

CITY OF OCEAN SPRINGS, MISSISSIPPI

FINANCIAL REPORT

SEPTEMBER 30, 2022



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INTRODUCTORY SECTION

**CITY OF OCEAN SPRINGS, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2022**

ELECTED OFFICIALS

Mayor	Kenny Holloway
Alderman – Ward 1	Jennifer Burgess
Alderman – Ward 2	Rickey Authement
Alderman – Ward 3	Kevin Wade
Alderman – Ward 4	Ken Papania
Alderman – Ward 5	Robert Blackman
Alderman – Ward 6	Michael Impey
Alderman – At Large	Robert Cox

APPOINTED DEPARTMENT HEADS

City Clerk	Patty Gaston
City Attorney	Robert Wilkinson
Police Department	Mark Dunston
Fire Department	Derek McCoy
Public Works	Allan Ladnier
Parks and Recreation	Stephen Glorioso
Human Resources	Melinda McDowell
Planning Department	Carolyn Martin

INDEPENDENT AUDITOR'S REPORT



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

INDEPENDENT AUDITOR'S REPORT

June 29, 2023

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

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi (City), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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 Ocean Springs, Mississippi, as of September 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Ocean Springs, Mississippi and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The City of Ocean Springs, Mississippi's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Ocean Springs, Mississippi's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Ocean Springs, Mississippi's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Ocean Springs, Mississippi's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and net pension liability and contributions on pages 5–10, 47-48 and 49-50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ocean Springs, Mississippi's basic financial statements. The combining nonmajor fund financial statements on pages 54-55, schedule of expenditures of federal awards on page 62 as required by *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements*, and schedule of surety bonds for city officials on page 56 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining nonmajor fund financial statements, schedule of expenditures of federal awards, and schedule of surety bonds for city officials 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 this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2023, on our consideration of the City of Ocean Springs, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Ocean Springs, Mississippi's internal control over financial reporting and compliance.

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

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC

Certified Public Accountants

Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS



P.O. Box 1800
Ocean Springs, MS
39566-1800

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Ocean Springs, MS 39564
FX 228.875.7249

Kenny Holloway
Mayor
228.875.6722

Bobby Cox
Alderman at Large

Jennifer Burgess
Alderman Ward 1

Rickey Authement
Alderman Ward 2

Kevin Wade
Alderman Ward 3

Ken Papania
Alderman Ward 4

Robert Blackman
Alderman Ward 5

Michael (Mike) Impey, II
Alderman Ward 6

City Hall
228.875.4236

Police Department
228.875.2211

Fire Department
228.875.4063

Public Works
228.875.3955

Water Department
228.875.4176

**Community Development
and Planning**
228.875.4415

Building Department
228.875.6712

**Human Resources
and Risk Management**
228.875.3338

Parks and Recreation
228.875.8665



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2022

Introduction

The following Management's Discussion and Analysis of the City of Ocean Springs, Mississippi's (the "City") activities and financial performance provides an introduction to the financial statements of the City for the fiscal year ended September 30, 2022. The information contained in this Management's Discussion and Analysis has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The components of the annual financial report include:

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

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

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at September 30, 2022 by \$58,171,360.
- The total net position increased by \$11,025,404. Of this amount, an increase of \$10,669,400 was associated with governmental activities and an increase of \$356,004 was from business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18,128,731 an increase of \$9,605,960, including a prior period adjustment of \$42,875.
- At the end of the current fiscal year, unassigned fund balance for the governmental funds was \$3,846,369.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

www.OceanSprings-MS.gov

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Overview of the Financial Statements (Continued)

Government-wide Financial Statements (Continued)

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

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

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

Fund Financial Statements

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

- **Governmental funds**

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

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

- **Proprietary Funds**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Overview of the Financial Statements (Continued)

Notes to the Financial Statements

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

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

Government-wide Financial Analysis

Table 1 below presents the City's condensed statement of net position as of September 30, 2022 and 2021, derived from the government-wide Statement of Net Position.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 25,344,915	\$ 13,659,930	\$ 4,896,989	\$ 4,389,475	\$ 30,241,904	\$ 18,049,405
Capital assets	50,406,963	47,957,256	20,791,067	21,120,112	71,198,030	69,077,368
Total assets	<u>75,751,878</u>	<u>61,617,186</u>	<u>25,688,056</u>	<u>25,509,587</u>	<u>101,439,934</u>	<u>87,126,773</u>
Deferred outflows for pensions	2,285,461	1,628,648	378,017	253,840	2,663,478	1,882,488
Long-term debt outstanding	11,734,709	11,145,911	2,455,434	2,901,979	14,190,143	14,047,890
Lease liabilities	232,406	-	-	-	232,406	-
Net pension liability	19,629,105	14,260,563	3,012,897	1,997,917	22,642,002	16,258,480
Other liabilities	7,191,638	5,517,767	1,280,022	1,142,807	8,471,660	6,660,574
Total liabilities	<u>38,787,858</u>	<u>30,924,241</u>	<u>6,748,353</u>	<u>6,042,703</u>	<u>45,536,211</u>	<u>36,966,944</u>
Deferred inflows for leases	395,841	-	-	-	395,841	-
Deferred inflows for pensions	-	4,137,353	-	759,007	-	4,896,360
Total deferred inflows	395,841	4,137,353	-	759,007	395,841	4,896,360
Net position:						
Investment in capital assets, net of related debt	40,632,660	36,811,345	18,335,633	18,218,133	58,968,293	55,029,478
Restricted	6,387,521	765,081	-	-	6,387,521	765,081
Unrestricted	(8,166,541)	(9,392,186)	982,087	743,583	(7,184,454)	(8,648,603)
Total net position	<u>\$ 38,853,640</u>	<u>\$ 28,184,240</u>	<u>\$ 19,317,720</u>	<u>\$ 18,961,716</u>	<u>\$ 58,171,360</u>	<u>\$ 47,145,956</u>

At September 30, 2022 and 2021, the City's assets and deferred outflows exceeded liabilities and deferred inflows by \$58,171,360 and \$47,145,956, respectively. By far, the largest portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire or construct those assets. The City uses these capital assets to provide services to the citizens and businesses in the City; consequently, these net positions are not available for future spending. A portion of the net position is restricted for capital improvements. The remaining portion of net position is unrestricted, which can be used to finance government operations.

Total assets increased by \$14,313,161 due largely to an increase in cash and cash equivalents. Total liabilities increased by \$8,569,267 due primarily to the \$6,383,522 increase in net pension liability. Deferred outflows for pensions increased by \$780,990 and deferred inflows for pensions decreased by \$4,896,360 during the current fiscal year.

Governmental activities reflect a negative fund balance in unrestricted net position of (\$8,166,541) at September 30, 2022. This is a decrease of \$1,225,645 from prior year's fund balance in unrestricted net position of (\$9,392,186). The decrease in unrestricted net position is primarily due to a larger proportional increase in revenues than in expenditures.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Government-wide Financial Analysis (Continued)

Business-type activities reflect an unrestricted net position of \$982,087 at September 30, 2022, an increase of \$238,504 over prior year's unrestricted net position of \$743,583. The increase in unrestricted net position is primarily due to a larger proportional increase in revenues than in expenditures.

Table 2 below presents the City's condensed statement of activities for the fiscal years ended September 30, 2022 and 2021, as derived from the government-wide Statement of Activities.

Table 2: Condensed Statement of Activities
For the years ended September 30, 2022 and 2021

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues						
Charges for services	\$ 1,950,509	\$ 1,492,275	\$ 8,746,976	\$ 8,383,734	\$ 10,697,485	\$ 9,876,009
Operating grants	806,628	676,831	-	-	806,628	676,831
Capital grants and contributions	7,923,319	932,186	-	8,089	7,923,319	940,275
General revenues						
Property taxes	6,139,751	5,702,521	-	-	6,139,751	5,702,521
Sales taxes	9,198,555	8,363,487	-	-	9,198,555	8,363,487
Franchise taxes	920,491	873,792	-	-	920,491	873,792
Other taxes	2,131,110	1,494,569	-	-	2,131,110	1,494,569
Other general revenues	615,296	479,823	23,295	-	638,591	479,823
Total revenues	29,685,659	20,015,484	8,770,271	8,391,823	38,455,930	28,407,307
Expenses						
General government	5,443,039	3,551,829	-	-	5,443,039	3,551,829
Public safety	7,114,413	2,256,668	-	-	7,114,413	2,256,668
Public works	3,255,489	7,920,803	-	-	3,255,489	7,920,803
Culture and recreation	2,800,850	2,745,157	-	-	2,800,850	2,745,157
Urban & economic development	115,604	76,348	-	-	115,604	76,348
Debt service - interest	284,533	332,218	-	-	284,533	332,218
Water, sewer & gas	-	-	8,453,059	7,954,158	8,453,059	7,954,158
Total expenses	19,013,928	16,883,023	8,453,059	7,954,158	27,466,987	24,837,181
Increase (decrease) in net assets						
before transfers	10,671,731	3,132,461	317,212	437,665	10,988,943	3,570,126
Transfers	(38,792)	(18,961)	38,792	18,961	-	-
Net increase (decrease) in net position	10,632,939	3,113,500	356,004	456,626	10,988,943	3,570,126
Net position, beginning of year	28,184,240	25,070,740	18,961,716	18,505,090	47,145,956	43,575,830
Prior period adjustment	36,461	-	-	-	36,461	-
Net position, beginning - restated	28,220,701	25,070,740	18,961,716	18,505,090	47,182,417	43,575,830
Net position, end of year	\$ 38,853,640	\$ 28,184,240	\$ 19,317,720	\$ 18,961,716	\$ 58,171,360	\$ 47,145,956

Governmental Activities

Governmental activities increased the City's net position by \$10,632,939, which is an increase from the change in net position in the prior year. The key element of this increase is increase in revenues.

Business-type Activities

Business-type activities increased the City's net position by \$356,004, a decrease from the change in net position in the prior year. Key elements of this decrease include a larger proportionate increase expenses.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Financial Analysis of the City's Funds

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$18,128,731.

General Fund

Fund balance at September 30, 2022 totaled \$9,136,719, an increase of \$3,330,200 during the fiscal year in comparison to the \$5,806,519 balance in fiscal year 2021. Significant changes in revenues and expenses in comparison to fiscal year 2021 are as follows:

- Property taxes increased by \$328,743
- Fees and fines increased by \$199,949
- Intergovernmental revenue increased by \$877,651
- General government expenditures decreased by \$1,695,707
- Public safety expenditures decreased by \$372,090
- Health and welfare expenditures decreased by \$1,117,999

Food and Beverage Fund

The food and beverage fund had a fund balance of \$1,719,307 at September 30, 2022, which is an increase of \$499,215 from prior year. This is primarily due to a decrease in expenditures.

General Obligation Fund

The general obligation fund had a balance of \$589,424 at September 30, 2022, which is an increase of \$217,533 from prior year due primarily to an increase in principal retirement.

General Capital Projects Fund

The general capital projects fund had a balance of \$4,417,815 at September 30, 2022, which is an increase of \$4,432,488 from prior year due primarily to an increase in intergovernmental revenue.

Capital Asset and Long-Term Debt Activity

Capital Assets at Year End (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Land	\$ 4,957,138	\$ 3,654,939	\$ 29,413	\$ 29,413	\$ 4,986,551	\$ 3,684,352
Donated artwork	5,734,541	5,734,541	-	-	5,734,541	5,734,541
Construction in progress	2,334,719	540,277	-	19,199	2,334,719	559,476
Buildings and improvements	14,252,400	14,252,400	35,390	35,390	14,287,790	14,287,790
Equipment	2,728,682	2,526,512	1,221,186	1,241,951	3,949,868	3,768,463
Other improvements	20,829,460	20,759,243	-	-	20,829,460	20,759,243
Infrastructure	19,304,835	19,087,416	42,223,453	42,187,695	61,528,288	61,275,111
Vehicles	5,900,089	6,073,210	992,534	929,540	6,892,623	7,002,750
Right of use assets	510,666	-	-	-	510,666	-
Accumulated depreciation	(26,145,567)	(24,671,282)	(23,710,909)	(23,323,076)	(49,856,476)	(47,994,358)
Total	<u>\$ 50,406,963</u>	<u>\$ 47,957,256</u>	<u>\$ 20,791,067</u>	<u>\$ 21,120,112</u>	<u>\$ 71,198,030</u>	<u>\$ 69,077,368</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Capital Asset and Long-Term Debt Activity (Continued)

Capital Asset Activity

At September 30, 2022, the City reported \$50,406,963 in net capital assets for governmental activities and \$20,791,067 in capital assets for business-type activities. Major capital asset events during the year included the following:

- The City incurred governmental capital asset additions of \$2,218,923 primarily related to purchases of land and vehicles.
- The City incurred governmental expenditures construction in progress of \$1,885,783 primarily related to KCDBG projects.

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

Long-Term Liabilities Activity

At the end of the current fiscal year, the City had \$2,455,434 in outstanding proprietary debt and \$11,734,709 in outstanding governmental debt. See Note 6 to the financial statements for further information.

Pursuant to the provisions of Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the City of Ocean Springs recorded approximately \$22.6 million in pension liabilities for the defined benefit plans administered by the State of Mississippi's Public Employees' Retirement System for the fiscal year ended September 30, 2022. The \$22.6 million is the City's proportionate share of the total net pension liability of the State of Mississippi's Public Employees' Retirement System. See Note 8 to the financial statements for further information.

*Note: Fiscal year 2021 results were not restated to conform to GASB 87 standards for lease reporting in the preceding charts and financial activities. For details of the effects of the implementation of GASB 87, please refer to Note 15 in the notes to the financial statements.

Budget Variances in the General Fund

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

- \$134,500 (28%) decrease in charges for services
- \$34,502 (12%) decrease in judicial department expenditures
- \$25,400 (10%) decrease in intergovernmental revenues

The City ended the year with an overall unfavorable variance between the original and final budget of \$57,479 primarily due to overall decrease in charges for services.

Economic Conditions and Outlook

The City continues to see year-over-year growth in general sales taxes as well as 2% taxes from food and beverage sales. The FY23 budget was created with inflation in mind and includes a 10% increase in budgeted expenses to account for the rising cost of materials and services. Personnel costs continue to rise as the City adjusts wages and pay scales to be more competitive in the market and attract and retain qualified employees. Additionally, the City is working with consultants to develop a comprehensive plan to help with economic growth and annexation. The City is moving forward with multiple plans for large projects to improve the City with funding from federal and state sources.

Contact the City's Financial Management

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

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,459,353	\$ 2,973,583	\$ 11,432,936
Receivables, net	601,176	1,008,058	1,609,234
Lease receivables, current	17,635	-	17,635
Internal balances	(7,330)	7,330	-
Due from other governmental agencies	1,755,907	-	1,755,907
Advance to other funds	-	40,141	40,141
Prepaid expenses	355,298	-	355,298
Restricted assets:			
Cash and cash equivalents	13,739,213	867,877	14,607,090
Lease receivables, noncurrent	423,663	-	423,663
Capital assets			
Nondepreciable assets	13,026,398	29,413	13,055,811
Right of use assets, net of amortization	225,727	-	225,727
Depreciable assets, net of depreciation	37,154,838	20,761,654	57,916,492
Total capital assets	<u>50,406,963</u>	<u>20,791,067</u>	<u>71,198,030</u>
Total assets	<u>75,751,878</u>	<u>25,688,056</u>	<u>101,439,934</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows on pension liability	<u>2,285,461</u>	<u>378,017</u>	<u>2,663,478</u>
LIABILITIES			
Accounts payable	814,547	300,881	1,115,428
Advance from enterprise fund	40,141	-	40,141
Accrued liabilities	273,152	43,658	316,810
Unearned revenues	5,395,012	-	5,395,012
Customer deposits	-	867,877	867,877
Long-term liabilities:			
Due within one year			
Bonds, notes payable, and installment loans	1,446,433	427,011	1,873,444
Lease liabilities	74,646	-	74,646
Premium on bonds payable	31,316	-	31,316
Accrued interest	73,184	-	73,184
Compensated absences	79,047	11,342	90,389
Due in more than one year			
Bonds, notes payable, and installment loans	10,069,060	2,028,423	12,097,483
Lease liabilities	157,760	-	157,760
Premium on bonds payable	187,900	-	187,900
Proportionate share of collective net pension liability	19,629,105	3,012,897	22,642,002
Compensated absences	516,555	56,264	572,819
Total liabilities	<u>38,787,858</u>	<u>6,748,353</u>	<u>45,536,211</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows on lease receivables	<u>395,841</u>	<u>-</u>	<u>395,841</u>
NET POSITION			
Invested in capital assets, net of related debt	40,632,660	18,335,633	58,968,293
Restricted for:			
Specific grant programs	25,567	-	25,567
Capital improvements	6,361,954	-	6,361,954
Unrestricted	<u>(8,166,541)</u>	<u>982,087</u>	<u>(7,184,454)</u>
Total net position	<u>\$ 38,853,640</u>	<u>\$ 19,317,720</u>	<u>\$ 58,171,360</u>

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

Exhibit B

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 5,443,039	\$ 197,099	\$ 339,164	\$ 6,651,308	\$ 1,744,532	\$ -	\$ 1,744,532
Public safety	7,114,413	596,326	287,826	-	(6,230,261)	-	(6,230,261)
Public works	3,255,489	-	20,000	1,122,820	(2,112,669)	-	(2,112,669)
Culture and recreation	2,800,850	639,089	159,638	131,923	(1,870,200)	-	(1,870,200)
Urban and economic development	115,604	517,995	-	17,268	419,659	-	419,659
Interest on long-term debt	284,533	-	-	-	(284,533)	-	(284,533)
Total governmental activities	19,013,928	1,950,509	806,628	7,923,319	(8,333,472)	-	(8,333,472)
Business-type activities							
Water and Sewer	8,453,059	8,746,976	-	-	-	293,917	293,917
Total primary government	\$ 27,466,987	\$ 10,697,485	\$ 806,628	\$ 7,923,319	(8,333,472)	293,917	(8,039,555)
General revenues:							
Property taxes, levied for general purposes					6,139,751	-	6,139,751
Sales, restaurant, and hotel taxes					9,198,555	-	9,198,555
Franchise and utility taxes					920,491	-	920,491
Other taxes					2,131,110	-	2,131,110
Interest earnings					196,120	-	196,120
Interest earnings - leases					7,866	-	7,866
Miscellaneous					239,517	-	239,517
Insurance proceeds					119,646	-	119,646
Sale of assets					52,147	23,295	75,442
Transfers					(38,792)	38,792	-
Total general revenues and transfers					18,966,411	62,087	19,028,498
Change in net position					10,632,939	356,004	10,988,943
Net position - beginning					28,184,240	18,961,716	47,145,956
Prior period adjustments					36,461	-	36,461
Net position - beginning, as restated					28,220,701	18,961,716	47,182,417
Net position - ending					\$ 38,853,640	\$ 19,317,720	\$ 58,171,360

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

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**CITY OF OCEAN SPRINGS, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022**

	<u>General Fund</u>	<u>Food and Beverage</u>	<u>General Obligation</u>	<u>General Capital Project</u>	<u>Other Non- Major Government Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 7,988,402	\$ -	\$ -	\$ (77,177)	\$ 548,128	\$ 8,459,353
Restricted Assets:						
Cash and cash equivalents	4,416,853	1,391,809	568,597	5,519,288	1,842,666	13,739,213
Receivables, net						
Taxes	342,340	-	20,827	-	10,879	374,046
Lease	441,298	-	-	-	-	441,298
Other	43,255	-	-	-	-	43,255
Due from other governments	1,311,694	329,598	-	102,006	12,609	1,755,907
Due from other City funds	32,187	-	-	-	-	32,187
Prepaid expenses	355,298	-	-	-	-	355,298
Total assets	<u>\$ 14,931,327</u>	<u>\$ 1,721,407</u>	<u>\$ 589,424</u>	<u>\$ 5,544,117</u>	<u>\$ 2,414,282</u>	<u>\$ 25,200,557</u>
LIABILITIES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 834,522	\$ 2,100	\$ -	\$ 90,561	\$ 148,816	\$ 1,075,999
Due to other funds	3,775	-	-	35,742	-	39,517
Advance from enterprise fund	40,141	-	-	-	-	40,141
Unearned revenue	4,508,171	-	-	999,999	-	5,508,170
Other liabilities	12,158	-	-	-	-	12,158
Total liabilities	<u>5,398,767</u>	<u>2,100</u>	<u>-</u>	<u>1,126,302</u>	<u>148,816</u>	<u>6,675,985</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows on lease receivables	395,841	-	-	-	-	395,841
FUND BALANCE						
Nonspendable for prepaids						
Prepaids	355,298	-	-	-	-	355,298
Lease receivables, net of related deferred inflows of resources	45,457	-	-	-	-	45,457
Restricted						
Debt service	-	1,391,809	568,597	-	-	1,960,406
Capital Improvements	25,567	-	-	4,519,288	1,842,666	6,387,521
Committed						
Debt service	-	-	20,827	-	-	20,827
Other	-	327,498	-	-	422,800	750,298
Assigned						
Other purposes	371,269	-	-	-	-	371,269
Unassigned	8,339,128	-	-	(101,473)	-	8,237,655
Total fund balances	<u>9,136,719</u>	<u>1,719,307</u>	<u>589,424</u>	<u>4,417,815</u>	<u>2,265,466</u>	<u>18,128,731</u>
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 14,931,327</u>	<u>\$ 1,721,407</u>	<u>\$ 589,424</u>	<u>\$ 5,544,117</u>	<u>\$ 2,414,282</u>	<u>\$ 25,200,557</u>

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2022**

Total fund balance, governmental funds	\$ 18,128,731
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	50,406,963
Certain other long-term assets are not available to pay current period expenditures and, therefore, are not reported in the funds	183,879
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(12,562,717)
Governmental funds do not report a liability for accrued interest until it is due and payable. Accrued interest must be reported as a liability in the government-wide financial statements.	(73,184)
Unavailable revenues that provide current financial resources for governmental activities.	113,612
Net pension liability is not due and payable in the current period; deferred outflows related to pensions are not current assets or financial resources; and deferred inflows related to pensions are not due and payable in the current period and are therefore not reported in the governmental funds.	<u>(17,343,644)</u>
Net Position of Governmental Activities in the Statement of Net Position (Exhibit A)	<u><u>\$ 38,853,640</u></u>

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

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	General Fund	Food and Beverage	General Obligation	General Capital Projects	Other Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
Ad valorem taxes						
Property taxes	\$ 4,553,811	\$ -	\$ 1,016,927	\$ -	\$ 234,519	\$ 5,805,257
Franchise taxes	881,110	-	-	-	-	881,110
Sales and miscellaneous taxes	7,060,467	2,066,957	-	-	-	9,127,424
Licenses and permits	517,995	-	-	-	-	517,995
Fees and fines	562,900	-	-	-	-	562,900
Intergovernmental	2,345,442	-	-	4,888,881	349,076	7,583,399
Charges for services	734,658	-	-	-	-	734,658
Grants	453,136	-	-	2,197,407	1,128,076	3,778,619
Interest Income	144,387	-	-	17,796	-	162,183
Interest income - leases	7,866	-	-	-	-	7,866
Miscellaneous - other	333,526	9,108	-	2,690	-	345,324
Total revenues	17,595,298	2,076,065	1,016,927	7,106,774	1,711,671	29,506,735
EXPENDITURES						
Current:						
General government	4,614,780	82,773	-	1,255,714	-	5,953,267
Public safety	7,168,967	77,087	-	-	248,217	7,494,271
Public works	2,127,435	-	-	793,303	-	2,920,738
Health and welfare	30,154	-	-	-	-	30,154
Cultural and recreation	2,207,288	275,182	-	-	201,811	2,684,281
Economic development	45,095	233,426	-	-	36,662	315,183
Capital outlay						
General government	47,823	-	-	-	-	47,823
Public safety	71,628	-	-	-	20,578	92,206
Public works	378,696	-	-	-	-	378,696
Culture and recreation	-	153,840	-	616,754	-	770,594
Debt service:						
Principal retirement	-	513,000	693,664	-	71,043	1,277,707
Interest and agent fees	-	143,542	105,730	-	6,836	256,108
Total expenditures	16,691,866	1,478,850	799,394	2,665,771	585,147	22,221,028
Excess of revenues over expenditures	903,432	597,215	217,533	4,441,003	1,126,524	7,285,707
OTHER FINANCING SOURCES (USES)						
Proceeds from long-term debt, net	1,950,000	-	-	-	-	1,950,000
Proceeds from sale of assets	110,766	-	-	-	-	110,766
Insurance Proceeds	119,646	-	-	-	-	119,646
Transfers in	203,481	-	-	27,401	-	230,882
Transfers out	-	(98,000)	-	(35,916)	-	(133,916)
Total other financing sources (uses)	2,383,893	(98,000)	-	(8,515)	-	2,277,378
Net change in fund balances	3,287,325	499,215	217,533	4,432,488	1,126,524	9,563,085
Fund balances - beginning	5,806,519	1,220,092	371,891	(14,673)	1,138,942	8,522,771
Prior period adjustments	42,875	-	-	-	-	42,875
Fund balances - beginning, as restated	5,849,394	1,220,092	371,891	(14,673)	1,138,942	8,565,646
Fund balances - ending	\$ 9,136,719	\$ 1,719,307	\$ 589,424	\$ 4,417,815	\$ 2,265,466	\$ 18,128,731

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Net change in fund balances - total governmental funds:	\$	9,563,085
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; however, in the Statement of Activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and amortization (\$1,859,981) exceed capital outlay (\$4,104,739) in the current period.		2,244,728
Governmental funds do not report capital assets on the balance sheet, therefore when a capital asset is transferred to an enterprise fund it is reflected as a transfer.		(35,758)
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		(58,619)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		9,311
Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces the liabilities in the Statement of Net Position. Proceeds from long-term debt are reported as current financial resources in governmental funds, but are treated as a liability in the Statement of Activities. This is the amount by which proceeds (\$1,950,000) exceeds repayments (\$1,509,540).		(440,460)
Pension expense recorded in the Statement of Activities does not require the use of current financial resources.		(574,376)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.		(74,972)
Change in net position of governmental activities (Exhibit B)	<u>\$</u>	<u>10,632,939</u>

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2022

	<u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,973,583
Accounts receivable, net	
Customer accounts	1,008,058
Due from other City funds	47,471
Total current assets	<u>4,029,112</u>
Non-current assets:	
Restricted Assets:	
Cash and cash equivalents	867,877
Capital Assets:	
Land and construction in progress	29,413
Infrastructure	39,773,907
Utility system	2,449,545
Buildings and improvements	35,390
Machinery and equipment	2,213,721
Less: accumulated depreciation	<u>(23,710,909)</u>
Total non-current assets	<u>21,658,944</u>
Deferred outflows of resources	
Deferred outflows on pension liability	<u>378,017</u>
Total assets	<u><u>\$ 26,066,073</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 344,539
Compensated absences	11,342
Bonds, capital leases, and notes payable	427,011
Payable from restricted assets:	
Customer deposits payable from restricted assets	<u>867,877</u>
Total current liabilities	<u>1,650,769</u>
Non-current liabilities:	
Compensated absences	56,264
Net pension obligation	3,012,897
Bonds, capital leases, and notes payable, non-current	<u>2,028,423</u>
Total non-current liabilities	<u>5,097,584</u>
Total liabilities	<u>\$ 6,748,353</u>
NET POSITION	
Invested in capital assets, net of related debt	\$ 18,335,633
Unrestricted	<u>982,087</u>
Total net position	<u><u>\$ 19,317,720</u></u>

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	Water and Sewer
REVENUES	
Charges for services	\$ 8,746,976
Total operating revenues	<u>8,746,976</u>
OPERATING EXPENSES	
Personnel services	2,012,001
Supplies and materials	1,081,290
Contractual services	4,425,365
Other services, charges, supplies and expenses	422,357
Depreciation expense	<u>454,167</u>
Total operating expenses	<u>8,395,180</u>
Operating Income	<u>351,796</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	<u>(57,879)</u>
Total non-operating revenue (expenses)	<u>(57,879)</u>
INCOME BEFORE TRANSFERS AND SPECIAL ITEM	293,917
Capital contribution - general fund	35,758
Transfers in	3,034
Special item - gain (loss) on sale of land	<u>23,295</u>
CHANGE IN NET POSITION	356,004
TOTAL NET POSITION - BEGINNING	<u>18,961,716</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 19,317,720</u></u>

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 8,743,845
Payments to suppliers	(5,844,883)
Payments to employees	(1,881,316)
Net cash provided by operating activities	<u>1,017,646</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers (to) from other funds	3,034
Net cash provided by in noncapital financing activities	<u>3,034</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets	(118,587)
Proceeds from sale of capital assets	30,659
Principal paid on capital debt	(446,545)
Interest paid on capital debt	(57,879)
Net cash used in capital and related financing activities	<u>(592,352)</u>
Net increase in cash and cash equivalents	428,328
Balances-beginning of the year	<u>3,413,132</u>
Balances-end of the year	<u>\$ 3,841,460</u>
RECONCILIATION TO STATEMENT OF NET POSITION	
Unrestricted:	
Cash and cash equivalents	\$ 2,973,583
Restricted:	
Cash and cash equivalents	867,877
	<u>\$ 3,841,460</u>
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Transfer capital assets from general fund	<u>\$ 35,758</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 356,004
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	454,167
Loss on disposal of asset	21,859
Decrease (increase) in assets	
Accounts receivable	(86,055)
Due from other funds	2,660
Deferred outflows	(124,177)
Increase (decrease) in liabilities	
Accounts payable and accrued liabilities	59,610
Compensated absences	(1,111)
Customer deposits	78,716
Pension liabilities and deferred inflows	255,973
Net cash provided by operating activities	<u>\$ 1,017,646</u>

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

NOTES TO FINANCIAL STATEMENTS

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Introduction

The City of Ocean Springs, Mississippi, (the “City”) was incorporated on September 10, 1892, under the laws of the State of Mississippi. The City operates under a Mayor-Aldermen form of government. The following services are provided by the City: public safety (police and fire), public works (highways, streets, and sanitation), culture and recreation, community development, planning and zoning, public utilities (water, sewage, and garbage), and general administrative services.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City’s financial activities for the fiscal year ended September 30, 2022.

II. Financial Reporting Entity

The City’s basic financial statements include the accounts of all City operations. The criteria for including organizations as component units of the City consist of oversight responsibility, special financing relationships and scope of public services. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the City has no component units. However, see Note 13 for information describing a joint venture of the City and another governmental entity and a jointly governed organization.

III. Basis of Accounting, Measurement Focus, and Presentation

The City’s basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

GASB standards require that the accounts of the City be organized on the basis of funds, each of which is considered a separate accounting entity. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Financial reporting standards established by GASB require that the financial statements described below be presented.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The government-wide financial statements are presented on an economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Accordingly, all of the City’s current and long-term assets and liabilities, including capital assets, infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position as of September 30. The statement of activities presents changes in net position since October 1, the beginning of the fiscal year.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

III. Basis of Accounting, Measurement Focus, and Presentation, (Continued)

Government-wide Financial Statements, (Continued)

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Shared revenues are recognized when the provider recognizes the liability to the City. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. Taxes and items not properly included as program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in financial position as presented in these statements to the financial position presented in the government-wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

The City reports the following major governmental funds:

General Fund - The general fund is the primary operating fund of the City. This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs. Revenues are received primarily from a separate property tax levy. The general fund is always reported as a major fund in the governmental fund statements.

Food and Beverage Tax Special Revenue Fund – This fund is used to account for a special 2% sales tax on local food and beverage sales. This money will be used for economic development projects and will repay the debt on \$11.7 million in bond issues. This fund was selected to be classified as a major fund due to the type of revenues.

General Obligation Fund – This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs. Revenues are received primarily from a separate property tax levy. This fund was selected to be classified as a major fund due to the type of expenditures.

General Capital Projects Fund – This fund is used to account for the City's capital projects. Revenues are received primarily from grants and state appropriations. This fund was selected to be classified as a major fund due to the type of expenditures.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

III. Basis of Accounting, Measurement Focus, and Presentation, (Continued)

Governmental Fund Financial Statements, (Continued)

In addition to the major governmental funds listed above, the City also reports one additional fund type in this category that are considered nonmajor.

The *special revenue funds* account for revenue sources that are legally restricted or committed to expenditure for specific purposes (not including permanent funds or major capital projects).

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise fees, sales taxes, and licenses, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Sales tax collected and held by vendors at year end on behalf of the City is also recognized as revenue if collected within 30 days after year end. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. In general, all other revenue items are considered to be measurable and available only when cash is received by the City.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, as appropriate, then the unrestricted resources as needed.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; and a statement of cash flows for each major proprietary fund. These fund types are used to account for activities that are similar to those found in the private sector. The measurement focus is on the determination of net income and capital maintenance. The City reports one major enterprise fund where the intent of the governing body is that the costs of providing utility services to the general public on a continuing basis be financed or recovered through user charges:

The City reports the following major enterprise fund:

Water and Sewer Fund – The water and sewer fund account for the activities of the City's water, sewer, and garbage collections.

Operating revenue reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for goods or services. Principal operating expenses are the costs of providing goods or services and include personnel costs, contractual services costs, and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

III. Basis of Accounting, Measurement Focus, and Presentation, (Continued)

IV. Use of Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Accordingly, actual results could differ from those estimates.

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

Cash and Cash Equivalents

The City's cash and cash equivalents are primarily considered to be cash on hand, amounts held in demand deposits, and certificates of deposit. For purposes of the statement of cash flows, short-term investments held in proprietary funds with a maturity date within three months of the date acquired by the City, if any, are considered to be cash equivalents.

The City maintains and controls a major cash pool in which the majority of the City's funds share. Each fund's portion of the pool is displayed on their respective balance sheet as cash and cash equivalents, some of which are restricted assets.

Investments

State statutes authorize the City to invest in (1) direct obligations of the United States government to the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit when insured or secured by acceptable collateral, and (3) obligations of the State of Mississippi, or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court. Investments, if any, are recorded at cost, which approximates fair value.

Receivables

Property taxes are recognized as a receivable at the time they are levied, and the current taxes receivable represent the 2022 levy and prior levies still uncollected, if any.

Accounts receivable held by the City's governmental and business-type activities are stated net of allowances for estimated uncollectibles as of September 30, 2022. The allowance is based on historical collection, experience, and other relevant circumstances.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column. The City reported \$7,330 due to business-type funds from governmental funds at September 30, 2022.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Receivables (Continued)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Unbilled Services Receivable

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2022, are recorded as prepaid items. In governmental funds, reported prepaid items are equally offset by nonspendable fund balance amounts, which indicate they do not constitute "available spendable resources" even though they are a component of net current assets. The net change in nonspendable fund balances is not presented because the combined statement of revenues, expenditures, and changes in fund balances reflects the changes in total fund balances rather than just the spendable and nonspendable fund balances.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are externally imposed by creditors, contributors, grantors, or laws. Restricted assets in governmental activities represent capital asset purchases, reserve for debt service and bond payment reserves. Restricted assets in business type activities represent utility customer deposits subject to refund. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

Capital Assets

Capital assets, which include property, plant, equipment, and current infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), net of depreciation, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's capitalization levels are as follows: purchased assets costing more than \$5,000 are capitalized; building renovations are capitalized when their cost exceeds 25% of the building's previously capitalized cost and if the repair extends the building's estimated useful life; contributed capital assets are capitalized and recorded at the estimated market value at the time of the contribution. Salvage values range from 10% to 30% of cost. Assets acquired using installment loan financing are treated in the same manner as purchased capital assets. Donated capital assets are recorded at acquisition value at the date of donation. Those assets received that will be capitalized are recorded as capital outlay in the fund statements and capital grant and contribution revenues in the statement of activities.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets (Continued)

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

	<u>Lives</u>
Buildings	40-50 years
Improvements	40-50 years
Infrastructure	20-60 years
Machinery and equipment	3-15 years

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period or periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category related to the City's participation in the pension plan, the unamortized changes in investments actual performance, expectations, projections, and changes in plan assumptions (See Note 9).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualifies for reporting in this category related to the City's participation in the pension plan and the difference between projected and actual plan investment earnings (See Note 9) and lease receivables (See Note 6).

Pensions

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

Long-term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences

The City accrues accumulated unpaid vacation and comp time and associated employee-related costs when earned (or estimated to be earned) by the employee. Employees are paid for up to 6 weeks of unused vacation and all unused comp time upon retirement or resignation with two weeks' written notice, while excess vacation and all accumulated sick leave remaining are counted as creditable service toward retirement.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2022. The resulting liability is then increased to include social security and retirement that the City is required to pay upon liquidation of the liability.

Fund Equity

As of September 30, 2022, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The City currently has prepaid insurance and lease receivables, net of related deferred inflow of resources, reported as non-spendable fund balance.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the highest level of decision making authority, the Board of Aldermen (the Board), and does not lapse at year end. The City currently has amounts committed for debt service and capital projects.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's policy, only the Board or an official or body to which the Board delegates the authority may assign amounts for specific purposes. Currently, the Board has not delegated the authority to assign fund balances. The City currently has amounts assigned for employee health insurance deductibles.

Unassigned – All amounts not included in other spendable classifications. Any residual fund balance in the General Fund and any deficit fund balance of any other governmental fund is reported as unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board or an official or body to which the Board delegates the authority, as applicable, has provided otherwise in its commitment or assignment actions.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding payables and balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

VI. Stewardship, Compliance, and Accountability

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

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

Budgetary – GAAP Reporting Reconciliations

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

NOTE 2: CASH

The City deposits funds in financial institutions selected by the City's Board of Aldermen in accordance with Mississippi statutes. Furthermore, the City invests excess funds in various investment instruments that are allowed by statutes. Various restrictions on deposits and investments are imposed by statutes.

Mississippi statutes allow municipalities to select depositories on the basis of competitive bid. The City awarded The First, ANBA the designated depository for calendar year 2021-2022.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 2: CASH (Continued)

A summary of cash (including restricted cash) at September 30, 2022 is as follows:

	Cash on Hand	Cash Deposits	Pooled Cash Deposits	Total
Governmental Activities				
General Fund	\$ 901	\$ 4,720,711	\$ 7,683,643	\$ 12,405,255
Food and Beverage	-	-	1,391,809	1,391,809
General Obligation	-	-	568,597	568,597
General Capital Projects	-	5,519,288	(77,177)	5,442,111
Other Nonmajor Gov't Funds	-	-	2,390,794	2,390,794
Total governmental activities	<u>901</u>	<u>10,239,999</u>	<u>11,957,666</u>	<u>22,198,566</u>
Business-type Activities				
Water and Sewer	<u>200</u>	<u>-</u>	<u>3,841,260</u>	<u>3,841,460</u>
Total business-type activities	<u>200</u>	<u>-</u>	<u>3,841,260</u>	<u>3,841,460</u>
Total cash and cash equivalents	<u>\$ 1,101</u>	<u>\$ 10,239,999</u>	<u>\$ 15,798,926</u>	<u>\$ 26,040,026</u>

The City maintained the following restricted cash and cash equivalents as of September 30, 2022:

Governmental Activities

Cash and cash equivalents

Restricted for capital projects	\$ 5,519,288
Restricted for debt service	1,960,406
Restricted for other special projects	6,259,519
Total restricted assets - governmental activities	<u>13,739,213</u>

Business-type Activities

Cash and cash equivalents

Restricted for utility customer deposits	867,877
Total restricted assets - business-type activities	<u>867,877</u>
Total restricted assets - government-wide	<u>\$ 14,607,090</u>

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. The collateral is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Miss. Code Ann. (1972), §27-105-5.

Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 2: CASH (Continued)

Custodial Credit Risk - Deposits (Continued)

At September 30, 2022, deposits (including restricted deposits) are as follows:

	Bank Balance	Carrying Amount
Pooled deposits:		
Cash and cash equivalents	\$15,955,781	\$15,798,926
Non-pooled deposits:		
Cash and cash equivalents	10,441,829	10,241,100
Total	\$26,397,610	\$26,040,026

NOTE 3: RECEIVABLES

Receivables at September 30, 2022, consist of the following:

	Governmental Activities	Business-type Activities	
	General Fund	Water and Sewer	
Property taxes	\$ 62,830	\$ -	\$ 62,830
Franchise taxes	311,215	-	311,215
Court	4,546,981	-	4,546,981
NSF checks	43,044	480	43,524
Utility charges	-	1,243,768	1,243,768
Other receivables	211	-	211
Total receivables, gross	4,964,281	1,244,248	6,208,529
Less allowance for doubtful receivables	(4,363,105)	(236,190)	(4,599,295)
Total receivables, net	\$ 601,176	\$ 1,008,058	\$ 1,609,234

Property Taxes

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Jackson County Tax Assessor. The taxes on real and personal property attach as an enforceable lien on the property as of January 1 of each year. Taxes on real and personal property are levied by the Board of Aldermen at the first regular meeting in September. Through an inter-local agreement, all of the property taxes of the City of Ocean Springs are collected by the Jackson County Tax Collector and remitted as tax settlements (less an appropriate collection fee) to the City on a monthly basis. Taxes for the Ocean Springs Municipal Separate School District are also billed and collected by the county and remitted to the schools through the county.

Restrictions associated with property tax levies vary with the statutory authority. State law limits the amount of increase in certain property taxes. In accordance with the Mississippi Code of 1972, as amended, the Board of Aldermen may levy taxes in any amount for general revenue purposes and general improvements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 3: RECEIVABLES (Continued)

Property Taxes (Continued)

However, taxes for any assessment year may not exceed one hundred ten percent (110%) of the taxes collected for the prior assessment year. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation. In addition, the Board of Aldermen may levy additional taxes for specific purposes, such as culture and recreation, as authorized by law.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue when received. Personal property taxes are recognized as revenue when received because most delinquent personal property taxes are collected by selling the property for taxes, together with all fees, penalties and damages accruing until date of sale, before the close of the fiscal year. The remaining amount of personal property not sold for taxes at the tax sale is recorded as delinquent taxes receivable.

The tax levies for the City for the fiscal years ended September 30, 2022, 2021, and 2020 are as follows:

	2022	2021	2020
City Funds			
General Fund	21.05	21.05	21.05
Library maintenance	1.10	1.10	1.10
Debt service	4.77	4.77	4.77
Total City administered funds	26.92	26.92	26.92
School Funds			
District maintenance	55.00	55.00	55.00
School debt	11.69	12.15	11.59
Total School administered funds	66.69	67.15	66.59
Total levy	93.61	94.07	93.51

NOTE 4: DUE FROM OTHER GOVERNMENTS

Sales Tax

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Ocean Springs) back to the City monthly. The City levies an additional 2% sales tax on local food and beverage sales; the State remits 100% of the amount collected back to the City. Sales tax revenue was \$6,932,123 general sales tax and \$2,066,957 food and beverage tax, for the year ended September 30, 2022. Sales tax receivable is included in due from other governments on the statement of net position and balance sheet – governmental funds and consists of taxes collected by the State for August and September 2022 and not received by the City until October and November 2022.

Due from other governments at September 30, 2022, consists of the following:

	Governmental Activities
	General Fund
Grants	\$ 149,866
County match	49,671
County road tax	45,846
State of Mississippi, sales tax diversion	1,510,524
Total due from other governments	\$ 1,755,907

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 5: CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2022:

	Balance October 1, 2021	Additions	Disposals	Transfers/ Adjustments	Balance September 30, 2022
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,654,939	\$ 1,302,199	\$ -	\$ -	\$ 4,957,138
Donated artwork	5,734,541	-	-	-	5,734,541
Construction in progress	540,277	1,885,782	-	(91,340)	2,334,719
Total capital assets, not being depreciated	<u>9,929,757</u>	<u>3,187,981</u>	<u>-</u>	<u>(91,340)</u>	<u>13,026,398</u>
Capital assets, being depreciated:					
Buildings and improvements	14,252,400	-	-	-	14,252,400
Machinery and equipment	2,526,512	251,669	(49,499)	-	2,728,682
Other improvements	20,759,243	70,217	-	-	20,829,460
Infrastructure	19,087,416	161,837	-	55,582	19,304,835
Vehicles	6,073,210	433,003	(606,124)	-	5,900,089
Right of use assets	510,666	-	-	-	510,666
Total capital assets, being depreciated	<u>63,209,447</u>	<u>916,726</u>	<u>(655,623)</u>	<u>55,582</u>	<u>63,526,132</u>
Less accumulated amortization and depreciation for:					
Buildings and improvements	(4,260,282)	(231,140)	-	-	(4,491,422)
Machinery and equipment	(1,607,713)	(266,865)	41,824	-	(1,832,754)
Other improvements	(4,662,793)	(614,478)	-	-	(5,277,271)
Infrastructure	(9,683,798)	(330,338)	-	-	(10,014,136)
Vehicles	(4,456,696)	(343,529)	555,180	-	(4,245,045)
Right of use assets	(211,308)	(73,631)	-	-	(284,939)
Total accumulated amortization and depreciation	<u>(24,882,590)</u>	<u>(1,859,981)</u>	<u>597,004</u>	<u>-</u>	<u>(26,145,567)</u>
Total capital assets, being depreciated, net	<u>38,326,857</u>	<u>(943,255)</u>	<u>(58,619)</u>	<u>55,582</u>	<u>37,380,565</u>
Total governmental activities capital assets, net	<u>\$ 48,256,614</u>	<u>\$ 2,244,726</u>	<u>\$ (58,619)</u>	<u>\$ (35,758)</u>	<u>\$ 50,406,963</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 5: CAPITAL ASSETS (Continued)

	Balance October 1, 2021	Additions	Disposals	Transfers/ Adjustments	Balance September 30, 2022
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 29,413	\$ -	\$ -	\$ -	\$ 29,413
Construction in progress	19,199	2,660	(21,859)	-	-
Total capital assets, not being depreciated	<u>48,612</u>	<u>2,660</u>	<u>(21,859)</u>	<u>-</u>	<u>29,413</u>
Capital assets, being depreciated:					
Buildings	35,390	-	-	-	35,390
Machinery and equipment	1,241,951	24,995	(45,760)	-	1,221,186
Infrastructure	42,187,695	-	-	35,758	42,223,453
Vehicles	929,540	90,932	(27,938)	-	992,534
Total capital assets, being depreciated	<u>44,394,576</u>	<u>115,927</u>	<u>(73,698)</u>	<u>35,758</u>	<u>44,472,563</u>
Less accumulated depreciation for:					
Buildings	(32,198)	-	-	-	(32,198)
Machinery and equipment	(799,413)	(57,917)	41,190	-	(816,140)
Infrastructure	(21,717,756)	(376,952)	-	-	(22,094,708)
Vehicles	(773,709)	(19,298)	25,144	-	(767,863)
Total accumulated depreciation	<u>(23,323,076)</u>	<u>(454,167)</u>	<u>66,334</u>	<u>-</u>	<u>(23,710,909)</u>
Total capital assets, being depreciated, net	<u>21,071,500</u>	<u>(338,240)</u>	<u>(7,364)</u>	<u>35,758</u>	<u>20,761,654</u>
Total business-type activities capital assets, net	<u>\$ 21,120,112</u>	<u>\$ (335,580)</u>	<u>\$ (29,223)</u>	<u>\$ 35,758</u>	<u>\$ 20,791,067</u>
Primary Government					
Total capital assets, net	<u>\$ 69,376,726</u>	<u>\$ 1,909,146</u>	<u>\$ (87,842)</u>	<u>\$ -</u>	<u>\$ 71,198,030</u>

The beginning balance of the above summary has been restated for GASB 87 implementation in the current year. See Note 15 for more information.

Depreciation and amortization expense for the year ended September 30, 2022 was charged to the following governmental functions:

Governmental Activities	
General government	<u>\$ 1,859,981</u>
Business-type Activities	
Water and Sewer	<u>454,167</u>
Total depreciation expense	<u>\$ 2,314,148</u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 6: LEASING ARRANGEMENTS

The Governmental Accounting Standards Board (GASB) Statement No. 87 – Leases has been implemented for the year ended September 30, 2022. Beginning net position has been adjusted for the cumulative effect of implementing the change in accounting principle. See Note 15 for more information.

Lessor

The City is a lessor under three non-cancelable lease arrangements involving the lease of City assets. The agreements permit the lessee the right to use the specified asset for the term of the agreement. The terms of the agreements range from 25 to 40 years, expiring between May 2024 and December 2055. One of the leases contains variable payment adjustments based on the Consumer Price Index. This amount is not included in the lease receivable calculation and related deferred inflows – leases. For the year ended September 30, 2022 the City recognized \$19,916 in lease revenue and \$7,866 in interest income related to these agreements. These amounts are included in charges for service in the statement of activities. The variable lease revenues for the year ended are \$6,107. In addition, the City reported \$441,298 in lease receivables and \$395,841 in deferred inflows of resources related to leases.

The following is a schedule of future minimum rentals through the end of the lease agreements in effect as of September 30, 2022, not including variable consumer price index adjustments:

Year Ending September 30,	Governmental Activities		Total Requirements
	Principal	Interest	
2023	\$ 17,635	\$ 7,565	\$ 25,200
2024	9,584	7,256	16,840
2025	10,574	7,081	17,655
2026	10,926	6,894	17,820
2027	11,117	6,703	17,820
2028-2032	64,595	30,374	94,969
2033-2037	80,294	24,136	104,430
2038-2042	98,447	16,440	114,887
2043-2047	60,857	8,852	69,709
2048-2052	51,487	4,583	56,070
2053-2057	25,782	524	26,306
	<u>\$ 441,298</u>	<u>\$ 120,408</u>	<u>\$ 561,706</u>

Lessee

The City is the lessee under four non-cancelable lease agreements involving the lease of lighting and office equipment. The agreements permit the City the right to use the specified property for the term of the agreements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 6: LEASING ARRANGEMENTS (Continued)

Lessee (continued)

The following is a schedule of the City's lease liabilities related to these leases at September 30, 2022:

Year Ending September 30,	Governmental Activities		Total
	Principal	Interest	Requirements
2023	\$ 74,646	\$ 3,430	\$ 78,076
2024	75,948	2,129	78,077
2025	53,203	874	54,077
2026	14,699	373	15,072
2027	13,910	131	14,041
	<u>\$ 232,406</u>	<u>\$ 6,937</u>	<u>\$ 239,343</u>

NOTE 7: LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended September 30, 2022 are as follows:

	Balance October 1, 2021	Additions	Principal Payments/ Reductions	Balance September 30, 2022	Due within One Year
Governmental Activities					
General and Special					
Obligation Bonds	\$ 9,893,000	\$ -	\$ (743,000)	\$ 9,150,000	\$ 756,000
Premium on bonds payable	250,532	-	(31,316)	219,216	31,316
Notes payable	368,000	1,950,000	(461,043)	1,856,957	462,000
Equipment installment loans	634,379	95,600	(221,443)	508,536	228,433
Lease payable	-	305,772	(73,366)	232,406	74,646
Compensated absences	582,593	422,075	(409,066)	595,602	79,047
Total governmental activities	<u>\$ 11,728,504</u>	<u>\$ 2,773,447</u>	<u>\$ (1,939,234)</u>	<u>\$ 12,562,717</u>	<u>\$ 1,631,442</u>
Business-type Activities					
Water and Sewer notes payable	\$ 130,103	\$ -	\$ (20,103)	\$ 110,000	\$ 20,409
Drinking water loan	2,645,124	-	(361,429)	2,283,695	344,864
Equipment installment loans	126,752	-	(65,014)	61,738	61,738
Compensated absences	68,717	45,321	(46,432)	67,606	11,342
Total business-type activities	<u>\$ 2,970,696</u>	<u>\$ 45,321</u>	<u>\$ (492,978)</u>	<u>\$ 2,523,039</u>	<u>\$ 438,353</u>

The General and Water and Sewer Funds provide the resources for the retirement of compensated absences. For the year ended September 30, 2022, interest incurred and charged to expense totaled \$284,533 in the governmental activities and \$57,879 in the business-type activities.

Bonds Payable

The City is responsible for the repayment of specific General Obligations Bonds of the State of Mississippi relative to the City's capital projects. The bonds are backed by the full faith and credit of the State of Mississippi, but are being retired from the resources of the City and are presented as debt of the City. General obligation bonds issued in 2019 and 2021 are collateralized by a pledge of the proceeds of a food and beverage tax in an amount not to exceed two percent (2%) of the gross proceeds of the sales of prepared foods and beverages from every person, firm or corporation or other entity operating a restaurant or bar, or both.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 7: LONG-TERM LIABILITIES (Continued)

Bonds Payable (Continued)

At September 30, 2022, the City had the following outstanding bonds payable:

	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance September 30, 2022</u>
Governmental Activities:					
General obligation bonds:					
General obligation bonds Series 2019	10/31/2019	12/1/2029	2.00-4.00%	\$ 2,670,000	\$ 2,195,000
General obligation bonds Series 2021	2/25/2021	7/1/2034	1.90%	7,955,000	6,955,000
Total governmental activities				<u>\$ 10,625,000</u>	<u>\$ 9,150,000</u>

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

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2023	\$ 756,000	\$ 206,420	\$ 962,420
2024	776,000	189,321	965,321
2025	797,000	171,732	968,732
2026	816,000	153,634	969,634
2027	845,000	133,590	978,590
2028-2032	3,888,000	309,595	4,197,595
2033-2037	1,272,000	36,366	1,308,366
	<u>\$ 9,150,000</u>	<u>\$ 1,200,658</u>	<u>\$ 10,350,658</u>

Interest accrued on bonds payable totaled \$56,619 for the fiscal year ended September 30, 2022.

The Board of Aldermen annually adopts a resolution providing for the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City. The millage rate for the year ended September 30, 2022, was 4.77 mills or \$4.77 per \$1,000 of assessed value.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 7: LONG-TERM LIABILITIES (Continued)

Notes Payable

At September 30, 2022, the City's outstanding notes payable are described as follows:

	Date Issued	Maturity Date	Interest Rate	Original Amount	Balance September 30, 2022
Governmental Activities:					
Notes payable:					
Red River general obligation note	2/17/2022	2/17/2027	1.14%	\$ 1,950,000	\$ 1,560,000
Community Bank general obligation note	12/1/2020	12/1/2025	1.73%	368,000	296,957
Total governmental activities				<u>2,318,000</u>	<u>1,856,957</u>
Business-type Activities:					
Notes payable:					
State of MS Revolving Fund Loan	2/25/2013	1/1/2033	1.75%	1,059,133	595,123
State of MS Revolving Fund Loan	9/1/2010	12/1/2027	2.00%	328,752	110,000
State of MS Drinking Water Improvement Loan	11/10/2006	9/30/2029	1.95%	1,943,294	795,629
State of MS Drinking Water Improvement Loan	9/3/2008	5/1/2028	1.95%	835,711	275,401
State of MS Drinking Water Improvement Loan	8/10/2002	4/1/2026	3.50%	1,054,818	249,047
State of MS Drinking Water Improvement Loan	6/15/2001	2/1/2023	3.00%	522,924	17,612
State of MS Drinking Water Improvement Loan	11/18/2008	8/1/2028	1.95%	1,029,345	350,883
Total business-type activities				<u>6,773,977</u>	<u>2,393,695</u>
Total notes payable				<u>\$ 9,091,977</u>	<u>\$ 4,250,652</u>

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

Year Ending September 30,	Governmental Activities		Business-type Activities		Total Requirements
	Principal	Interest	Principal	Interest	
2023	\$ 462,000	\$ 23,071	\$ 365,273	\$ 45,575	\$ 895,919
2024	464,000	17,343	355,462	36,789	873,594
2025	465,000	44,580	363,444	29,115	902,139
2026	465,957	5,799	340,585	21,794	834,135
2027	-	-	303,650	15,535	319,185
2028-2032	-	-	649,461	21,426	670,887
2033-2037	-	-	15,820	917	16,737
	<u>\$ 1,856,957</u>	<u>\$ 90,793</u>	<u>\$ 2,393,695</u>	<u>\$ 171,151</u>	<u>\$ 4,512,596</u>

Equipment Installment Loans

The City has entered into several equipment installment loans to finance the purchase of police radios, lighting, turnout gear, a cat tractor, and mini hex excavator. The purchases were financed at a fixed, simple interest rate. Title to equipment under these installment loans vest with the City. The Obilgee retains a security interest constituting a first lien on the equipment.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 7: LONG-TERM LIABILITIES (Continued)

Equipment installment loans (continued)

The equipment installment loan obligations outstanding as of September 30, 2022, are as follows:

	Date Issued	Maturity Date	Interest Rate	Original Amount	Balance September 30, 2022
Governmental Activities:					
Equipment installment loans:					
Musco Finance - Sunplex lighting	2/5/2010	12/1/2024	6.50%	\$ 1,489,000	\$ 358,832
Republic First National - Turnout gear	3/1/2022	3/1/2026	7.89%	95,600	76,039
Motorola - Police radios	2/1/2020	2/1/2023	N/A	220,994	73,665
Total governmental activities				<u>1,805,594</u>	<u>508,536</u>
Business-type Activities:					
Equipment installment loans:					
Hancock Bank - Cat tractor	8/29/2018	8/29/2023	3.69%	153,756	37,999
Hancock Bank - Hex excavator	8/29/2018	8/29/2023	3.69%	96,053	23,739
Total business-type activities				<u>249,809</u>	<u>61,738</u>
Total installment loan obligations				<u>\$ 2,055,403</u>	<u>\$ 570,274</u>

The following is a schedule of future minimum lease payments under installment loans as of September 30, 2022:

Year Ending September 30,	Governmental Activities		Business -Type Activities		Total Requirements
	Principal	Interest	Principal	Interest	
2023	\$ 228,433	\$ 23,685	\$ 61,738	\$ 1,145	\$ 315,001
2024	164,403	14,051	-	-	178,454
2025	95,742	3,800	-	-	99,542
2026	19,958	669	-	-	20,627
	<u>\$ 508,536</u>	<u>\$ 42,205</u>	<u>\$ 61,738</u>	<u>\$ 1,145</u>	<u>\$ 613,624</u>

Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the last completed assessment for taxation. In no case shall the total indebtedness exceed 20% of the assessed value of the property.

The City's legal debt limit for general obligation bond was \$45,015,168 and the legal debt margin was \$33,863,675 at September 30, 2022.

NOTE 8: INTERFUND TRANSACTIONS

Interfund Receivables and Payables

Generally, outstanding balances between funds reported as "due to/due from other funds" include outstanding charges by one fund to another for services or goods (such as utility services) and other miscellaneous receivables/payables between funds. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/due from other funds."

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 8: INTERFUND TRANSACTIONS (Continued)

Interfund Receivables and Payables (continued)

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

At year end September 30, 2022 there was \$7,330 due from governmental activities to business-type activities.

Interfund Transfers

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, grant matching requirements, subsidies of various City operations and re-allocations of special revenues.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns.

Interfund transfers between funds during the year ended September 30, 2022 consist of the following:

	Fund Level		Government-Wide Level	
	<u>General Fund</u>	<u>Water and Sewer</u>	<u>Governmental</u>	<u>Water and Sewer</u>
Transfers Out	\$ 3,034	\$ -	\$ 38,792	\$ -
Transfers In	-	3,034	-	38,792
Total	\$ 3,034	\$ 3,034	\$ 38,792	\$ 38,792

NOTE 9: EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

All full-time City employees hired after June 30, 1987, participate in the Public Employees' Retirement System of Mississippi (PERS). Other City employees hired prior to July 1, 1987 may elect to participate in the retirement system under an option offered by PERS.

Plan Description

The City of Ocean Springs contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Mississippi's Public Employees' Retirement System's Board of Trustees. 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 from its website, www.PERS.ms.gov, by writing to Public Employee Retirement System, PERS Building, 429 Mississippi, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 9: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (continued)

Benefits provided

PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable services (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2 percent of their average compensation for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. Benefit provisions are established by Section 25-11-1 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature.

A Cost-of-Living Adjustment (COLA) is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3 percent compounded for each fiscal year thereafter.

Contributions

The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The adequacy of these rates is assessed annually by actuarial valuation. PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2022 was 17.40% of annual covered payroll. The City's contributions to PERS for the fiscal years ending September 30, 2022, 2021, and 2020 total \$1,354,665, \$1,322,550, and \$1,211,140, respectively, which equal the required contributions for each year.

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

At September 30, 2022, the City reported a liability of \$22,642,002 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At September 30, 2022, the City's proportion was .11 percent, which was the same as its proportionate share measured as of September 30, 2021.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 9: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (continued)

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

For the year ended September 30, 2022, the City recognized pension expense of \$2,060,097. At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Governmental Activities:		
Differences between expected and actual experience	\$ 275,094	\$ -
Changes in assumptions	671,958	-
Net difference between projected and actual earnings on pension plan investments	1,020,480	-
City contributions subsequent to the measurement date	317,929	-
Totals	\$ 2,285,461	\$ -
	Deferred Outflows of Resources	Deferred Inflows of Resources
Business-Type Activities		
Differences between expected and actual experience	\$ 45,501	\$ -
Changes in assumptions	111,142	-
Net difference between projected and actual earnings on pension plan investments	168,788	-
City contributions subsequent to the measurement date	52,586	-
Totals	\$ 378,017	\$ -

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 9: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

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

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$370,515 are recognized as a reduction to the net pension liability in the year ending September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 717,922
2024	528,904
2025	(182,483)
2026	1,228,620
Total	<u>\$ 2,292,963</u>

Actuarial assumptions

The total pension liability was determined by an actuarial valuations as of June 30, 2021 and a measurement date determined of June 30, 2022 using standard rollforward techniques, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.55 percent, net of pension plan investment expense, including inflation
Projected salary increases	2.65 - 17.90 percent, including inflation
Inflation	2.40 percent

The actuarial assumptions are based on the experience investigation for the four-year period ending June 30, 2022. Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments. For males 95% of male rates up to age 60, 110% for ages 61 to 75 and 101% for ages above 77. For females 84% of the female rates up to age 72 and 100% for ages above 76. Mortality rates will be projected generationally using the MP-2020 projection scale to account for future improvements in life expectancy.

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 9: EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

Actuarial assumptions (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	25.00%	4.60%
International equity	20.00%	4.50%
Global equity	12.00%	4.85%
Fixed income	18.00%	1.40%
Real estate	10.00%	3.65%
Private equity	10.00%	6.00%
Private infrastructure	2.00%	4.00%
Private credit	2.00%	4.00%
Cash equivalents	1.00%	-0.10%
Total	<u><u>100.00%</u></u>	

Discount rate

The discount rate used to measure the total pension liability was 7.55 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00 percent) and that employer contributions will be made at the current contribution rate (17.40%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.55 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.55 percent) or 1-percentage-point higher (8.55 percent) than the current rate:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% decrease	6.55%	\$ 29,550,126
Current discount rate	7.55%	\$ 22,642,002
1% increase	8.55%	\$ 16,946,607

Pension plan fiduciary net position

Detailed information about the PERS pension plan is available in the separately issued PERS financial report, available at www.pers.ms.gov.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 9: EMPLOYEE BENEFIT PLANS (Continued)

Deferred Compensation Plan

PERS offers the City’s employees voluntary participation in a deferred compensation plan in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. Participants self-direct investment of their savings through selections from a group of funds managed by Great West Life and Annuity Insurance Company, a third-party administrator. All plan assets are held in trust by the third-party administrator for the exclusive benefit of the participants and their beneficiaries and not subject to the claims of the City’s general creditors.

NOTE 10: DEFICIT FUND BALANCE

At September 30, 2022, the Task Force (special revenue fund) has a negative net position of \$62,209. The negative net position is caused by the difference in timing between expenses related to vehicle purchases and the budgeted revenue related to this expenditure.

NOTE 11: TAX ABATEMENTS

The Mississippi Code of 1972 Annotated §17-21-5, authorizes municipal governing authorities, in their discretion, to grant exemptions from ad valorem taxation, except ad valorem taxation for school district purposes, for new structures, or improvements to or renovations of existing structures located in the central business district of the municipality, for a period of not more than seven (7) years from the date of completion of the new structure or the improvement to or renovation of the existing structure for which the exemption is granted. The City adopted such an ordinance in 2011, 2012, and in 2017, which exempts eligible properties from up to 80% of municipal ad valorem taxes. Per the City ordinance, the City has granted tax abatements to four restaurants, a motor vehicle dealer, a hotel, a mixed use project, and a real estate company. For the year ended September 30, 2022, the City abated the following taxes:

<u>Taxes Abated</u>	<u>%of Abatement</u>	<u>Total Amount Abated</u>
Real property	80%	<u>\$ 678,187</u>

NOTE 12: COMMITMENTS AND CONTINGENCIES

Litigation

The City is party to legal proceedings, many of which occur in the normal course of governmental operations. Although the outcome of these proceedings is not presently determinable, in the opinion of the City's legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Federal Grants

In the normal course of operations and as a result of the destruction from natural disasters, the City has received grant funds from various Federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 12: COMMITMENTS AND CONTINGENCIES (Continued)

Capital Project Commitment

In connection with the Capital Projects, the City budgeted certain commitments for engineering services, construction and other capital project costs. The projects are to be funded, in part, with State and Federal grants. The remainder of the required funds will be generated by local sources.

The following is a summary of the budgeted commitment for future capital projects:

	Contract <u>Amount</u>	Expended to <u>Date</u>	Remaining <u>Contract</u>
Parktown improvements	\$ 440,250	\$ 402,750	\$ 37,500
Ft. Bayou improvements	614,708	579,782	34,926
East Beach Drive sidewalk	26,250	21,000	5,250
Ocean Springs Road	244,962	228,914	16,048
Government street improvements	36,800	27,224	9,576
Porter ave Front Beach	58,340	55,582	2,758
East Beach Accessibility	33,200	13,107	20,093
Ft. Bayou wastewater	493,365	430,014	63,351
CIPP Lining 21	259,301	253,947	5,354
Monster Ditch	299,401	268,641	30,760
Front Beach sidewalk	343,175	50,208	292,967
Baywood LS 68 phase II	153,950	134,836	19,114
Parktown drainage phase II	619,150	-	619,150
	<u>\$ 3,622,852</u>	<u>\$ 2,466,005</u>	<u>\$ 1,156,847</u>

NOTE 13: RELATED PARTY COMMITMENTS

Joint Venture

The City of Ocean Springs is a member of the Jackson County Utility Authority (Authority) which was established by an act of the Mississippi Legislature and operates under MS Code 49-17-701 to provide for adequate wastewater treatment and solid waste disposal services to the citizens of Jackson County, Mississippi. The Authority is responsible for the operations and maintenance of wastewater treatment plants for the Cities of Pascagoula, Moss Point, Ocean Springs, and Gautier, Mississippi and West Jackson County, Mississippi wastewater treatment plant. The Authority is considered to be a joint venture of all the above-named primary governments. The governing body of the Authority is comprised of members appointed by the governing bodies of the primary governments named above.

The governing board is comprised of one member from each of the cities and three members from the county who are members of the Authority. Through a fifty-year contract, the City of Ocean Springs is obligated to pay monthly, its pro-rata share of all operating, administrative, and capital costs of the Authority. Additionally, the City is jointly and severally liable for all of the liabilities of the Authority. A copy of the Authority's financial statements as of and for the year ended September 30, 2022 can be found online at <http://www.jcua-ms.us/all-forms-and-reports>. A complete copy is on file at the administrative offices of the Authority.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 13: RELATED PARTY COMMITMENTS (Continued)

Joint Venture (continued)

The following financial information concerning transactions with the Authority has been included in the City of Ocean Springs' proprietary fund financial statements under the following captions:

Statement of revenues, expenses and changes in fund balance:	
Contractual Services	<u>\$ 2,352,728</u>

Jointly Governed Organization

On November 2, 1970, the City entered into an agreement with the Cities of Moss Point, Pascagoula, Gautier, and Lucedale, and the Board of Supervisors of Jackson and George Counties to mutually cooperate in securing a more economical public library system through combined resources, interests, materials and facilities to be known as the Jackson George Regional Library System. There are no specific monetary terms in the agreement and the City of Ocean Springs has no equity interest in the organization.

The City of Ocean Springs contributed \$150,600 for the year ended September 30, 2022 through proceeds of a specific tax levy authorized by MS Code 39-3-13. This agreement is cancelable upon 90 days written notice prior to the end of the fiscal year; therefore, the City of Ocean Springs does not have an ongoing financial responsibility.

NOTE 14: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disasters for which the City carries commercial insurance.

NOTE 15: IMPLEMENTATION OF NEW ACCOUNTING STANDARD GASB NO. 87

The implementation of a new accounting standard, GASB 87 – Leases, required the recording of lease receivables, deferred inflow of resources – leases, right to use assets, related amortization of right to use assets, and a lease liability related to leases for the year ended September 30, 2022. The statement of net position beginning net position has been restated to reflect the adjustments related to the implementation of this new standard.

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

NOTE 15: IMPLEMENTATION OF NEW ACCOUNTING STANDARD GASB NO. 87 (Continued)

The effects of the restatement on the statements of net positions are as follows:

	<u>As Previously Stated</u>	<u>As Restated</u>	<u>Effect of Restatement Increase (Decrease)</u>
<i>Government-wide</i>			
Statement of Net Position			
at September 30, 2021:			
Lease receivable	\$ -	\$ 458,632	\$ 458,632
Deferred inflow of resources related to leases	\$ -	\$ 415,757	\$ 415,757
Right of use asset	\$ -	\$ 510,666	\$ 510,666
Accumulated amortization	\$ -	\$ 211,308	\$ 211,308
Lease liability	\$ -	\$ 305,772	\$ 305,772
Government-wide net position	\$ 28,184,240	\$ 28,220,701	\$ 36,461
 <i>General Fund</i>			
Balance Sheet			
at September 30, 2021:			
Lease receivable	\$ -	\$ 458,632	\$ 458,632
Deferred inflow of resources related to leases	\$ -	\$ 415,757	\$ 415,757
Governmental fund balance sheet	\$ 5,806,519	\$ 5,849,394	\$ 42,875

NOTE 16: SUBSEQUENT EVENTS

The City has evaluated events subsequent to year end through June 29, 2023 which is the date the financial statements were available to be issued. The following events were identified:

On December 20, 2022, the Public Employees' Retirement System (PERS) Board of Trustees voted to increase the PERS employer contribution rate to 22.4 percent, based on actuarial recommendations. The proposed effective date is July 1, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OCEAN SPRINGS, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes				
Property taxes	\$ 4,745,491	\$ 4,745,491	\$ 4,888,305	\$ 142,814
Sales taxes	5,800,000	5,800,000	6,810,591	1,010,591
Franchise taxes	860,000	860,000	903,207	43,207
Miscellaneous taxes	977,198	977,198	1,147,945	170,747
Licenses and permits	271,000	386,000	531,660	145,660
Intergovernmental	289,636	403,636	1,058,056	654,420
Fines and forfeitures	421,000	491,000	561,555	70,555
Charges for services	548,342	548,342	735,343	187,001
Interest	7,500	67,500	144,387	76,887
Miscellaneous	96,000	96,000	350,470	254,470
Total revenues	<u>14,016,167</u>	<u>14,375,167</u>	<u>17,131,519</u>	<u>2,756,352</u>
EXPENDITURES				
Executive and legislative				
Personnel services	318,576	303,110	301,204	1,906
Supplies	9,400	16,100	10,655	5,445
Other services and charges	579,165	517,433	515,353	2,080
Capital outlay	58,500	62,995	52,859	10,136
Total executive and legislative	<u>965,641</u>	<u>899,638</u>	<u>880,071</u>	<u>19,567</u>
Supervision and finance				
Personnel services	222,076	219,076	206,628	12,448
Supplies	9,100	9,100	6,807	2,293
Other services and charges	517,620	583,120	472,815	110,305
Capital outlay	1,000	128,000	78,522	49,478
Total supervision and finance	<u>749,796</u>	<u>939,296</u>	<u>764,772</u>	<u>174,524</u>
Police department				
Personnel services	3,541,440	3,549,414	3,463,313	86,101
Supplies	326,600	379,120	366,010	13,110
Other services and charges	380,279	781,696	319,485	462,211
Capital outlay	0	188,800	187,446	1,354
Total police department	<u>4,248,319</u>	<u>4,899,030</u>	<u>4,336,254</u>	<u>562,776</u>
Fire department				
Personnel services	2,428,406	2,428,406	2,354,155	74,251
Supplies	85,600	105,600	74,517	31,083
Other services and charges	128,132	138,132	123,910	14,222
Capital outlay	7,000.00	47,540	47,970	(430)
Total fire department	<u>2,649,138</u>	<u>2,719,678</u>	<u>2,600,552</u>	<u>119,126</u>
Judicial department				
Personnel services	272,453	264,480	239,384	25,096
Supplies	5,400	10,400	9,313	1,087
Other services and charges	15,496	9,496	3,569	5,927
Total judicial department	<u>293,349</u>	<u>284,376</u>	<u>252,266</u>	<u>32,110</u>
Inspections department				
Personnel services	272,200	261,200	258,967	2,233
Supplies	6,600	6,600	2,177	4,423
Other services and charges	106,420	111,420	95,158	16,262
Capital outlay	-	33,900	3,518	30,382
Total inspections department	<u>385,220</u>	<u>413,120</u>	<u>359,820</u>	<u>53,300</u>

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

CITY OF OCEAN SPRINGS, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
EXPENDITURES, Continued				
Street department				
Personnel services	1,324,345	1,280,895	1,235,945	44,950
Supplies	341,000	421,525	404,902	16,623
Other services and charges	756,191	758,391	757,546	845
Capital outlay	265,000	868,947	680,663	188,284
Total street department	<u>2,686,536</u>	<u>3,329,758</u>	<u>3,079,056</u>	<u>250,702</u>
Safety and human resources				
Personnel services	92,966	92,966	91,705	1,261
Supplies	800	798	162	636
Other services and charges	427,067	457,627	396,938	60,689
Total safety and human resources	<u>520,833</u>	<u>551,391</u>	<u>488,805</u>	<u>62,586</u>
Parks and recreation				
Personnel services	1,363,678	1,371,065	1,245,175	125,890
Supplies	211,800	245,230	219,195	26,035
Other services and charges	664,444	1,488,586	661,280	827,306
Capital outlay	73,000	228,362	172,851	55,511
Total parks and recreation	<u>2,312,922</u>	<u>3,333,243</u>	<u>2,298,501</u>	<u>1,034,742</u>
Community development				
Personnel services	166,696	166,696	165,809	887
Supplies	6,600	6,600	6,302	298
Other services and charges	89,111	89,111	86,650	2,461
Capital Outlay	5,000	5,000	4,193	807
Total community development	<u>267,407</u>	<u>267,407</u>	<u>262,954</u>	<u>4,453</u>
Total expenditures	<u>15,079,161</u>	<u>17,636,937</u>	<u>15,323,051</u>	<u>2,313,886</u>
Deficiency of revenues over expenditures	<u>(1,062,994)</u>	<u>(3,261,770)</u>	<u>1,808,468</u>	<u>5,070,238</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	119,646	119,646
Debt proceeds	-	1,950,000	1,950,000	-
Sale of assets	-	-	99,766	99,766
Purchase of assets	-	-	(1,302,199)	(1,302,199)
Grants proceeds	-	-	2,503,406	2,503,406
Grants expenditures	-	-	(24,514)	(24,514)
Transfers out	(100,000)	(100,000)	(1,180,253)	(1,080,253)
Transfers in	77,550	2,011,209	1,294,943	(716,266)
Total other financing sources (uses)	<u>(22,450)</u>	<u>3,861,209</u>	<u>3,460,795</u>	<u>(400,414)</u>
Net change in fund balance	<u>(1,085,444)</u>	<u>599,439</u>	<u>5,269,263</u>	<u>\$ 4,669,824</u>
Fund balance-beginning, budget basis	<u>1,095,000</u>	<u>1,095,000</u>	<u>7,026,396</u>	
Fund balance-ending, budget basis	<u>\$ 9,556</u>	<u>\$ 1,694,439</u>	<u>\$ 12,295,659</u>	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis at beginning of the year:			(1,219,884)	
Change in receivables			655,496	
Change in prepaid expenses			81,985	
Change in accounts payable and accrued liabilities			(24,237)	
Change in deferred revenue			(2,256,459)	
Change in deferred inflow of resources			(395,841)	
Fund balance-ending, GAAP basis			<u>\$ 9,136,719</u>	

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

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

	2022	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%
City's proportionate share of the net pension liability	\$ 22,642,002	\$ 16,258,480	\$ 21,294,721	\$ 19,351,169	\$ 18,296,268	\$ 18,285,733	\$ 19,648,746	\$ 17,003,831
City's covered employee payroll	\$ 7,786,461	\$ 7,600,859	\$ 6,960,573	\$ 6,916,779	\$ 7,161,065	\$ 7,069,178	\$ 7,315,767	\$ 6,844,479
City's proportionate share of the net pension liability as a percentage of covered employee payroll	290.79%	213.90%	305.95%	279.77%	255.50%	258.67%	268.58%	248.43%
Plan fiduciary net position as a percentage of total pension liability	59.95%	70.44%	58.97%	61.59%	62.54%	61.49%	57.47%	61.70%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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

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

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,354,665	\$ 1,322,550	\$ 1,211,140	\$ 1,121,509	\$ 1,127,868	\$ 1,113,396	\$ 1,152,233	\$ 1,078,005
Contributions in relation to contractually required contribution	1,354,665	1,322,550	1,211,140	1,121,509	1,127,868	1,113,396	1,152,233	1,078,005
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll	\$ 7,786,461	\$ 7,600,859	\$ 6,960,573	\$ 6,916,779	\$ 7,161,065	\$ 7,069,178	\$ 7,315,767	\$ 6,844,479
Contributions as a percentage of covered employee payroll	17.40%	17.40%	17.40%	16.21%	15.75%	15.75%	15.75%	15.75%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SEPTEMBER 30, 2022

NOTE 1: CHANGES IN ASSUMPTIONS

- 2021
 - The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:
 - For males, 95% of male rates up to age 60, 110% for ages 61 to 75, and 101% for ages above 77.
 - For females, 84% of female rates up to age 72, 100% for ages above 76.
 - Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.
 - The expectation of disabled mortality was changed to PubG.H-2010 Disabled Table for disabled retirees with the following adjustments:
 - For males, 134% of male rates at all ages.
 - For females, 121% of female rates at all ages.
 - Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.
 - The expectation of contingent annuitant mortality was based on the PubS.H-2010(B) Contingent Annuitant Table with the following adjustments:
 - For males, 97% of male rates at all ages.
 - For females, 110% of female rates at all ages.
 - Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.
 - The price inflation assumption was reduced from 2.75% to 2.40%.
 - The wage inflation assumption was reduced from 3.00% to 2.65%.
 - The investment rate of return assumption was changed from 7.75% to 7.55%.
 - The assumed load for administrative expenses was increased from 0.25% to 0.28% of payroll.
 - Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to reflect actual experience more closely.
 - The percentage of active member disabilities assumed to be in the line of duty was increased from 9% to 12%.
 - The percentage of active member deaths assumed to be in the line of duty was decreased from 6% to 4%.
- 2019
 - The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:
 - For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119.
 - For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 80 to 119.
 - Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.
 - The expectation of disabled mortality was changes to PubT.H-2010 Disables Retiree Table for disabled retirees with the following adjustments:
 - For males, 137% of males rates at all ages.
 - For females, 115% of female rates at all ages.
 - Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.
 - The price inflation assumption was reduced from 3.00% to 2.75%.
 - The wage inflation assumption was reduced from 3.25% to 3.00%.

CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SEPTEMBER 30, 2022

NOTE 1: CHANGES IN ASSUMPTIONS (Continued)

- Withdrawal rates, pre-retirement mortality rates, and service retirement rates were also adjusted to more closely reflect actual experience.
- The percentage of active member disabilities assumed to be in the line of duty was increased from 7% to 9%.
- 2017
 - The expectation of retire life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.
 - The wage inflation assumption was reduced from 3.75% to 3.25%.
 - Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rate were also adjusted to more closely reflect actual experience.
 - The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.
- 2016
 - The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.
- 2015
 - The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.
 - The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
 - Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
 - Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
 - The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

NOTE 2: CHANGES IN BENEFIT PROVISIONS

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SEPTEMBER 30, 2022**

NOTE 3: METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2020 valuation for the June 30, 2022 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	27.7 years
Asset valuation method	5-year smoothed market
Price inflation	2.75 percent
Salary increase	3.00 percent to 18.25 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense,

SUPPLEMENTARY INFORMATION

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF OCEAN SPRINGS, MISSISSIPPI
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2022

	Special Revenue						Total Non-Major Governmental Funds
	Tourism	Library	Special Paid Fines and Forfeitures	Task Force	Modernization Use Tax	Fire Protection	
ASSETS							
Cash and cash equivalents	\$ 138,633	\$ 189,909	\$ 1,440	\$ 86,607	\$ -	\$ 131,539	\$ 548,128
Restricted assets:							
Cash and cash equivalents	-	-	-	-	1,842,666	-	\$ 1,842,666
Receivable, net	-	10,879	-	-	-	-	10,879
Taxes	12,609	-	-	-	-	-	12,609
Due from other governments							
Total assets	\$ 151,242	\$ 200,788	\$ 1,440	\$ 86,607	\$ 1,842,666	\$ 131,539	\$ 2,414,282
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 148,816	\$ -	\$ -	148,816
Total liabilities	-	-	-	148,816	-	-	148,816
Fund balances:							
Restricted							
Capital improvements					1,842,666		1,842,666
Committed							
Other	151,242	200,788	1,440	(62,209)	-	131,539	422,800
Total fund balances	151,242	200,788	1,440	(62,209)	1,842,666	131,539	2,265,466
Total liabilities and fund balances	\$ 151,242	\$ 200,788	\$ 1,440	\$ 86,607	\$ 1,842,666	\$ 131,539	\$ 2,414,282

See independent auditors' report.

CITY OF OCEAN SPRINGS, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Special Revenue						Total Non-Major Governmental Funds
	Tourism	Library	Special Paid Fines and Forfeitures	Task Force	Modernization Use Tax	Fire Protection	
REVENUES							
Property taxes	\$ -	\$ 234,519	\$ -	\$ -	\$ -	\$ -	\$ 234,519
Intergovernmental	86,150	-	-	30,000	-	232,926	349,076
Grants	-	-	-	-	1,128,076	-	1,128,076
Total revenues	86,150	234,519	-	30,000	1,128,076	232,926	1,711,671
EXPENDITURES							
Current:							
Public safety	-	-	-	183,327	43,747	21,143	248,217
Cultural and recreation	-	201,811	-	-	-	-	201,811
Economic development	36,662	-	-	-	-	-	36,662
Capital outlay	-	-	-	-	-	-	-
Public Safety	-	-	-	20,578	-	-	20,578
Debt service:							
Principal	-	-	-	-	-	71,043	71,043
Interest and other charges	-	-	-	-	-	6,836	6,836
Total expenditures	36,662	201,811	-	203,905	43,747	99,022	585,147
Excess (deficiency) of revenues over expenditures	49,488	32,708	-	(173,905)	1,084,329	133,904	1,126,524
Net change in fund balances	49,488	32,708	-	(173,905)	1,084,329	133,904	1,126,524
Fund balances - beginning	101,754	168,080	1,440	111,696	758,337	(2,365)	1,138,942
Fund balances - ending	\$ 151,242	\$ 200,788	\$ 1,440	\$ (62,209)	\$ 1,842,666	\$ 131,539	\$ 2,265,466

See independent auditor's report

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2022**

Position	Surety Company	Bond Amount
Mayor	Scott Insurance	\$100,000
Alderpersons (7)	Scott Insurance	\$100,000
City Clerk	Scott Insurance	\$100,000
Police Chief	Scott Insurance	\$50,000
Court Clerk	Scott Insurance	\$50,000
Deputy Court Clerk (2)	Scott Insurance	\$50,000
Records Clerks (3)	Scott Insurance	\$50,000
Deputy City Clerk	Scott Insurance	\$50,000
Payroll Clerk	Scott Insurance	\$50,000
Purchasing Agent	Scott Insurance	\$50,000
Accountant	Scott Insurance	\$50,000
General Administrative Clerk	Scott Insurance	\$50,000
Utility Billing Supervisor	Scott Insurance	\$50,000
Utility Clerk	Scott Insurance	\$50,000
Water Technician	Scott Insurance	\$50,000
Building Office Administrator	Scott Insurance	\$50,000
Building Clerk	Scott Insurance	\$50,000
Camp Special Events Coordinator	Scott Insurance	\$50,000
Parks Receptionist (2)	Scott Insurance	\$50,000
Parks Administrative Assistant	Scott Insurance	\$50,000
Parks Coordinator	Scott Insurance	\$50,000
Parks Director	Scott Insurance	\$50,000
Public Employee Blanket	Scott Insurance	\$50,000
Unemployment Bond	Scott Insurance	\$27,600

See independent auditors' report.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

**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***

June 29, 2023

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Ocean Springs, Mississippi's basic financial statements and have issued our report thereon dated June 29, 2023.

Internal Control Over Financial Reporting

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

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

To the Board of Aldermen
City of Ocean Springs
Ocean Springs, Mississippi

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

Compliance and Other Matters

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

Purpose of this Report

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

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

June 29, 2023

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Ocean Springs, Mississippi's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Ocean Springs, Mississippi's major federal program for the year ended September 30, 2022. The City of Ocean Springs, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, The City of Ocean Springs, Mississippi complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on their major federal program for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United State (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of this report.

We are required to be independent of The City of Ocean Springs, Mississippi and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of The City of Ocean Springs, Mississippi's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts and grant agreements applicable to The City of Ocean Springs, Mississippi's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The City of Ocean Springs, Mississippi's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user or the report on compliance about The City of Ocean Springs, Mississippi's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding The City of Ocean Springs, Mississippi's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The City of Ocean Springs, Mississippi's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of The City of Ocean Springs, Mississippi's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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

To the Board of Aldermen
City of Ocean Springs
Ocean Springs, Mississippi

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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Alexander Van Loon, Sloan, Levens & Favre, PLLC

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Gulfport, Mississippi

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Grantor Federal Agency Passed - Through Agency Program Title	ALN Number	Grant No./ Pass-Through Grantor No.	Federal Expenditures
US DEPARTMENT OF TRANSPORTATION			
Federal Highway Administration			
<i>Passed through the State of Mississippi</i>			
<i>Department of Transportation</i>			
STP	20.205	STP-9064-00(10)LPA	\$ 81,231
Total US Department of Transportation			81,231
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
KCDBG - Parktown	14.228	R-109-282-07-KCR	323,115
KCDBG - Ft. Bayou	14.228	R-109-282-08-KCR	799,702
Total US Department of Housing and Urban Development			1,122,817
US DEPARTMENT OF INTERIOR			
GOMESA - Colonial Estates	15.435	OS-001-MOA	1,096
GOMESA - Front Beach Public Access	15.435	OS-PR-01	18,966
Total US Department of Interior			20,062
US DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through Mississippi Emergency Management Agency</i>			
Hurricane Zeta			
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW307	1,393
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW268	1,906
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW372	62,667
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW457	34,602
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW371	107,664
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW373	49,414
Hurricane Ida			
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW72	35,903
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PW136	19,440
Total US Department of Homeland Security			312,989
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,537,099

**CITY OF OCEAN SPRINGS, MISSISSIPPI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – DE MINIMIS COST RATE

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

NOTE 3- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Ocean Springs, Mississippi under programs of the federal government for the year ended September 30, 2022 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Ocean Springs, Mississippi.

NOTE 4 – RECONCILIATION OF GRANT REVENUE

The following reconciles the total expenditures of federal awards to grant revenue recognized in the statement of activities for the year ended September 30, 2022:

Governmental Activities	
General government - operating grants and contributions	\$ 339,164
General government - capital grants and contributions	6,651,308
Culture and recreation - operating grants and contributions	159,638
Culture and recreation - capital grants and contributions	131,923
Public safety - operating grants and contributions	287,826
Public works - operating grants and contributions	20,000
Public works - capital grants and contributions	1,122,820
Economic development - capital grants and contributions	17,268
	<u>8,729,947</u>
Less: state grants and other aid	(5,855,170)
Less: county aid	<u>(1,337,678)</u>
Total expenditures of federal awards	<u><u>\$ 1,537,099</u></u>

**CITY OF OCEAN SPRINGS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Federal programs identified as major programs:

<u>Assistance Listing</u>	<u>Name of Federal Program</u>
14.228	<i>Community Development Block Grants</i>

Dollar threshold used to distinguish between type A and type B Programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings

None reported.



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

June 29, 2023

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

We have audited the basic financial statements of the City of Ocean Springs, Mississippi, as of and for the year ended September 30, 2022 and have issued our report dated June 29, 2023. 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. However, noncompliance may exist that has not been identified.

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

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