - | - | - | - | - | 3,677,573 |
| Administrative expenses | 3,144,444 | - | - | 78,900 | 3,223,344 | - |
| Wastewater treatment | 2,580,912 | - | - | - | 2,580,912 | - |
| Natural gas purchases | 2,369,751 | - | - | - | 2,369,751 | - |
| Waste collection | - | - | - | 885,039 | 885,039 | - |
| Waste disposal | - | - | - | 30,973 | 30,973 | - |
| Utilities | 1,086,505 | - | - | - | 1,086,505 | - |
| Supplies | 759,948 | - | - | - | 759,948 | - |
| Depreciation | 1,796,804 | 13,711 | - | - | 1,810,515 | - |
| Other services and charges | 363,025 | - | - | 213,342 | 576,367 | - |
| Total operating expenses | 12,937,572 | 13,711 | - | 1,220,245 | 14,171,528 | 3,677,573 |
| Operating income (loss) | (1,771,446) | (13,711) | - | 309,339 | (1,475,818) | (653,382) |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Forgiveness of debt | 325,689 | - | - | - | 325,689 | - |
| Interest earnings | 2,156 | - | - | 2,743 | 4,899 | - |
| Interest expense | (82,405) | - | - | - | (82,405) | - |
| Transfers in (out) | 27,065 | - | - | - | 27,065 | - |
| Total nonoperating revenues | 272,505 | - | - | 2,743 | 275,248 | - |
| Change in net position | (1,498,941) | (13,711) | - | 312,082 | (1,200,570) | (653,382) |
| Total net position - beginning of year | 27,198,535 | 1,888,932 | (8,041,365) | 1,071,717 | 22,117,819 | 137,740 |
| Prior period adjustments | (459,357) | - | 181,640 | (7,454) | (285,171) | 174,804 |
| Total net position - end of year | \$ 25,240,237 | 1,875,221 | (7,859,725) | 1,376,345 | 20,632,078 | (340,838) |

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, 2014

| | Enterprise Funds | | | | | |
|--|--|----------------------------------|--|-------------------------------------|---------------------------------------|----------------------------------|
| | Major Funds | | | Other Nonmajor Funds | Total Enterprise Funds | Internal Service Fund |
| | Water, Sewer and Gas Fund | Transfer Station Fund | Energy Recovery Facility Fund | | | |
| Cash flows from operating activities: | | | | | | |
| Cash received from customers | \$ 11,412,791 | - | - | 1,506,165 | 12,918,956 | - |
| Payments for goods and services | (8,914,101) | - | 494,765 | (1,215,898) | (9,635,234) | (3,459,256) |
| Payments to employees | (749,089) | - | - | (11,991) | (761,080) | - |
| Other receipts (payments) | 1,379 | - | - | - | 1,379 | 3,024,191 |
| Net cash provided (used) by operating activities | <u>1,750,980</u> | <u>-</u> | <u>494,765</u> | <u>278,276</u> | <u>2,524,021</u> | <u>(435,065)</u> |
| Cash flows from NonCapital financing activities: | | | | | | |
| Transfers to / from other funds | <u>27,065</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>27,065</u> | <u>-</u> |
| Net cash used in noncapital financing activities | <u>27,065</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>27,065</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchase and construction of capital assets | (555,828) | - | - | - | (555,828) | - |
| Principal paid on capital debt | (762,203) | - | (793,399) | - | (1,555,602) | - |
| Bond issuance costs | (9,097) | - | - | - | (9,097) | - |
| Forgiveness of debt | 325,689 | - | - | - | 325,689 | - |
| Interest paid on capital debt | (82,166) | - | - | - | (82,166) | - |
| Net cash used in capital and related financing activities | <u>(1,083,605)</u> | <u>-</u> | <u>(793,399)</u> | <u>-</u> | <u>(1,877,004)</u> | <u>-</u> |
| Cash flows from investing activities: | | | | | | |
| Interest received | <u>2,156</u> | <u>-</u> | <u>-</u> | <u>2,743</u> | <u>4,899</u> | <u>-</u> |
| Net cash provided by investing activities | <u>2,156</u> | <u>-</u> | <u>-</u> | <u>2,743</u> | <u>4,899</u> | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | 696,596 | - | (298,634) | 281,019 | 678,981 | (435,065) |
| Cash and cash equivalents: | | | | | | |
| Beginning 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> |
| End of the year | <u>\$ 899,989</u> | <u>1,556,774</u> | <u>-</u> | <u>939,709</u> | <u>3,396,472</u> | <u>220,009</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, 2014

| | Enterprise Funds | | | | | Internal Service Fund |
|--|--|----------------------------------|--|-------------------------------------|---------------------------------------|----------------------------------|
| | Major Funds | | | Other Nonmajor Funds | Total Enterprise Funds | |
| | Water, Sewer and Gas Fund | Transfer Station Fund | Energy Recovery Facility Fund | | | |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | | | | | |
| Operating income (loss) | \$ (1,771,446) | (13,711) | - | 309,339 | (1,475,818) | (653,382) |
| Adjustments to reconcile operating income (loss) to net cash | | | | | | |
| Depreciation expense | 1,796,804 | 13,711 | - | - | 1,810,515 | - |
| (Increase) decrease in current assets: | | | | | | |
| Accounts receivable | 21,164 | - | - | 1,605 | 22,769 | - |
| Due from other funds | 226,880 | - | - | (25,024) | 201,856 | - |
| Increase (decrease) in current liabilities: | | | | | | |
| Accounts payable | 87,059 | - | 494,765 | (7,644) | 79,415 | 218,317 |
| Due to other funds | 1,303,425 | - | - | - | 1,303,425 | - |
| Compensated absences | 87,094 | - | - | - | 87,094 | - |
| Net cash provided (used) by operating activities | <u>\$ 1,750,980</u> | <u>-</u> | <u>494,765</u> | <u>278,276</u> | <u>2,029,256</u> | <u>(435,065)</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, 2014

| | Pascagoula Redevelopment Authority Fund | Pascagoula Port Commission Fund | Total Fiduciary Funds |
|---|--|--|----------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 30,649 | 51,992 | 82,641 |
| Total assets | \$ 30,649 | 51,992 | 82,641 |
| LIABILITIES | | | |
| Due to Pascagoula Redevelopment Authority | \$ 30,649 | - | 30,649 |
| Due to Pascagoula Port Commission | - | 51,992 | 51,992 |
| Total liabilities | \$ 30,649 | 51,992 | 82,641 |

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

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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, 2014

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, 2014

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, 2014, 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, 2014

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, 2014

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 unearned revenues. Amounts received prior to the entitlement period are also recorded as unearned 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, 2014.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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, 2014, 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, 2014

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. 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, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Premiums, Discounts and Issuance Costs

On the government-wide statement of net position and the proprietary fund type statement of net position, debt premiums and discounts are netted against debt payable and debt issuance costs are recognized as an outflow of resources in the period incurred. 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.

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, 2014

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 is 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, 2014

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 unearned 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.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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 \$3,181,584, and the respective bank balances totaled \$4,394,028. There were no certificates of deposits outstanding at September 30, 2014.

The City's deposits were fully insured or collateralized as required by statute at September 30, 2014.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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, 2014, 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 2013-2014 calendar years is The First and Merchants and Marine Bank.

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The City does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Details regarding custodial credit risk are discussed in Note 2 B.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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

Deposits at September 30, 2014, (including restricted deposits) are as follows:

| | Bank Balances | Total Carrying Value |
|--|----------------------|-----------------------------|
| Pooled deposits: | | |
| Cash and cash equivalents | \$ 3,762,890 | 2,105,948 |
| Non-pooled deposits: | | |
| Cash and cash equivalents: | | |
| Payroll fund | 322,363 | 757,228 |
| Municipal court fund | 142,664 | 151,187 |
| SMMET | 166,111 | 166,111 |
| Petty cash | - | 510 |
| Cash drawer | - | 600 |
| | \$ 4,394,028 | 3,181,584 |
| Reconciliation to government-wide statement of net assets: | | |
| Restricted cash | | \$ 645,911 |
| Unrestricted cash | | 2,535,673 |
| | | \$ 3,181,584 |

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, 2014, are as follows:

| Restricted Assets | Cash Including Time Deposits |
|----------------------------------|-------------------------------------|
| Business-type activities: | |
| Customer deposits | \$ 645,911 |
| | \$ 645,911 |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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

C. Accounts Receivable

Accounts receivable at September 30, 2014, consisted of the following:

| | Accounts Receivable | Allowance for Uncollectible Accounts | Net Accounts Receivable |
|----------------------------------|--------------------------------|---|------------------------------------|
| General Fund: | | | |
| Ad valorem taxes | \$ 62,917 | - | 62,917 |
| Franchise taxes | 395,354 | - | 395,354 |
| Sales tax | 440,180 | - | 440,180 |
| Grants | 878,646 | - | 878,646 |
| Police court fines | 254,596 | - | 254,596 |
| Other | 116,738 | - | 116,738 |
| | <u>2,148,431</u> | <u>-</u> | <u>2,148,431</u> |
| Special Revenue: | | | |
| Grants | - | - | - |
| Other | 7,508 | 489 | 7,019 |
| Debt Service: | | | |
| Ad valorem taxes | 3,919 | - | 3,919 |
| Community Development Fund: | | | |
| Grants | 441,824 | - | 441,824 |
| Total governmental activities | <u>2,601,682</u> | <u>489</u> | <u>2,601,193</u> |
| Enterprise Funds: | | | |
| Water, sewer and gas services | 2,287,117 | 1,546,655 | 740,462 |
| Solid waste management | 331,645 | - | 331,645 |
| Total business-type activities | <u>2,618,762</u> | <u>1,546,655</u> | <u>1,072,107</u> |
| Total government-wide activities | <u>\$ 5,220,444</u> | <u>1,547,144</u> | <u>3,673,300</u> |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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

D. Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

| | Primary Government | | | |
|--|------------------------------|--------------------|-----------------------------------|---------------------|
| | Beginning Balance | Increases | Decreases/ Adjustments | |
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 13,122,097 | 56,621 | (37,676) | 13,141,042 |
| Construction in progress | 18,824,280 | 3,834,600 | (11,023,883) | 11,634,997 |
| Total capital assets not being depreciated | <u>31,946,377</u> | <u>3,891,221</u> | <u>(11,061,559)</u> | <u>24,776,039</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 8,681,874 | - | - | 8,681,874 |
| Improvements - other | 9,057,663 | 11,215,488 | - | 20,273,151 |
| Infrastructure | 43,737,482 | - | - | 43,737,482 |
| Equipment | 9,986,918 | 1,008,906 | (411,040) | 10,584,784 |
| Total capital assets being depreciated | <u>71,463,937</u> | <u>12,224,394</u> | <u>(411,040)</u> | <u>83,277,291</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (4,242,006) | (265,680) | - | (4,507,686) |
| Improvements - other | (2,437,501) | (539,719) | - | (2,977,220) |
| Infrastructure | (20,600,273) | (838,381) | - | (21,438,654) |
| Equipment | (7,586,998) | (761,824) | 432,570 | (7,916,252) |
| Total accumulated depreciation | <u>(34,866,778)</u> | <u>(2,405,604)</u> | <u>432,570</u> | <u>(36,839,812)</u> |
| Total capital assets being depreciated, net | <u>36,597,159</u> | <u>9,818,790</u> | <u>21,530</u> | <u>46,437,479</u> |
| Total governmental activities capital assets, net | <u>\$ 68,543,536</u> | <u>13,710,011</u> | <u>(11,040,029)</u> | <u>71,213,518</u> |
| Business-type activities: | | | | |
| 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 | 56,877,157 | 445,725 | - | 57,322,882 |
| Equipment | 6,563,400 | 110,104 | (17,509) | 6,655,995 |
| Total capital assets being depreciated | <u>71,809,943</u> | <u>555,829</u> | <u>(17,509)</u> | <u>72,348,263</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,892,466) | (374,973) | - | (3,267,439) |
| Infrastructure and improvements - other | (30,731,943) | (1,329,437) | - | (32,061,380) |
| Equipment | (6,309,461) | (106,106) | 17,509 | (6,398,058) |
| Total accumulated depreciation | <u>(39,933,870)</u> | <u>(1,810,516)</u> | <u>17,509</u> | <u>(41,726,877)</u> |
| Total capital assets being depreciated, net | <u>31,876,073</u> | <u>(1,254,687)</u> | <u>-</u> | <u>30,621,386</u> |
| Total business-type activities capital assets, net | <u>\$ 31,960,824</u> | <u>(1,254,687)</u> | <u>-</u> | <u>30,706,137</u> |
| Primary Government | | | | |
| Total capital assets, net | <u>\$ 100,504,360</u> | <u>12,455,324</u> | <u>(11,040,029)</u> | <u>101,919,655</u> |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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

A summary of general fixed assets transactions for the year ended September 30, 2014, follows:

| | Expended through September 30, 2014 | Remaining Commitment |
|--|--|---------------------------------|
| | <u> </u> | <u> </u> |
| Primary Government | | |
| Governmental Activities: | | |
| Riverfront Property Acquisition Ph. II | \$ (589,483) | - |
| 11th Street Drainage Channel Project | 2,677 | - |
| City Hall (HMP) | 35,506 | - |
| Lake Elementary Sidewalk | 28 | - |
| IG Levy ADA Restrooms | 49,672 | - |
| Point Park Project | 1,371,177 | 243,987 |
| Front Street Reconnect/Streetscape Project | 1,034,801 | 177,052 |
| Beachfront Promenade Project | 182,230 | 774,566 |
| Round Island Lighthouse Project | 122,961 | 197,342 |
| Lowry Island Project | 1,401,957 | 2,978,057 |
| Communny & Emerson Project | 22,820 | 425,014 |
| FY 2013 Tidelands Environmental Trail | 14,876 | 1,743 |
| FY 2012 Bike Trail | 41,259 | 34,340 |
| Hospital Road Widening | 72,463 | 393,753 |
| SPAP Sewer Rehabilitation Project | 39,359 | 463,066 |
| New Roof at Police Dept | 3,360 | - |
| Drainage Improvement - Holland | 7,224 | 1,651,178 |
| Drainage Improvement - Washington | 21,713 | 1,259,498 |
| Total governmental construction in process | <u>\$ 3,834,600</u> | <u>8,599,596</u> |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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

Depreciation expense was charged to programs for the year ended September 30, 2014 as follows:

Governmental activities:

| | |
|--------------------|---------------------|
| General government | \$ <u>2,405,605</u> |
|--------------------|---------------------|

Business-type activities:

| | |
|---------------------------|--------------|
| Water, sewer and gas fund | \$ 1,796,804 |
|---------------------------|--------------|

| | |
|------------------|---------------|
| Transfer station | <u>13,712</u> |
|------------------|---------------|

| | |
|---|---------------------|
| Total business-type activities depreciation expense | <u>\$ 1,810,516</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, 2014, is shown below:

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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> |
|---|------------------------------|------------------|-------------------|---------------------------|--|
| Governmental activities: | | | | | |
| Bonds and notes payable: | | | | | |
| General obligation debt | \$ 2,985,000 | - | 305,000 | 2,680,000 | 365,000 |
| Notes payable | 4,461,387 | - | 1,947,901 | 2,513,486 | 69,401 |
| Capital leases | 479,743 | 341,323 | 204,281 | 616,785 | 196,959 |
| Total bonds and notes payable | <u>7,926,130</u> | <u>341,323</u> | <u>2,457,182</u> | <u>5,810,271</u> | <u>631,360</u> |
| Other liabilities: | | | | | |
| Compensated absences | 587,381 | 2,665,577 | - | 3,252,958 | 102,056 |
| Total other liabilities | <u>587,381</u> | <u>2,665,577</u> | <u>-</u> | <u>3,252,958</u> | <u>102,056</u> |
| Total governmental activities long-term liabilities | <u>8,513,511</u> | <u>3,006,900</u> | <u>2,457,182</u> | <u>9,063,229</u> | <u>733,416</u> |
| Business-type activities: | | | | | |
| Bonds and notes payable: | | | | | |
| Water and sewer debt | 4,907,328 | - | 791,000 | 4,116,328 | 442,910 |
| Energy Recovery Facility (ERF) | 6,920,000 | - | 793,399 | 6,126,601 | - |
| Total bonds and notes payable | <u>11,827,328</u> | <u>-</u> | <u>1,584,399</u> | <u>10,242,929</u> | <u>442,910</u> |
| Other liabilities: | | | | | |
| Compensated absences | 17,254 | 87,094 | - | 104,348 | 6,239 |
| Total other liabilities | <u>17,254</u> | <u>87,094</u> | <u>-</u> | <u>104,348</u> | <u>6,239</u> |
| Total business-type activities long-term liabilities | <u>11,844,582</u> | <u>87,094</u> | <u>1,584,399</u> | <u>10,347,277</u> | <u>449,149</u> |
| Total long-term liabilities | <u>\$ 20,358,093</u> | <u>3,093,994</u> | <u>4,041,581</u> | <u>19,410,506</u> | <u>1,182,565</u> |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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

Description of Debt

At September 30, 2014, long-term debt consisted of the following individual issues:

| | <u>General Long- Term Debt</u> |
|--|---|
| Governmental activities: | |
| Bonds and notes: | |
| Unsecured community disaster loan: In 2014, a portion totaling \$1,118,804 (principal) and \$165,114 (interest) of this loan was forgiven and effectively cancelled. Additionally, the loan was restructured for payments totaling \$160,058 annually, and the maturity date extended to 2035. | \$ 2,513,486 |
| 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 | <u>2,680,000</u> |
| Total general obligation bonds and notes | <u>5,193,486</u> |
| Capital Leases: | |
| Capitalized equipment lease obligation due in annual installments of \$111,492 which includes interest at 3.49% through August 2018 | 409,620 |
| Capitalized equipment lease obligation due in monthly installments of \$634 which includes interest at 5.95% through December 2016. | 15,983 |
| Capitalized equipment lease obligation due in annual installments of \$103,913 which includes interest at 5.75% through February 2016. | <u>191,182</u> |
| Total capital lease obligations | <u>616,785</u> |
| Compensated absences | 3,252,958 |
| Less: current portion of long-term debt | <u>(733,416)</u> |
| Total governmental activities long-term debt due beyond one year | <u><u>8,329,813</u></u> |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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 | \$ 3,590,000 |
| State Revolving Fund Loan, payable in monthly installments of \$2,154, bearing interest at 1.75%, maturing September 2032, secured by utility system revenues | 398,893 |
| State Revolving Fund Loan, payable in monthly installments of \$4,662, bearing interest at 2.00%, maturing January 2017, secured by utility system revenues | 127,435 |
| 1981 Incinerator System Revenue Bonds, dated January 1, 1981, principal and interest suspended | 5,626,601 |
| 1983 Incinerator System Revenue Bonds, dated January 1, 1981, principal and interest suspended | <u>500,000</u> |
| Total general obligation bonds and notes | 10,242,929 |
| Compensated absences | 104,348 |
| Less: current portion of long-term debt | <u>(449,149)</u> |
| Total business-type activities long-term debt due beyond one year | <u><u>\$ 9,898,128</u></u> |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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, 2014, the principal balance was \$6,126,601. 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 consisted 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.

Due to the closure of the Transfer Station in December of 2012, the Incinerator System did not incur operating income or expense in fiscal year 2014. Therefore, based on the terms of the agreement with NOAA, no payment is due for the year ended September 30, 2014.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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 (SCDL) 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 Loans.

In June 2014, the City was notified by FEMA of debt cancellation for the remaining portion of the enterprise activity balance. The City's Special Community Disaster Loan, with a principal balance of \$352,689 outstanding as of September 30, 2013, was fully cancelled. The City's remaining SCDL within the governmental funds with a principal balance of \$2,513,486 outstanding as of September 30, 2014 was partially cancelled. The partial principal cancellation amounted to \$1,118,804.

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of September 30, 2014, are as follows:

| | Governmental Activities | | Business-type Activities - Bonds and Notes | | | |
|-----------|--------------------------------|-----------------|---|-----------------|------------------------|-----------------|
| | Bonds and Notes | | Water, Sewer and Gas | | Incinerator/ERF | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2015 | \$ 434,401 | 189,779 | 442,910 | 73,285 | - | - |
| 2016 | 478,579 | 151,255 | 454,333 | 63,939 | - | - |
| 2017 | 491,124 | 133,596 | 423,269 | 55,328 | - | - |
| 2018 | 508,738 | 115,182 | 415,046 | 47,004 | - | - |
| 2019 | 521,424 | 95,999 | 420,399 | 144,495 | - | - |
| 2020-2024 | 1,255,033 | 294,348 | 1,767,524 | 21,725 | - | - |
| 2025-2035 | 1,504,187 | 256,447 | 192,847 | 13,953 | - | - |
| suspended | - | - | - | - | 6,126,601 | 1,177,627 |
| Total | \$ 5,193,486 | 1,236,606 | 4,116,328 | 419,729 | 6,126,601 | 1,177,627 |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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 \$780,441 (principal payments of \$681,989 and interest payments of \$98,452). Annual amortization expense is included in depreciation expense.

Ford Motor Credit Company, LLC Capital Lease – On January 2, 2013, the City entered into a capital lease agreement at an interest rate of 5.95% with Ford Motor Credit Company, LLC to acquire the 2013 Ford F150 Police Vehicle. The lease obligation is effective during the period from January 2, 2013 through December 2, 2016. Annual payments of interest and principal began on January 2, 2013. Total payments for the equipment are \$30,429 (principal payments of \$27,154 and interest payments of \$3,275). Annual amortization expense is included in depreciation expense.

Ford Motor Credit Company, LLC Capital Lease – On February 8, 2014, the City entered into a capital lease agreement at an interest rate of 5.75% with Ford Motor Credit Company, LLC to acquire ten 2014 Ford Police Interceptor Utility Vehicles. The lease obligation is effective during the period from February 8, 2014 through February 8, 2016. Annual payments of interest and principal began on February 8, 2014. Total payments for the equipment are \$311,738 (principal payments of \$295,095 and interest payments of \$16,643). Annual amortization expense is included in depreciation expense.

The following is an amortization schedule for these leases:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------|-------------------|-----------------|----------------|
| 2015 | \$ 196,959 | 31,114 | 228,073 |
| 2016 | 206,111 | 16,900 | 223,011 |
| 2017 | 105,983 | 7,410 | 113,393 |
| 2018 | 107,732 | 3,759 | 111,491 |
| Total | <u>\$ 616,785</u> | <u>59,183</u> | <u>675,968</u> |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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

G. Interfund Balances

Interfund balances at September 30, 2014, consisted of the following:

| | DUE TO: | | | | | | | Total |
|----------------------------|--------------------------------|---|---|--|----------------------------------|--|---------------------------------------|-------------------|
| | Governmental Activities | | | Business-type Activities | | | | |
| | General Fund | Community Development Fund | Other Governmental Funds | Water, Sewer and Gas Fund | Transfer Station Fund | Energy Recovery Facility Fund | Other Enterprise Funds | |
| <u>DUE FROM:</u> | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General Fund | \$ 4,555,698 | - | 800,899 | 1,725,311 | 4,180 | - | 4,180 | 7,090,268 |
| Community Development Fund | 1,835,650 | - | - | - | - | - | - | 1,835,650 |
| Other governmental Funds | 331,494 | - | - | - | - | - | - | 331,494 |
| Internal service funds | - | - | - | - | - | - | 300,678 | 300,678 |
| Business-type activities: | | | | | | | | |
| Water, Sewer and Gas | 1,278,400 | - | 40,000 | - | - | - | 393,438 | 1,711,838 |
| Transfer Station | 15,014 | - | - | - | - | - | - | 15,014 |
| Energy Recovery Fund | - | 546 | - | 83,652 | - | - | 61,648 | 145,846 |
| Other enterprise funds | - | - | - | - | - | 363 | - | 363 |
| Total | <u>\$ 8,016,256</u> | <u>546</u> | <u>840,899</u> | <u>1,808,963</u> | <u>4,180</u> | <u>363</u> | <u>759,944</u> | <u>11,431,151</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, 2014

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

H. Interfund Transfers

Interfund transfers for the year ended September 30, 2014 are as follows:

| | TRANSFERS IN: | | | | | Total |
|------------------------------|--------------------------------|------------------------------------|---------------------------------|----------------------------------|-------------------------------|----------------|
| | Governmental Activities | | | Business-type Activities | | |
| | General Fund | Community Development Funds | Other Governmental Funds | Water, Sewer and Gas Fund | Other Enterprise Funds | |
| <u>TRANSFERS OUT:</u> | | | | | | |
| Governmental activities: | | | | | | |
| General fund | \$ - | 308,273 | - | 27,065 | - | 335,338 |
| Community development fund | - | - | - | - | - | - |
| Other governmental funds | - | - | - | - | - | - |
| Internal service funds | - | - | - | - | - | - |
| Business-type activities: | | | | | | |
| Water, Sewer and Gas | - | - | - | - | - | - |
| Other enterprise funds | - | - | - | - | - | - |
| Total | <u>\$ -</u> | <u>308,273</u> | <u>-</u> | <u>27,065</u> | <u>-</u> | <u>335,338</u> |

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, 2014

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 July 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, 2014, the City's 2014 tax rate was as follows:

| | <u>MILLS</u> |
|--|--------------|
| General Fund | 32.17 |
| Firemen and Policemen Disability and Relief Fund | 3.00 |
| Library | 1.14 |
| City Bonds and Interest | 2.24 |
| Garbage | 1.00 |
| PSD Operations | <u>46.39</u> |
| | <u>85.94</u> |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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 3.00 mills were determined by the actuary, and this contribution rate was not limited by statute.

During the year ended September 30, 2014, contributions totaling approximately \$789,347 (\$789,347 (employer) and \$- (employee)) were made in accordance with contribution requirements determined by the actuarial valuation of the system as of September 30, 2013. At September 30, 2014, no participants were actively employed.

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, 2014

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:

| | Fiscal Year Ending | | |
|--|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2012 |
| Pension benefit obligation: | | | |
| Annual required contribution | \$ 543,046 | 631,153 | 631,694 |
| Interest on net pension obligation | 101,873 | 76,948 | 54,259 |
| Adjustment to annual required contribution | 159,177 | - | - |
| Annual pension cost | <u>804,096</u> | <u>708,101</u> | <u>685,953</u> |
| Contributions made | <u>789,347</u> | <u>1,019,663</u> | <u>969,569</u> |
| Increase (decrease) in net pension obligation | 14,749 | (311,562) | (283,616) |
| Net pension obligation (benefit) beginning of year | <u>(1,273,413)</u> | <u>(961,851)</u> | <u>(678,235)</u> |
| Net pension obligation (benefit) end of year | <u><u>\$ (1,258,664)</u></u> | <u><u>(1,273,413)</u></u> | <u><u>(961,851)</u></u> |

Employees' Retirement System:

The pension benefit obligation was determined as part of the June 30, 2014, 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 98.2%, 144.0% and 141.3%, respectively, for the years ended September 30, 2014, 2013 and 2012.

At June 30, 2014, the unfunded actuarial accrued liability was determined as follows:

| | |
|---|----------------------------|
| Actuarial accrued liability: | |
| Retirees and beneficiaries currently receiving benefits | \$ 12,786,889 |
| Active members | <u>-</u> |
| Total actuarial accrued liability | 12,786,889 |
| Actuarial value of assets | <u>7,361,880</u> |
| Unfunded actuarial accrued liability | <u><u>\$ 5,425,009</u></u> |

During the year ended September 30, 2014, the plan experienced an estimated net decrease of approximately \$1,007,766 in the actuarial accrued liability.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

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, 2014, 2013, and 2012 were \$2,422,565, \$2,533,277, and \$2,388,935 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, 2014

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, 2014, a liability of \$260,135 has been recorded, which represents estimated claims incurred but not yet reported.

Changes in this claims liability during fiscal year 2014 and 2013 were as follows:

| | Balance at Beginning of Fiscal Year | Current Year Claims and Changes in Estimates | Claim Payments | Balance at End of Fiscal Year |
|-------------|--|---|---------------------------|--|
| 2013 - 2014 | \$ 146,137 | 3,281,547 | 3,167,549 | 260,135 |
| 2012 - 2013 | 181,368 | 2,545,816 | 2,581,047 | 146,137 |

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, 2014

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, 2014 - November 30, 2015 | \$ 312,830 | 3,753,960 |
| December 1, 2013 - November 30, 2014 | 291,530 | 3,498,360 |

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 \$8,599,596. 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.

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 \$215,076 for 2013-2014 fiscal year.

The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2014, a complete copy of which is on file at the administrative offices of the Authority located at 1225 Jackson Avenue, Pascagoula, MS 39567.

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

STATEMENT OF NET POSITION

ASSETS

| | |
|------------------------|----------------|
| Current assets | \$ 4,444,069 |
| Restricted investments | 3,131,142 |
| Capital assets | 138,365,712 |
| Total assets | \$ 145,940,923 |

LIABILITIES

| | |
|------------------------|---------------|
| Current liabilities | \$ 10,716,647 |
| Noncurrent liabilities | 8,144,387 |
| Total liabilities | 18,861,034 |

NET POSITION

| | |
|------------------------------------|----------------|
| Total liabilities and net position | 127,079,889 |
| | \$ 145,940,923 |

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION

| | |
|----------------------------------|---------------|
| Operating revenues | \$ 10,472,040 |
| Operating expenses | (15,828,504) |
| Non-operating revenues | 7,135 |
| Non-operating expenses | (274,380) |
| Capital contributions and grants | 5,829,798 |
| Change in net position | \$ 206,089 |

CITY OF PASCAGOULA, MISSISSIPPI
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

NOTE 4. OTHER NOTES (continued)

E. Deficit fund balances/Retained earnings

Deficit fund balances of individual funds are as follows:

Governmental activities:

| | |
|-------------------------------|-----------|
| Hurricane Isaac | \$ 1,991 |
| Hurricane Katrina | 511,459 |
| Hurricane Ivan Fund | 31,884 |
| Community Development Fund | 3,123,807 |
| FEMA Acquisition Fund | 213,996 |
| Special Revenue Projects Fund | 36,834 |
| ISTEA Fund | 6 |
| Internal Service Fund | 340,838 |

Business-type activities:

| | |
|----------------------|-----------|
| Energy Recovery Fund | 7,859,725 |
| Group Insurance Fund | 9,465 |

F. Prior Period Adjustments

A prior period adjustment of \$700,593 was made to correct September 30, 2013 net position related to the understatement of capital assets, debt, internal service fund expense, grant receivables, trade receivables, and accounts payable.

| | |
|--|-----------------------------|
| Net position, September 30, 2013 as originally presented | \$ 90,375,557 |
| To correct understatement | 700,593 |
| As restated | <u><u>\$ 91,076,150</u></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 position date require disclosure in the accompanying notes. Management of the City evaluated the activity of the City through June 15, 2015, (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 December 2014, the City issued \$15 million in general obligation bonds for the purpose of additions to infrastructure and enhancement of existing streets and drainage among other various pursuits. There are no revenues dedicated to this bond.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PASCAGOULA, MISSISSIPPI
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(Dollars in Thousands)
September 30, 2014

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> |
|---|--|--|---|-------------------------|----------------------------|--|
| 06/30/14* | \$ 7,362 | \$ 12,787 | \$ 5,425 | 57.6% | \$ - | N/A |
| 06/30/13* | 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% |

* The date of the valuation was June 30, 2014, 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, 2014

| | <u>Original Budgeted Amounts</u> | <u>Final Budgeted Amounts</u> | <u>Actual Amounts (Budgetary Basis)</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|--|-----------------------------------|---|--|
| Budgetary fund balance, October 1, 2013 | \$ 29,033,075 | 19,479,678 | 11,144,065 | (8,335,613) |
| Resources (inflows): | | | | |
| Taxes | 8,900,010 | 8,900,010 | 7,664,371 | (1,235,639) |
| Licenses and permits | 1,946,100 | 1,946,100 | 1,674,791 | (271,309) |
| Grants | 3,016,745 | 3,121,983 | 443,116 | (2,678,867) |
| Inter-governmental revenues | 8,404,249 | 8,467,749 | 7,544,403 | (923,346) |
| Charges for services | 2,002,440 | 2,000,840 | 1,947,569 | (53,271) |
| Fines and forfeitures | 1,093,200 | 1,106,559 | 819,036 | (287,523) |
| Interest | 86,400 | 86,400 | 34,843 | (51,557) |
| Rents | 102,000 | 102,000 | 114,400 | 12,400 |
| Miscellaneous | 167,200 | 283,659 | 179,880 | (103,779) |
| Transfers | 2,462,281 | 2,472,281 | - | (2,472,281) |
| Other financing sources | 2,095,300 | 2,095,300 | 161,992 | (1,933,308) |
| Amounts available for appropriations | <u>\$ 59,309,000</u> | <u>50,062,559</u> | <u>31,728,466</u> | <u>(18,334,093)</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, 2014
(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> |
|--|--------------------------------------|-----------------------------------|---|--|
| Charges to appropriations (outflows): | | | | |
| <i>General Government</i> | | | | |
| Personnel services | \$ 1,972,093 | 1,972,093 | 1,882,057 | 90,036 |
| Supplies | 149,206 | 149,894 | 100,296 | 49,598 |
| Other charges | 785,293 | 791,646 | 578,976 | 212,670 |
| Capital outlay | 660,070 | 590,320 | 237,736 | 352,584 |
| <i>General Administration</i> | | | | |
| Other charges | 1,529,400 | 1,611,060 | 1,606,187 | 4,873 |
| Transfers | 35,000 | 490,813 | 35,000 | 455,813 |
| <i>Police</i> | | | | |
| Personnel services | 6,897,678 | 6,947,013 | 6,418,077 | 528,936 |
| Supplies | 381,100 | 392,100 | 371,562 | 20,538 |
| Other charges | 357,950 | 388,903 | 255,773 | 133,130 |
| Debt service | 7,607 | 7,607 | 7,607 | - |
| Capital outlay | 938,854 | 938,854 | 170,574 | 768,280 |
| <i>Forfeiture & Seizure</i> | | | | |
| Supplies | 4,000 | 4,000 | 4,000 | - |
| Other charges | 1,000 | 10,000 | 1,524 | 8,476 |
| Capital outlay | 34,602 | 109,843 | 84,432 | 25,411 |
| Transfers | - | 10,000 | - | 10,000 |
| <i>Fire</i> | | | | |
| Personnel services | 4,338,312 | 4,338,312 | 3,268,978 | 1,069,334 |
| Supplies | 137,000 | 137,302 | 113,719 | 23,583 |
| Other charges | 68,800 | 68,800 | 34,698 | 34,102 |
| Capital outlay | 39,645 | 60,164 | 48,071 | 12,093 |
| Debt service | 112,000 | 112,000 | 111,492 | 508 |
| <i>Code Enforcement</i> | | | | |
| Personnel services | 676,265 | 629,290 | 594,965 | 34,325 |
| Supplies | 28,500 | 28,500 | 17,811 | 10,689 |
| Other charges | 45,990 | 130,750 | 97,070 | 33,680 |
| Capital outlay | 21,000 | 27,410 | 27,031 | 379 |
| <i>Public works</i> | | | | |
| Personnel services | 250,290 | 267,290 | 224,138 | 43,152 |
| Supplies | 455,285 | 476,973 | 371,249 | 105,724 |
| Other charges | 3,780,812 | 3,860,709 | 3,130,755 | 729,954 |
| Capital outlay | 3,690,447 | 3,900,070 | 182,829 | 3,717,241 |
| Other services | 96,738 | 238,216 | 227,677 | 10,539 |
| <i>Machpelah Cemetery</i> | | | | |
| Other charges | 120,950 | 120,950 | 99,890 | 21,060 |
| <i>Culture & Recreation</i> | | | | |
| Personnel services | 1,149,507 | 1,149,507 | 1,020,745 | 128,762 |
| Supplies | 174,450 | 177,583 | 156,702 | 20,881 |
| Other charges | 505,650 | 552,069 | 508,506 | 43,563 |
| Capital outlay | 2,441,000 | 2,469,189 | 196,212 | 2,272,977 |
| <i>Inner Harbor</i> | | | | |
| Other charges | 10,000 | 10,000 | 239 | 9,761 |
| <i>Grants & Economic Development</i> | | | | |
| Personnel services | 389,970 | 390,560 | 380,243 | 10,317 |
| Supplies | 26,918 | 26,918 | 15,663 | 11,255 |
| Other charges | 396,260 | 511,414 | 203,935 | 307,479 |
| Capital outlay | 11,624 | 11,624 | 1,859 | 9,765 |
| Total charges to appropriations | <u>32,721,266</u> | <u>34,109,746</u> | <u>22,788,278</u> | <u>11,321,468</u> |
| Budgetary fund balance, September 30, 2014 | <u>\$ 26,587,734</u> | <u>15,952,813</u> | <u>8,940,188</u> | <u>(7,012,625)</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, 2014

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on the budgetary basis, which is presented on the cash basis as 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:

| | General Fund |
|---|----------------------|
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | \$ 31,728,466 |
| 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. | (11,144,065) |
| 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>265,201</u> |
| Total revenues as reported on the statement of revenue, expenditures, and changes in fund balances - governmental funds, general fund | <u>\$ 20,849,602</u> |

Uses/outflows of resources:

| | |
|---|----------------------|
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 22,788,278 |
| 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>1,150,127</u> |
| Total expenditures as reported on the Statement of revenues, expenditure, and changes in fund balances - governmental funds, general fund | <u>\$ 23,938,405</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, 2014

| | <u>Original Budgeted Amounts</u> | <u>Final Budgeted Amounts</u> | <u>Actual Amounts (Budgetary Basis)</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|--------------------------------------|-----------------------------------|---|--|
| Budgetary fund balance, October 1, 2013 | \$ 1,663,037 | (659,547) | (1,604,869) | (945,322) |
| Resources (inflows): | | | | |
| Grants | 8,489,176 | 9,690,791 | 2,403,847 | (7,286,944) |
| Transfers | - | 680,504 | - | (680,504) |
| Amounts available for appropriations | <u>\$ 10,152,213</u> | <u>9,711,748</u> | <u>798,978</u> | <u>(8,912,770)</u> |
| Charges to appropriations (outflows): | | | | |
| Other charges | <u>\$ 7,832,687</u> | <u>10,652,692</u> | <u>3,120,291</u> | <u>7,532,401</u> |
| Total charges to appropriations | <u>7,832,687</u> | <u>10,652,692</u> | <u>3,120,291</u> | <u>7,532,401</u> |
| Budgetary fund balance, September 30, 2014 | <u><u>\$ 2,319,526</u></u> | <u><u>(940,944)</u></u> | <u><u>(2,321,313)</u></u> | <u><u>(1,380,369)</u></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, 2014

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on the budgetary basis, which is presented on the cash basis as 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:

| | Community Development Fund |
|---|---|
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | \$ 798,978 |
| 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. | 1,604,869 |
| 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>(350,282)</u> |
| Total revenues as reported on the statement of revenue, expenditures, and changes in fund balances - governmental funds, Community Development Fund | <u>\$ 2,053,565</u> |

Uses/outflows of resources:

| | |
|---|---------------------|
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 3,120,291 |
| 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>962,253</u> |
| Total expenditures as reported on the Statement of revenues, expenditure, and changes in fund balances - governmental funds, Community Development Fund | <u>\$ 4,082,544</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, 2014

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, 2014, 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, 2014

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, 2014

| 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 |
| Brenda Simkins | 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, 2014

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|--------------------------------|---|---------------------------------|
| Department of Commerce National Oceanic and Atmospheric Administration (NOAA) | | | |
| <i>Passed through State of Mississippi:</i> | | | |
| Coastal Zone Management Administration | | | |
| Awards | 11.419 | FY2006-P11 | \$ 1,460 |
| | 11.419 | FY2010-P414 | 6,483 |
| | 11.419 | FY2012-P210 | 84,717 |
| | 11.419 | FY2013-P112 | 37,358 |
| | 11.419 | FY2013-P113 | <u>14,876</u> |
| Total Department of Commerce National Oceanic and Atmospheric Administration (NOAA) | | | <u>144,894</u> |
| U.S. Department of Housing and Urban Development | | | |
| <i>Passed through State of Mississippi:</i> | | | |
| Community Development Block | | | |
| Grants/Entitlement Grants | 14.218 | B-12-MC-28-0005 | 41,259 |
| | 14.218 | B-12-MC-28-0005 | 1,453 |
| | 14.218 | B-12-MC-28-0005 | 49,672 |
| | 14.218 | B-12-MC-28-0005 | 2,068 |
| | 14.218 | B-11-MC-28-0005 | 28 |
| | 14.218 | B-13-MC-28-0005 | 18,229 |
| | 14.218 | B-13-MC-28-0005 | 7,852 |
| | 14.218 | R-109-290-05KCR | <u>686,561</u> |
| | | | <u>807,122</u> |
| Community Development Block Grants | | | |
| State Administered CDBG Cluster | | | |
| Special Purpose Grants/Insular Areas | 14.225 | B-10-SP-MS-0129 | 8,800 |
| Community Development Block Grant- | | | |
| State Administered CDBG Cluster | | | |
| Community Development Block | | | |
| Grants/State's Program and | | | |
| Non-Entitlement Grants in Hawaii | 14.228 | R-103-290-01-KCR | 403,434 |
| | 14.228 | AD-12132012 | <u>1,260</u> |
| | | | <u>404,694</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>1,220,616</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, 2014

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|----------------------------|---|-----------------------------|
| U.S. Department of the Interior Fish and Wildlife Service | | | |
| <i>Passed through State of Mississippi:</i> | | | |
| Coastal Impact Assistance Program | 15.668 | MS.30.703 | \$ 22,820 |
| | 15.668 | MS.R.752 | <u>989,554</u> |
| Total U.S. Department of the Interior Fish and Wildlife Service | | | <u>1,012,374</u> |
| | | | |
| U.S. Department of Transportation | | | |
| <i>Passed through State of Mississippi:</i> | | | |
| Highway Planning and Construction Cluster | | | |
| Federal Highway Administration | | STP-8961- | |
| Highway Planning and Construction | 20.205 & 20.219 | 00(006)LPA/106061-701000 | 273,338 |
| Federal Highway Administration | | STP-999-09(03)/106845- | |
| Highway Training and Education | 20.215 | 315000 | 26,519 |
| Federal Transit Administration | | STP-8971- | |
| Public Transportation Research | 20.514 | 00(005)LPA/106448-701000 | 72,463 |
| National Traffic Safety Administration | | | |
| National Priority Safety Programs | 20.616 | 14MD-226-1 | <u>45,152</u> |
| Total U.S. Department of Transportation | | | <u>417,472</u> |
| | | | |
| U.S. Environmental Protection Agency | | | |
| <i>Passed through State of Mississippi:</i> | | | |
| Solid Waste and Emergency Response | | | |
| Brownfields Training, Research, and | | | |
| Technical Assistance | 66.814 | 00D11813 | <u>28,405</u> |
| Total U.S. Environmental Protection Agency | | | <u>28,405</u> |
| | | | |
| U.S. Department of Homeland Security | | | |
| <i>Passed through State of Mississippi:</i> | | | |
| Port Security Grant Program | 97.056 | 11PG290A | <u>20,016</u> |
| Total U.S. Department of Homeland Security | | | <u>20,016</u> |
| Total expenditures of federal awards | | | <u>\$ 2,843,777</u> |

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, 2014

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.

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, each major fund, and the aggregate remaining fund information of City of Pascagoula, Mississippi, as of and for the year ended September 30, 2014, 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 15, 2015.

Internal Control over Financial Reporting

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 2014-B-2 and 2014-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 item 2014-B-1 to be a significant deficiency.

Compliance and Other Matters

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 Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 15, 2015

**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

Report on Compliance for Each Major Federal Program

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, 2014. 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's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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.

Opinion on Each Major Federal Program

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, 2014.

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

Report on Internal Control over Compliance

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
June 15, 2015

**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, 2014, and have issued our report dated June 15, 2015. 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 15, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2014

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 Housing and Urban Development CFDA No. 14.228 U.S. Department of the Interior Fish and Wildlife Service CFDA No. 15.668 U.S. Department of Transportation CFDA No. 20.616 | |
| 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 |
| 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 |

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2014

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Reportable instances of noncompliance and reportable conditions and material weaknesses:

2014-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 2014, the City was able to generate an aged receivable report to substantiate its balances. As of September 30, 2014, 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 to find a cost efficient solution to the problem. This collaboration has resulted in a process that is extremely complicated, labor-intensive and expensive. Progress has been made, and one of the systems export function has been established to send the required data to the other system. The team is now working with the technicians of the other system to accept the necessary data through an import progression. This process is ongoing, and we hope to have a resolution in the very near future.

2014-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, 2014

B. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

Auditee's Response

The City is in the process of implementing control procedures that will establish the required adjustments for conversion of their financial statements to the accrual basis of accounting. This implementation will include the purchase of a new software module, reorganization of the accounting department and potentially adding staff as well.

2014-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

Various procedures have been examined to ensure the integrity of the court records and many of those have been implemented such as cash from municipal court activity 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. Additional measures are planned and scheduled to be in place on July 1st.

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2014

B. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

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 2013, 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.

Current Status

The City has brought together all of the relevant vendors to find a cost efficient solution to the problem. This collaboration has resulted in a process that is extremely complicated, labor-intensive and expensive. Progress has been made, and one of the systems export function has been established to send the required data to the other system. The team is now working with the technicians of the other system to accept the necessary data through an import progression. This process is ongoing, and we hope to have a resolution in the very 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.

Current Status

The City is in the process of implementing control procedures that will establish the required adjustments for conversion of their financial statements to the accrual basis of accounting. This implementation will include the purchase of a new software module, reorganization of the accounting department and potentially adding staff as well.

CITY OF PASCAGOULA, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2014

B. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

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.

Current Status

Various procedures have been examined to ensure the integrity of the court records and many of those have been implemented such as cash from municipal court activity 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. Additional measures are planned and scheduled to be in place on July 1st.

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.

Current Status

Numerous processes have been applied to assure the reconciliation of all bank accounts is concluded in an appropriate time span. All variances are cleared, and adjustments made on a continuing basis.

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

None.