

**CITY OF BAY ST. LOUIS, MISSISSIPPI
ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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INTRODUCTORY SECTION

**CITY OF BAY ST. LOUIS, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2010**

ELECTED OFFICIALS

Mayor	Les Fillingame
Councilman - Ward 1	Doug Seal, Jr.
Councilman - Ward 2	Wendy McDonald
Councilman - Ward 3	Jeffrey R. Reed
Councilman - Ward 4	Robert J. Compretta
Councilman - Ward 5	Joey Boudin
Councilman - Ward 6	Ray Kidd
Councilman - At Large	William Taylor

APPOINTED OFFICIALS

City Clerk	David Kolf
Interim Police Chief	Mike Denardo
Fire Chief	Fred J. Butts
City Attorney	Don Rafferty

INDEPENDENT AUDITORS' REPORT

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P. O. BOX 129

GULFPORT, MISSISSIPPI 39502

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HENRY D. WARD, CPA, 1949-2006
KENNETH M. HATTEN, CPA, CONSULTANT
MICHAEL E. GUEL, CPA, CFP®
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INDEPENDENT AUDITORS' REPORT

October 7, 2011

Honorable Mayor and Councilmen
City of Bay St. Louis, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Bay St. Louis, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

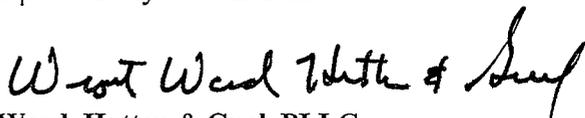
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bay St. Louis, Mississippi, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011, on our consideration of the City of Bay St. Louis, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 48 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bay St. Louis, Mississippi's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedules of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Wright, Ward, Hatten & Guel, PLLC
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Introduction

The following Management's Discussion and Analysis of the City of Bay Saint Louis ("the City") activities and financial performance provides an introduction to the financial statements of the City's for the fiscal year ended September 30, 2010. 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, a component of RSI, introduces the basic financial statements and provides an analytical overview of the City's financial activities. This MD&A provides some comparisons with the previous year.

Financial Highlights

- The assets of the City exceeded its liabilities at September 30, 2010 by \$106,634,813. Of this amount unrestricted net assets is (\$2,198,822).
- The total net assets increased by \$29,452,829 which includes a prior period adjustment of \$197,897. Of this amount \$17,480,157, was associated with governmental and \$11,972,672 with business-type activities, respectively. This increase is almost all due to the ongoing Katrina capital recovery projects funded by FEMA and CDBG revenues.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,073,829, a decrease of \$6,115,198 which includes a prior period adjustment of \$158,892.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$90,690 or .9% of total general fund expenditures.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Overview of the Financial Statements (Continued)

Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, and culture and recreation. The major business-type activities of the City of Bay Saint Louis include providing water, sewer, natural gas and garbage collection services to the residents of the City of Bay Saint Louis.

The government-wide statements can be found on pages 12-13 of this report.

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.

In fiscal 2010, the City maintains four individual 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, Disaster Recovery fund, and the CDBG Grant fund, which are considered major funds and the other governmental funds for the purpose of consistency.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Overview of the Financial Statements (Continued)

- Proprietary Fund

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The proprietary fund financial statements can be found on pages 18-20 of this report.

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 in the financial statements for more detailed information on the elements of the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. The budget comparisons for the general fund and the special revenue funds are presented immediately after the basic financial statements as required supplementary information.

General Fund Budgetary Highlights

During the fiscal year ended September 30, 2010, the City Council adopted amendments to the budget. As the impact of the sluggish economy continued, budgeted general fund revenues were decreased by \$796,320. The property tax budget was reduced \$137,076. Sales tax budgeted revenue was decreased by \$659,091 due to smaller than anticipated sales tax receipts. Budgeted investment income was decreased \$70,185 as interest rates remained low. The budget for licenses and permits was decreased by approximately \$191,467 due to a decrease in building permit revenues as new construction fell. Gaming budgeted revenues were decreased \$647,730 due to the decrease in projected gaming revenue. Miscellaneous revenue increased due to the indirect cost fees from the Utility fund and non-governmental grant revenue budget increased due to the BP Oil Spill revenue that was received. To partially offset the decreased revenues, total budgeted expenditures were decreased by \$3,376,255 mainly by reducing expenditures in general government, public safety and streets and public properties. Additionally, the budget for transfers in was increased by \$626,000 from the water and sewer fund.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Government-wide Financial Analysis

Table 1 below presents the City's condensed statement of net assets as of September 30, 2010 derived from the government-wide Statement of Net Assets.

	Governmental		Business-type		Total
	Activities		Activities		
	2010	2009	2010	2009	2010
Current and other assets	\$ 17,172,867	\$ 26,222,555	\$ 1,639,165	\$ 30,765	\$ 18,812,032
Noncurrent assets	<u>45,369,067</u>	<u>24,488,893</u>	<u>61,495,585</u>	<u>51,483,351</u>	<u>106,864,652</u>
Total assets	<u>62,541,934</u>	<u>50,711,448</u>	<u>63,134,750</u>	<u>51,514,116</u>	<u>125,676,684</u>
Other liabilities	13,844,096	16,961,543	1,562,112	869,615	15,406,208
Long-term liabilities	<u>1,515,540</u>	<u>4,047,764</u>	<u>2,120,123</u>	<u>3,164,658</u>	<u>3,635,663</u>
Total liabilities	<u>15,359,636</u>	<u>21,009,307</u>	<u>3,682,235</u>	<u>4,034,273</u>	<u>19,041,871</u>
Net assets:					
Invested in capital					
assets, net of related debt	43,073,039	18,251,158	59,001,830	48,681,374	102,074,869
Restricted	6,758,766	6,704,165	-	-	6,758,766
Unrestricted	<u>(2,649,507)</u>	<u>4,746,818</u>	<u>450,685</u>	<u>(1,201,531)</u>	<u>(2,198,822)</u>
Total net assets	<u>\$ 47,182,298</u>	<u>\$ 29,702,141</u>	<u>\$ 59,452,515</u>	<u>\$ 47,479,843</u>	<u>\$ 106,634,813</u>

At September 30, 2010, the City's assets exceeded liabilities by \$106,634,813. By far the largest portion of the City's net assets (96%) reflects its investment in capital assets, less any related debt used to acquire or construct those assets. The unrestricted net assets of (\$2,198,822) can be used to finance government operations.

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the net assets is restricted for various purposes. Please refer to Note 8 on page 39 for more detail.

The remaining portion of net assets is unrestricted, which can be used to finance government operations.

Table 2 presents the City's condensed statement of activities for the fiscal year ended September 30, 2010, as derived from the government-wide Statement of Activities.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Government-wide Financial Analysis (Continued)

	Governmental Activities		Business-Type Activities		Total
	2010	2009	2010	2009	2010
Revenues					
Program revenues					
Charges for services	\$ 447,217	\$ 718,831	\$ 3,186,783	\$ 2,919,347	\$ 3,634,000
Operating grants	1,247,769	758,771	-	-	1,247,769
Capital grants	<u>34,330,487</u>	<u>41,083,741</u>	<u>-</u>	<u>39,006</u>	<u>34,330,487</u>
Total program revenues	<u>36,025,473</u>	<u>42,561,343</u>	<u>3,186,783</u>	<u>2,958,353</u>	<u>39,212,256</u>
General revenues					
Property taxes	1,661,030	1,560,147	-	-	1,661,030
Sales taxes	1,147,927	1,669,510	-	-	1,147,927
Franchise taxes	359,452	309,640	-	-	359,452
Gaming revenue	2,420,626	2,787,662	-	-	2,420,626
Interest earnings	9,876	78,314	518	3,893	10,394
Lease revenue	20,380	19,230	-	-	20,380
Other	<u>565,244</u>	<u>119,287</u>	<u>-</u>	<u>-</u>	<u>565,244</u>
Total general revenues	<u>6,184,535</u>	<u>6,543,790</u>	<u>518</u>	<u>3,893</u>	<u>6,185,053</u>
Total revenues	<u>42,210,008</u>	<u>49,105,133</u>	<u>3,187,301</u>	<u>2,962,246</u>	<u>45,397,309</u>
Program expenses					
General government	2,878,647	1,622,818	-	-	2,878,647
Public safety	4,212,848	4,126,445	-	-	4,212,848
Public works	3,091,116	3,610,768	-	-	3,091,116
Culture and recreation	326,247	1,667,491	-	-	326,247
Interest	234,423	372,426	-	-	234,423
Water, sewer and gas	<u>-</u>	<u>-</u>	<u>5,003,302</u>	<u>3,918,979</u>	<u>5,003,302</u>
Total program expenses	<u>10,743,281</u>	<u>11,399,948</u>	<u>5,003,302</u>	<u>3,918,979</u>	<u>15,746,583</u>
Change before transfers	31,466,727	37,705,185	(1,816,001)	(956,733)	29,650,726
Transfers	<u>(13,788,673)</u>	<u>(28,414,709)</u>	<u>13,788,673</u>	<u>28,414,709</u>	<u>-</u>
Change in net assets	17,678,054	9,290,476	11,972,672	27,457,976	29,650,726
Beginning net assets	<u>29,504,244</u>	<u>20,411,665</u>	<u>47,479,843</u>	<u>20,021,867</u>	<u>76,984,087</u>
Ending net assets	<u>\$ 47,182,298</u>	<u>\$ 29,702,141</u>	<u>\$ 59,452,515</u>	<u>\$ 47,479,843</u>	<u>\$ 106,634,813</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$7,073,829 a decrease of \$6,115,198 in comparison with the prior year which includes a prior period adjustment of \$158,892. 1.3% percent or \$90,690 of this combined fund balance is unassigned, while the remainder is reserved for capital projects, debt service and rebuilding efforts.

- General Fund

The general fund is the chief operating fund of the City. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund balance expenditures. At the end of 2009, the general fund unreserved fund balance represents 62% percent of total general fund expenditures.

- Disaster Recovery Fund

This fund is used by the City to account for all of the expenditures and all of the federal money received from the Federal Emergency Management Agency for the rebuilding and recovery efforts from the effects of Hurricane Katrina.

- CDBG Grant Fund

This fund is used by the City to account for all of the expenditures and all of the federal money received from the Community Development Block Grant program that is for the rebuilding and recovery efforts from the effects of Hurricane Katrina.

Proprietary Fund

The Water, sewer and gas fund had an increase in total net assets of \$11,972,672 at the end of the fiscal year in comparison with prior year. This increase is in capital assets, net of related debt from the completion of various phases of construction of the utility system that was destroyed by Hurricane Katrina.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2010, the City reported \$45,349,535 in net capital assets for governmental activities and \$61,432,646 in capital assets for business-type activities. This represents a combined increase of \$30,913,534 in capital assets during the 2010 fiscal year.

City of Bay St. Louis's Capital Assets (net of depreciation)					
	Governmental Activities		Business-type Activities		Total
	2010	2009	2010	2009	2010
Land	\$ 1,116,633	\$ 1,116,633	\$ -	\$ -	\$ 1,116,633
Buildings & Improvements	3,438,579	3,121,454	45,980	46,980	3,484,559
Machinery & Equipment	886,155	862,452	68,686	71,476	954,841
Infrastructure & Systems	10,394,984	11,017,603	60,426,615	50,820,291	70,821,599
Vehicles	1,017,524	1,456,125	18,809	18,809	1,036,333
Construction in progress	<u>28,495,660</u>	<u>6,883,182</u>	<u>872,556</u>	<u>453,642</u>	<u>29,368,216</u>
Total	<u>\$ 45,349,535</u>	<u>\$ 24,457,449</u>	<u>\$ 61,432,646</u>	<u>\$ 51,411,198</u>	<u>\$106,782,181</u>

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$8,540,815 in outstanding debt. It should be noted that on January 11, 2011, the City of Bay Saint Louis was notified by the U.S. Department of Homeland Security regarding the cancellation of the Community Disaster Loans reported in the notes payable section below. The debt forgiveness amounts are \$2,708,408 and \$735,850 for the governmental and business activities, respectfully. Additional information on the City of Bay St. Louis's long-term debt can be found in Note 6: Long-Term Debt on pages 34-37 of this report.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**City of Bay St. Louis's Outstanding Debt
General Obligation, Revenue Bonds and Other Loans**

	Governmental Activities		Business-type Activities		Total
	2010	2009	2010	2009	2010
Bonds Payable	\$ 2,276,496	\$ 1,906,291	\$ -	\$ -	\$ 2,276,496
Revenue Bonds	-	-	2,430,815	2,729,825	2,430,815
Notes Payable	2,708,408	7,008,408	735,850	735,850	3,444,258
Compensated Absences	<u>338,542</u>	<u>344,517</u>	<u>50,704</u>	<u>43,504</u>	<u>389,246</u>
Total	<u>\$ 5,323,446</u>	<u>\$ 9,259,216</u>	<u>\$ 3,217,369</u>	<u>\$ 3,509,179</u>	<u>\$ 8,540,815</u>

Since Hurricane Katrina in 2005, the City of Bay Saint Louis has benefitted from general fund revenue driven in large part by reimbursements for recovery efforts funded through FEMA. The use of cash reserves to fund governmental revenue deficits is expected to continue through the 2012 fiscal year. An operating deficit situation is not sustainable. Additionally, there are no significant planned changes in tax rates or in other forms of revenue subject to adjustment by the City. Cuts to spending have been initiated in the 2012 budget, and the Administration has pledged to reduce expenditures until general fund spending equals general fund revenues in fiscal 2013 with no significant reduction in City services.

Contact the City's Financial Management

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

David Kolf, City Clerk
City of Bay Saint Louis, Mississippi
P.O. Box 2550
Bay Saint Louis, MS 39521
(228) 466-5446

FINANCIAL SECTION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 3,418,567	\$ 808,138	\$ 4,226,705
Receivables, net	645,572	476,201	1,121,773
Due from other governments	11,511,817	-	11,511,817
Internal balances	57,458	(57,458)	-
Inventory	-	158,143	158,143
Prepaid insurance	224,370	-	224,370
Restricted assets:			
Cash and cash equivalents	<u>1,315,083</u>	<u>254,141</u>	<u>1,569,224</u>
Total current assets	<u>17,172,867</u>	<u>1,639,165</u>	<u>18,812,032</u>
Noncurrent Assets			
Capital assets:			
Land and construction in progress	29,612,293	872,556	30,484,849
Other capital assets, net of accumulated depreciation	15,737,242	60,560,090	76,297,332
Bond issuance costs, net	<u>19,532</u>	<u>62,939</u>	<u>82,471</u>
Total noncurrent assets	<u>45,369,067</u>	<u>61,495,585</u>	<u>106,864,652</u>
Total assets	<u>62,541,934</u>	<u>63,134,750</u>	<u>125,676,684</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	6,014,821	97,045	6,111,866
Retainage payable	1,041,739	-	1,041,739
Accrued interest	189,150	113,680	302,830
Deferred revenues	2,790,480	-	2,790,480
Bonds payable	847,500	325,000	1,172,500
Notes payable	2,708,408	735,850	3,444,258
Compensated absences, current	251,998	36,396	288,394
Payable from restricted assets:			
Customer deposits	<u>-</u>	<u>254,141</u>	<u>254,141</u>
Total current liabilities	<u>13,844,096</u>	<u>1,562,112</u>	<u>15,406,208</u>
Noncurrent Liabilities			
Bonds payable, net of deferred loss on bond refunding	1,428,996	2,105,815	3,534,811
Compensated absences	<u>86,544</u>	<u>14,308</u>	<u>100,852</u>
Total long-term liabilities	<u>1,515,540</u>	<u>2,120,123</u>	<u>3,635,663</u>
Total liabilities	<u>15,359,636</u>	<u>3,682,235</u>	<u>19,041,871</u>
NET ASSETS			
Invested in capital assets, net of related debt	43,073,039	59,001,830	102,074,869
Restricted net assets	6,758,766	-	6,758,766
Unrestricted net assets	<u>(2,649,507)</u>	<u>450,685</u>	<u>(2,198,822)</u>
Total net assets	<u>\$ 47,182,298</u>	<u>\$ 59,452,515</u>	<u>\$ 106,634,813</u>

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	\$ 2,878,647	\$ 586,391	\$ 1,407,898	\$ (585,972)	\$ -	\$ (585,972)
Public safety	4,212,848	228,475	3,459,738	(375,804)	-	(375,804)
Streets and public properties	3,091,116	432,903	17,614,296	14,956,083	-	14,956,083
Culture and recreation	326,247	-	11,848,555	11,522,308	-	11,522,308
Interest	234,423	-	-	(234,423)	-	(234,423)
Total governmental activities	10,743,281	1,247,769	34,330,487	25,282,192	-	25,282,192
Business-type activities:						
Water, sewer and gas	5,003,302	-	-	(1,816,519)	-	(1,816,519)
Total business - type activities	5,003,302	-	-	(1,816,519)	-	(1,816,519)
Total	\$ 15,746,583	\$ 1,247,769	\$ 34,330,487	25,282,192	(1,816,519)	23,465,673
General revenues:						
Property taxes				1,661,030	-	1,661,030
Sales taxes				1,147,927	-	1,147,927
Franchise taxes				359,452	-	359,452
Gaming revenue				2,420,626	-	2,420,626
Interest earnings				9,876	518	10,394
Lease revenues				20,380	-	20,380
Other revenue				565,244	-	565,244
Transfers				(13,788,673)	13,788,673	-
Total general revenues and transfers				(7,604,138)	13,789,191	6,185,053
Change in net assets				17,678,054	11,972,672	29,650,726
Net assets - beginning of year, restated				29,504,244	47,479,843	76,984,087
Net assets - end of year				\$ 47,182,298	\$ 59,452,515	\$ 106,634,813

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

FUND LEVEL FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**CITY OF BAY ST. LOUIS, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Debt Service Fund	Other Governmental Funds	Total
Assets						
Cash and cash equivalents	\$ 135,966	\$ 3,206,134	\$ 76,464	\$ -	\$ 3	\$ 3,418,567
Receivables:						
Sales taxes	190,740	-	-	-	-	190,740
Franchise taxes	106,713	-	-	-	-	106,713
Gaming receivable	184,369	-	-	-	-	184,369
Property tax	34,231	-	-	-	-	34,231
Court revenue	97,782	-	-	-	-	97,782
Other	31,737	-	-	-	-	31,737
Due from other governments	497,542	7,353,611	3,660,664	-	-	11,511,817
Due from other funds	-	-	7,474	57,458	-	64,932
Prepaid expenditures	224,370	-	-	-	-	224,370
Restricted assets:						
Cash and cash equivalents	398,615	-	-	916,468	-	1,315,083
Total assets	<u>\$ 1,902,065</u>	<u>\$ 10,559,745</u>	<u>\$ 3,744,602</u>	<u>\$ 973,926</u>	<u>\$ 3</u>	<u>\$ 17,180,341</u>
Liabilities and Fund Balance						
Liabilities						
Accounts payable	\$ 793,713	\$ 1,905,153	\$ 3,180,750	\$ -	\$ -	\$ 5,879,616
Retainage payable	-	502,030	539,709	-	-	1,041,739
Accrued wages payable	135,205	-	-	-	-	135,205
Compensated absences	251,998	-	-	-	-	251,998
Due to other funds	7,474	-	-	-	-	7,474
Deferred revenues	-	2,790,480	-	-	-	2,790,480
Total liabilities	1,188,390	5,197,663	3,720,459	-	-	10,106,512
Fund Balances						
Nonspendable	224,370	-	-	-	-	224,370
Restricted	398,615	5,362,082	24,143	973,926	-	6,758,766
Committed	-	-	-	-	3	3
Unassigned	90,690	-	-	-	-	90,690
Total fund balance	<u>713,675</u>	<u>5,362,082</u>	<u>24,143</u>	<u>973,926</u>	<u>3</u>	<u>7,073,829</u>
Total liabilities and fund balance	<u>\$ 1,902,065</u>	<u>\$ 10,559,745</u>	<u>\$ 3,744,602</u>	<u>\$ 973,926</u>	<u>\$ 3</u>	<u>\$ 17,180,341</u>

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Total governmental funds balance (Exhibit C) \$ 7,073,829

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

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

Governmental capital assets	52,441,769	
Less: accumulated depreciation	<u>7,092,234</u>	45,349,535

Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds. (4,993,408)

Compensated absences are not due and payable in the current period expenditures and therefore are not reported in the governmental funds. (86,544)

Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds. (189,150)

Governmental funds report the effect of issuance costs, discounts, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. 28,036

Net assets of governmental activities (Exhibit A) \$ 47,182,298

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Debt Service Fund	Other Governmental Funds	Total
Revenues						
Taxes:						
Property	\$ 1,661,030	\$ -	\$ -	\$ -	\$ -	\$ 1,661,030
Sales	1,147,927	-	-	-	-	1,147,927
Franchise	359,452	-	-	-	-	359,452
Licenses and permits	298,386	-	-	-	-	298,386
Intergovernmental	1,259,220	16,842,915	18,274,176	-	-	36,376,311
Non - governmental grant revenue	507,785	-	-	-	-	507,785
Fines and forfeits	148,831	-	-	-	-	148,831
Interest	5,136	-	-	4,737	3	9,876
Lease revenue	20,380	-	-	-	-	20,380
Gaming revenue	2,420,626	-	-	-	-	2,420,626
Donations	37,008	-	-	-	-	37,008
Miscellaneous	528,236	-	-	-	-	528,236
Total revenues	8,394,017	16,842,915	18,274,176	4,737	3	43,515,848
Expenditures						
Current:						
General government	2,629,251	281,975	1,004,015	-	-	3,915,241
Public safety	4,215,421	1,062,483	2,371,488	-	-	7,649,392
Streets and public properties	2,779,468	1,419,407	3,925,340	-	-	8,124,215
Culture and recreation	433,213	594,187	10,785,222	-	-	11,812,622
Debt service:						
Principal	-	-	-	5,015,000	-	5,015,000
Interest	-	-	-	242,011	-	242,011
Total expenditures	10,057,353	3,358,052	18,086,065	5,257,011	-	36,758,481
Excess (deficiency) of revenues over expenditures	(1,663,336)	13,484,863	188,111	(5,252,274)	3	6,757,367
Other financing sources:						
Loan proceeds	1,075,000	-	-	-	-	1,075,000
Transfers in	68,921	1,054,733	75,738	2,899,277	-	4,098,669
Transfers out	(5,580,621)	(11,998,094)	(239,706)	-	(68,921)	(17,887,342)
Total other financing sources	(4,436,700)	(10,943,361)	(163,968)	2,899,277	(68,921)	(12,713,673)
Net change in fund balance	(6,100,036)	2,541,502	24,143	(2,352,997)	(68,918)	(5,956,306)
Fund balance - October 1	6,972,603	2,820,580	-	3,326,923	68,921	13,189,027
Prior period adjustment	(158,892)	-	-	-	-	(158,892)
Fund balance - October 1, restated	6,813,711	2,820,580	-	3,326,923	68,921	13,030,135
Fund balance - September 30	\$ 713,675	\$ 5,362,082	\$ 24,143	\$ 973,926	\$ 3	\$ 7,073,829

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Net change in fund balances - total governmental funds (Exhibit D) **\$ (5,956,306)**

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

Governmental funds report outlays for capital assets as expenditures. In contrast, the statement of activities, the cost of those assets is allocated over the useful lives and reported as depreciation expense.

	22,459,051	
Capital outlay		
Depreciation	(1,498,960)	20,960,091

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. However, the statement of activities reports only the gain or loss from 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.

(29,000)

The issuance of long-term debt provides current financial resources, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.

3,940,000

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.

(1,305,840)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.

	61,521	
Compensated absences		
Accrued interest	29,705	
Bond amortization	(22,117)	

Change in net assets of governmental activities (Exhibit B) **\$ 17,678,054**

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

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010

	Utility Fund
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 808,138
Accounts receivable, net	476,201
Inventory	<u>158,143</u>
Total unrestricted current assets	<u>1,442,482</u>
Current Restricted Assets	
Cash	<u>254,141</u>
Total restricted assets	<u>254,141</u>
Noncurrent Assets	
Buildings	118,603
Machinery and equipment	430,739
Vehicles	188,087
Water and Sewer system	70,757,520
Construction in process	<u>872,556</u>
	72,367,505
Less: accumulated depreciation	<u>10,934,859</u>
Net property, plant and equipment	<u>61,432,646</u>
Noncurrent Other Assets	
Bond Issuance costs, net	<u>62,939</u>
Total noncurrent other assets	<u>62,939</u>
Total assets	<u>63,192,208</u>
LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	97,045
Accrued interest	113,680
Compensated absences	36,396
Due to other funds	57,458
Bonds payable	325,000
Notes payable	735,850
Customer deposits	<u>254,141</u>
Total current liabilities	<u>1,619,570</u>
Noncurrent Liabilities	
Bonds payable	2,105,815
Compensated absences	<u>14,308</u>
Total noncurrent liabilities	<u>2,120,123</u>
Total liabilities	<u>3,739,693</u>
NET ASSETS	
Invested in capital assets, net of related debt	59,001,831
Unrestricted	<u>450,684</u>
Total net assets	<u>\$ 59,452,515</u>

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Utility Fund</u>
Operating Revenues	
Charges for services	\$ 3,186,783
Total operating revenues	<u>3,186,783</u>
Operating Expenses	
Salaries and related expenses	1,009,745
Natural gas purchase	323,702
Garbage	164,851
Wastewater treatment	178,305
Supplies	215,560
Repairs and maintenance	8,084
Other services and charges	635,110
Depreciation expense	2,315,469
Amortization expense	<u>20,205</u>
Total operating expenses	<u>4,871,031</u>
Operating Income	(1,684,248)
Non-Operating Revenues (Expenses)	
Interest earnings	518
Interest expense	<u>(132,271)</u>
Total non-operating revenue (expenses)	<u>(131,753)</u>
Transfers in	<u>13,788,673</u>
Change in Net Assets	11,972,672
Net assets beginning of year	<u>47,479,843</u>
Net assets end of year	<u>\$ 59,452,515</u>

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Utility Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 3,254,417
Payments to employees	(973,120)
Payments to suppliers	(215,560)
Payments for contractual services	(2,275,965)
Payments for other goods and services	(738,669)
Net cash provided by operating activities	(948,897)
Cash Flows From Financing Activities	
Principal payments on debt	(310,000)
Intergovernmental revenues	-
Interest expense	(114,915)
Transfers in	13,788,673
Net cash provided by financing activities	13,363,758
Cash Flows From Investing Activities	
Interest received	518
Acquisition of capital assets	(12,336,916)
Net cash (used) by investing activities	(12,336,398)
Net increase in cash and cash equivalents	78,463
Cash and cash equivalents:	
Beginning of year	983,816
End of year	\$ 1,062,279

**Reconciliation of Operating Income
to Net Cash Provided by Operating Activities**

Operating income (loss)	\$ (1,684,248)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,315,469
Amortization expense	20,205
(Increase) decrease in current assets:	
Accounts receivable	79,170
Inventory	(11,512)
Increase (decrease) in current liabilities:	
Accounts payable	(95,475)
Due from other funds	(1,597,595)
Compensated absences	36,625
Customer deposits	(11,536)
Net cash (used) by operating activities	\$ (948,897)

**Reconciliation of cash and cash equivalents
per statement of cash flows to the statement
net assets**

	Utility Fund		
	Current Assets	Current Restricted Assets	Total
Cash and cash equivalents - October 1	\$ 718,139	\$ 265,677	\$ 983,816
Net increase/(decrease)	89,999	(11,536)	78,463
Cash and cash equivalents - September 30	\$ 808,138	\$ 254,141	\$ 1,062,279

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

NOTES TO FINANCIAL STATEMENTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The City of Bay St. Louis, Mississippi, was originally incorporated January 21, 1818, under the laws of the State of Mississippi. The City operates under a Mayor-Council form of Government. The following services are provided by the City: Public Safety (Police, Fire and Protection Inspection), Street Maintenance, Sanitation, Water and Sewer, Gas Service, Social and Recreational, Public Improvements, Planning and Zoning, 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, 2010.

B. 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 9 for information describing related organizations not included in the City's reporting entity.

C. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary 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 Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments 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.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements –

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental Funds –

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

General Fund

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Disaster Recovery Fund

The Disaster Recovery Fund is a special revenue fund that accounts for all of the revenues received from FEMA and the related expenditures for the recovery efforts from Hurricane Katrina.

CDBG Grant Fund

The CDBG Grant Fund is a special revenue fund that accounts for all of the revenues and related expenditures that are received from the Mississippi Development Authority as part of the Community Development Block Grant - Entitlement Grants for the rebuilding and recovery efforts from Hurricane Katrina.

Debt Service Fund

The Debt Service Fund is a fund which accounts for all of the principal and interest payments of all of the long-term debt of the City.

Proprietary Funds – Business-type activities

Proprietary Funds are accounted for using economic resources measurement focus; and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Water, Sewer and Gas Fund

The Water, Sewer and Gas Fund is used to account for the provision of water, sewer and gas services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water, sewer and gas system and billing and collection activities.

The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and the fund financial statements for proprietary funds are reported using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water, sewer and gas services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resource measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Major revenue sources susceptible to accrual include: property taxes, franchise taxes, sales taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received by the City.

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Investments

The City's cash and cash equivalents are primarily considered to be cash on hand and amounts held in demand deposits. 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.

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 are recorded at fair value in accordance with GASB Statement 31 with all investment income, including changes in fair value of investments, reported as revenue in the financial statements. Income from short-term interest bearing securities is recognized as earned.

G. Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods 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 referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

An allowance has been provided in the utility enterprise fund for estimated uncollectible charges. The allowance is based on historical collection experience and other relevant circumstances.

H. Inventory

The City's utility fund operation is required to maintain an inventory of stored natural gas with its supplier. The gas inventory is valued at cost using the first in/first out (FIFO) method.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2010, are recorded as prepaid items.

J. 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 either externally imposed by creditors, contributors, grantors, or laws. Restricted assets in the governmental fund represent unspent bond proceeds, amounts restricted per bond covenants, and amounts restricted by grantors and contributors. Restricted assets in the enterprise fund represent utility customer deposits subject to refund. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

K. 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.

However, infrastructure assets acquired or constructed prior to October 1, 2003 are not reported in the basic financial statements, as allowed by GASB Statement No. 34. The City generally capitalizes assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are reported at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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 BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest cost was capitalized during the current fiscal year.

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

Plant structures and buildings	15-40 years
Distribution systems, water mains and hydrants	10-20 years
Improvements	10-40 years
Machinery and equipment	3-10 years
Vehicles	3-10 years

L. Long-Term Obligations

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 assets. Bond issuance costs and bond premiums and discounts are capitalized and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

M. Compensated Absences

Full-time employees who work year round are granted vacation from ten to fifteen days per year depending upon the employee's length of service. Employees may carry forward to the subsequent period up to a maximum of thirty days accrued vacation. Accordingly, the maximum accrued vacation for which an employee is entitled upon termination is six weeks. It is the City's policy that all unused sick leave is forfeited upon termination or retirement. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. Each employee is entitled to five days of personal leave per year. Personal leave may be accumulated up to a maximum of eighty hours. Employees with more than one year of service are entitled to personal leave upon termination or retirement. All vacation and personal leave is accrued when incurred in the government-wide and proprietary fund financial statements. In the fund financial statements, a liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements or use of vacation time.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2009. The resulting liability is then increased to include social security and retirement contributions that the City is required to pay upon liquidation of the liability.

N. Fund Equity

In the fund financial statements, the governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose or other board designations. Refer to Note 8 for more detail on fund balance presentation.

O. Net Assets

Net Assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are 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.

P. Post- Employment Health Care Benefits

The City does not have costs associated with post-employment benefits for retired employees. The City does allow employees to continue in the group plan after retirement; however, the retired employees pay all premiums.

NOTE 2: CASH AND INVESTMENTS

Cash – A summary of cash as of September 30, 2010, is as follows:

	Cash on Hand	Checking and Savings Accounts	Total
Governmental Activities			
General Fund	\$ 381	\$ 534,200	\$ 534,581
Disaster Recovery Fund	-	3,206,134	3,206,134
CDBG Grant Fund	-	76,464	76,464
Debt Service Fund	-	916,468	916,468
Other Governmental Funds	-	3	3
Business-type Activities			
Utility Fund	100	1,062,179	1,062,279
Total cash and cash equivalents	<u>\$ 481</u>	<u>\$ 5,795,448</u>	<u>\$ 5,795,929</u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2: CASH AND INVESTMENTS (Continued)

Mississippi statutes allow municipalities to select depositories on the basis of competitive bid. Depositories must be insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in an amount equal to 105% of the uninsured deposit. The collateral is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code.

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 Depository Insurance Corporation. By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2010 are covered by FDIC insurance or by collateral. The City's deposits are not subject to custodial credit risk.

At September 30, 2010, deposits (including restricted deposits) are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	\$ 5,763,626	\$ 5,795,448

Certificate of Deposit –

Mississippi municipalities may invest surplus funds in certificates of deposit with qualified depositories and in bonds and direct obligations of the United States of America; or 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.

As of September 30, 2010, the City did not have any funds in certificates of deposits.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 2: CASH AND INVESTMENTS (Continued)

The City maintained the following restricted cash as of September 30, 2010:

Governmental Activities:	
Cash and cash equivalents	
Restricted for capital projects - 2003 bond proceeds	\$ 353,670
Restricted for debt service reserves	916,468
Restricted for unemployment claims	20,820
Restricted for Recreation	<u>24,125</u>
Total restricted cash and cash equivalents- governmental activities	\$ 1,315,083
Business-type Activities	
Cash and cash equivalents	
Restricted for customer utility deposits	<u>\$ 254,141</u>
Total restricted cash government-wide	<u>\$ 1,569,224</u>

NOTE 3: REVENUE AND RECEIVABLES

Receivables at September 30, 2010 consist of the following:

	Governmental Activities	Business-type Activities	Total
Sales tax	\$ 190,740	\$ -	\$ 190,740
Franchise taxes	106,713	-	106,713
Gaming	184,369	-	184,369
Property tax	34,231	-	34,231
Court revenue	391,128	-	391,128
Accounts	-	1,748,035	1,748,035
Other	<u>31,737</u>	<u>-</u>	<u>31,737</u>
Total receivables	938,918	1,748,035	2,686,953
Less: allowance for doubtful receivables	<u>(293,346)</u>	<u>(1,271,834)</u>	<u>(1,565,180)</u>
Total receivables, net	<u>\$ 645,572</u>	<u>\$ 476,201</u>	<u>\$ 1,121,773</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 3: RECEIVABLES (Continued)

(A) Property Taxes

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Hancock County (County) tax assessor from information extracted from the County assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1 and personal property taxes become a lien on March 1. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase. Taxes on real and personal property are levied by the City Council at the first regular meeting in September. The City's tax assessment roll is then approved by City Council after a series of public hearings to receive citizens' objections. The City bills the real and personal property taxes, and the County collects them. The County bills and collects the ad valorem and mobile home taxes for the City. These taxes are remitted by the County monthly to the City. In addition, the County also remits to the City a prorated share of road and bridge taxes they collect.

In accordance with Mississippi Code of 1972, as amended for code section 27-39-321, the City Council may levy taxes in any amount for general purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding three years. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation.

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2010, was 17.75 mills or \$17.75 per \$1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2010 are as follows:

Real property	\$ 93,225,221
Personal property	6,515,382
Public utilities	3,938,339
Automobiles	13,920,054
Mobile homes	<u>80,633</u>
Total	<u>\$ 117,679,629</u>

The tax levies for the City were 15.08 mills for the General Fund and 2.67 mills for the Library for a total of 17.75 mills for each of the years ended September 30, 2010, 2009 and 2008.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 3: REVENUE AND RECEIVABLES (Continued)

(B) Sales Taxes

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) back to the City monthly. Sales tax revenue reported in the general fund was \$1,147,927 a 31% decrease from the prior year. Sales tax receivable consists of taxes collected in August and September 2010 not received by the City until October and November 2010.

(C) Gaming

The City receives gaming revenues from a casino located within the corporate city limits as follows:

Gross Revenue Gaming Tax and Gaming Device Tax

The gross revenue gaming tax is imposed and collected by the State of Mississippi similar to sales tax and remitted to the City. The gaming device tax is similar to a personal property tax and is assessed on all gaming devices maintained by casinos within the City's corporate limits. The tax is also collected by the State. The amount of tax recognized as gaming revenue for September 30, 2010 is \$116,284 and the amount of gaming device tax is \$126,800, respectively. These revenues are included in gaming revenue on the Statement of Activities.

Boarding Fees

The City is permitted by law to collect a boarding fee from casinos within its corporate limits. Accordingly, the City has negotiated a contractual amount to be paid directly to the City on a monthly basis and is based on gross revenues. The City collected \$2,177,542 in boarding fees for the year ended September 30, 2010; this is a decrease of 13.2% in comparison with the prior year. This amount is included in gaming revenue.

NOTE 4: DUE FROM OTHER GOVERNMENTS

Due from other governments consist of the following as of September 30, 2010:

	Governmental Activities
Due from FEMA	\$ 7,353,611
Due from CDBG	3,660,664
Due from the State of Mississippi	456,679
Due from Hancock County	40,863
Total receivables, net	<u>\$ 11,511,817</u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 is as follows:

	Balance October 1	Additions	Sales/Transfers Adjustments	Balance September 30
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,116,633	\$ -	\$ -	\$ 1,116,633
Construction in progress	<u>6,844,177</u>	<u>22,047,841</u>	<u>(396,358)</u>	<u>28,495,660</u>
Total capital assets not being depreciated	<u>7,960,810</u>	<u>22,047,841</u>	<u>(396,358)</u>	<u>29,612,293</u>
Capital assets being depreciated:				
Buildings	3,608,653	-	396,358	4,005,011
Machinery and equipment	1,477,118	321,272	-	1,798,390
Improvements/ Infrastructure	14,122,266	30,528	-	14,152,794
Vehicles	<u>2,842,871</u>	<u>59,410</u>	<u>(29,000)</u>	<u>2,873,281</u>
Total capital assets being depreciated	<u>22,050,908</u>	<u>411,210</u>	<u>367,358</u>	<u>22,829,476</u>
Less accumulated depreciation:				
Buildings	(487,199)	(79,233)	-	(566,432)
Machinery and equipment	(614,666)	(297,569)	-	(912,235)
Improvements/ Infrastructure	(3,104,663)	(653,147)	-	(3,757,810)
Vehicles	<u>(1,386,746)</u>	<u>(469,011)</u>	<u>-</u>	<u>(1,855,757)</u>
Total accumulated depreciation	<u>(5,593,274)</u>	<u>(1,498,960)</u>	<u>-</u>	<u>(7,092,234)</u>
Total capital assets being depreciated, net	<u>16,457,634</u>	<u>(1,087,750)</u>	<u>367,358</u>	<u>15,737,242</u>
Governmental activities capital assets, net	<u>\$ 24,418,444</u>	<u>\$ 20,960,091</u>	<u>\$ (29,000)</u>	<u>\$ 45,349,535</u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 5: CAPITAL ASSETS (Continued)

	Balance October 1	Additions	Sales/Transfers Adjustments	Balance September 30
Business - type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 453,642	\$ 12,226,156	\$ (11,807,242)	\$ 872,556
Total capital assets not being depreciated	<u>453,642</u>	<u>12,226,156</u>	<u>(11,807,242)</u>	<u>872,556</u>
Capital assets being depreciated:				
Buildings	118,603	-	-	118,603
Machinery and equipment	430,739	-	-	430,739
Water, sewer and gas system	58,839,518	110,760	11,807,242	70,757,520
Vehicles	188,087	-	-	188,087
Total capital assets being depreciated	<u>59,576,947</u>	<u>110,760</u>	<u>11,807,242</u>	<u>71,494,949</u>
Less accumulated depreciation:				
Buildings	(71,623)	(1,000)	-	(72,623)
Machinery and equipment	(359,263)	(2,790)	-	(362,053)
Water, sewer and gas system	(8,019,227)	(2,311,678)	-	(10,330,905)
Vehicles	(169,278)	-	-	(169,278)
Total accumulated depreciation	<u>(8,619,391)</u>	<u>(2,315,468)</u>	<u>-</u>	<u>(10,934,859)</u>
Total capital assets being depreciated, net	<u>50,957,556</u>	<u>(2,204,708)</u>	<u>11,807,242</u>	<u>60,560,090</u>
Business-type activities capital assets, net	<u>\$ 51,411,198</u>	<u>\$ 10,021,448</u>	<u>\$ -</u>	<u>\$ 61,432,646</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 263,833
Public safety	425,694
Streets and public properties	795,100
Culture and recreation	<u>14,333</u>
Total governmental activities	<u>\$ 1,498,960</u>
Business-type Activities	
Water, sewer and gas	<u>\$ 2,315,468</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 6: LONG-TERM DEBT

Changes in outstanding debt during the year ended September 30, 2010 are as follows:

<u>Governmental Activities</u>	Payable at October 1	Additions	Principal Reductions	Payable at September 30	Principal Due in One Year
Bonds payable	\$ 1,925,000	\$ 1,075,000	\$ 715,000	\$ 2,285,000	\$ 847,500
Notes payable	7,008,408	-	4,300,000	2,708,408	2,708,408
Compensated absences payable	<u>344,517</u>	<u>-</u>	<u>5,975</u>	<u>338,542</u>	<u>251,998</u>
	9,277,925	1,075,000	5,020,975	5,331,950	3,807,906
Less deferred loss on bond refinancing	<u>(18,709)</u>	<u>-</u>	<u>(10,205)</u>	<u>(8,504)</u>	<u>-</u>
Total governmental activities	<u>9,259,216</u>	<u>1,075,000</u>	<u>5,010,770</u>	<u>5,323,446</u>	<u>3,807,906</u>
 <u>Business-type Activities</u>					
Bonds payable	2,815,000	-	310,000	2,505,000	325,000
Note payable	735,850	-	-	735,850	735,850
Compensated absences	<u>43,504</u>	<u>7,200</u>	<u>-</u>	<u>50,704</u>	<u>36,396</u>
	3,594,354	7,200	310,000	3,291,554	1,097,246
Less deferred loss on bond refinancing	<u>(85,175)</u>	<u>-</u>	<u>(10,990)</u>	<u>(74,185)</u>	<u>-</u>
Total business type activities	<u>3,509,179</u>	<u>7,200</u>	<u>299,010</u>	<u>3,217,369</u>	<u>1,097,246</u>
Total government - wide	<u>\$ 12,768,395</u>	<u>\$ 1,082,200</u>	<u>\$ 5,309,780</u>	<u>\$ 8,540,815</u>	<u>\$ 4,905,152</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 6: LONG-TERM DEBT (Continued)

(A) Bonds Payable

At September 30, 2010, the City's outstanding bonds payable are described as follows:

	Date of Issue	Final Maturity Date	Rates	Original Issue	Balance September 30
Governmental Activities:					
GO Bond, Series 2003	8/27/2003	8/1/2013	1.0% -3.9%	\$ 2,000,000	\$ 690,000
GO Refunding Bond, Series 2005	5/2/2005	8/1/2011	5.0%-7.0%	3,275,000	520,000
GO Katrina Loan Refinancing Bond, Series 2010	7/20/2010	3/1/2020	2.47%	<u>1,075,000</u>	<u>1,075,000</u>
				6,350,000	2,285,000
Less deferred loss on bond refunding				<u>(63,781)</u>	<u>(8,504)</u>
Total governmental activities				<u>\$ 6,286,219</u>	<u>\$ 2,276,496</u>
Business-type Activities:					
GO Water, Sewer, and Gas System Refunding Bonds, Series 2005	4/26/2005	7/1/2017	3.0% - 4.3%	\$ 4,290,000	\$ 2,505,000
Less deferred loss on bond refunding				<u>(133,716)</u>	<u>(74,185)</u>
Total business-type activities				<u>4,156,284</u>	<u>2,430,815</u>
Total bonds payable at year end				<u>\$ 10,442,503</u>	<u>\$ 4,707,311</u>

The annual bonded debt service requirements to maturity for the bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities		Total Requirements
	Principal	Interest	Principal	Interest	
2011	\$ 847,500	\$ 64,439	\$ 325,000	\$ 102,515	\$ 1,339,454
2012	337,500	36,382	340,000	89,515	803,397
2013	347,500	27,115	355,000	75,915	805,530
2014	107,500	17,259	365,000	61,715	551,474
2015	107,500	14,604	380,000	61,715	563,819
2016-2020	<u>537,500</u>	<u>33,191</u>	<u>740,000</u>	<u>32,320</u>	<u>1,343,011</u>
Total	<u>\$ 2,285,000</u>	<u>\$ 192,990</u>	<u>\$ 2,505,000</u>	<u>\$ 423,695</u>	<u>\$ 5,406,685</u>

The City's General Obligation (GO) Bond, Series 2003 issued in August 2003 requires the establishment of certain funds (accounts) and periodic transfers of money to these funds as follows:

Construction Fund for the purpose of accounting for the costs of the capital project including issuance costs of the bonds.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 6: LONG-TERM DEBT (Continued)

Bond Fund for the purpose of setting aside sufficient funds to pay the next due payment of principal and interest on the bonds.

The City's GO Refunding Bond, Series 2005 issued in April 2005, requires the establishment of a Bond Fund (account) which consists of funds sufficient for the purpose of paying the next due payment of principal on the bonds.

The City's GO Katrina Loan Refunding Bonds, Series 2010 issued in July 2010, requires the establishment of a Bond Fund (account) which consists of funds sufficient for the purpose of paying the next due payment of principal and interest on the bonds as well as payment of Agent's fees in connection therewith.

The City's GO Water, Sewer and Gas System Refunding Bonds, Series, 2005 issued in April 2005, requires the establishment of a Bond Fund (account) which consists of funds sufficient for the purpose of paying the next due payment of principal on the bonds.

These monies are not separate funds but are restricted amounts within the general, debt service and utility funds.

(B) Notes Payable

At September 30, 2010 the City's outstanding notes payable are described as follows:

	Date Issued	Final Maturity Date	Rates	Original Issue	Balance September 30
Governmental Activities:					
FEMA Community Disaster Loan	11/29/2005	12/14/2010	2.72%	\$1,658,408	\$ 1,658,408
FEMA Community Disaster Loan	8/28/2006	8/27/2011	2.93%	<u>1,050,000</u>	<u>1,050,000</u>
				2,708,408	2,708,408
Business-type Activities:					
FEMA Community Disaster Loan	1/5/2006	2/13/2011	2.78%	<u>735,850</u>	<u>735,850</u>
Total notes payable at year end				<u>\$3,444,258</u>	<u>\$ 3,444,258</u>

On January 20, 2006, the City borrowed \$1,658,408 from the U. S. Department of Homeland Security (FEMA) under the Community Disaster Loan program. The payments of this loan are deferred for five years, with an option to defer another five years. On August 28, 2008, the City borrowed an additional \$1,050,000 to help with general operations of the City.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010**

NOTE 6: LONG-TERM DEBT (Continued)

Pursuant to HR 2206 – Public Law 110-28, FEMA may allow forgiveness of Community Disaster Loans in Presidentially declared disaster areas on a case by case basis. Please see Note 14 for more information regarding the Community Disaster Loans.

In January 2011, the U.S. Department of Homeland Security Federal Emergency Management Agency granted the City full cancellation of the Special Community Disaster Loans (SCDL) which was first issued to the City in December 2005. The total loan amount forgiven under Section 417(c) (1) of the Stafford Act (42 U.S.C. 5184) was \$4,052,666. The City was allowed to draw the remaining amount of approximately \$608,408 subsequent to September 30, 2010.

(C) Legal Debt Margin

The City’s legal debt limit for general obligation bonds is \$17,651,945, which leaves approximately \$15,350,000 available to the City for further borrowing.

NOTE 7: INTERFUND TRANSACTIONS

During the course of the normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services.

(A) Inter-fund 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, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activity 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” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans).

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”. Inter-fund receivables and payables consisted of the following as of September 30, 2010:

<u>Due From</u>	<u>Due To</u>		
	CDBG Grant Fund	Debt Service Fund	Total
General Fund	\$ 7,474	\$ -	\$ 7,474
Utility Fund	-	57,458	57,458
Total	<u>\$ 7,474</u>	<u>\$ 57,458</u>	<u>\$ 64,932</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7: INTERFUND TRANSACTIONS (Continued)

(B) Inter-fund Transfers

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administrations of various projects or programs.

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

Only transfers between the two columns appear in this statement. Inter-fund transfers consisted of the following as of September 30, 2010:

<u>Transfer out</u>	<u>Transfer in</u>		
	General Fund	Disaster Recovery Fund	CDBG Grant Fund
Governmental Activities:			
General Fund	\$ -	\$ 1,054,733	\$ 75,738
Disaster Recovery Fund	-	-	-
CDBG Grant Fund	-	-	-
Other Governmental Funds	<u>68,921</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 68,921</u>	<u>\$ 1,054,733</u>	<u>\$ 75,738</u>

<u>Transfer out</u>	<u>Transfer in</u>		
	Debt Service Fund	Utility Fund	Total
Governmental Activities:			
General Fund	\$ 2,899,277	\$ 1,550,873	\$ 5,580,621
Disaster Recovery Fund	-	11,998,094	11,998,094
CDBG Grant Fund	-	239,706	239,706
Other Governmental Funds	<u>-</u>	<u>-</u>	<u>68,921</u>
Total	<u>\$ 2,899,277</u>	<u>\$ 13,788,673</u>	<u>\$ 17,887,342</u>

The transfers from the Disaster Recovery fund and the CDBG Grant Fund into the Utility fund were for construction and other expenditures that were reimbursed through the Federal Emergency and Management Agency and accounted for in the Disaster Recovery fund but were actual expenses of the Utility fund.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 8: FUND BALANCES & RESTRICTED NET ASSETS

As of the date of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted—Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This includes the budget reserve account.

Assigned—Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget ordinance is passed by City Council.

Unassigned—All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 14). As discussed in Note 1, restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by Council or the Assignment has been changed by the Mayor. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

General Fund

The General Fund has Unassigned Fund Balance of \$90,689 at September 30, 2010. Prepaid expenditures of \$224,370 are considered Nonspendable Fund Balance.

Other Funds

The following non-major fund has a Committed Fund Balance designated for specific purposes:

Katrina Relief Fund donations in the amount of \$3.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010**

NOTE 8: FUND BALANCES & RESTRICTED NET ASSETS (Continued)

The following summarizes restricted net assets at September 30, 2010:

General Fund	
Restricted for capital projects - 2003 bond proceeds	\$ 353,670
Restricted for unemployment	20,820
Restricted for Bay Dixie Softball League	<u>24,125</u>
Total General Fund	<u>398,615</u>
Disaster Recovery Fund	
Restricted for capital projects - FEMA grant	5,362,082
CDBG Grant Fund	
Restricted for capital projects - CDBG grant	24,133
Other Governmental Funds	
Restricted for debt service reserves	<u>973,926</u>
Total restricted assets - governmental activities	<u>6,758,756</u>
Total restricted assets government-wide	<u>\$ 6,758,756</u>

NOTE 9: JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share costs, risks and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients.

Hancock County Solid Waste Authority

The City provides for pickup and disposal of garbage and trash through a solid waste contract with Hancock County Solid Waste Authority (Authority), formerly Hancock County Solid Waste Management District.

The Authority was formed as an inter-local joint venture with the City of Bay St. Louis and Hancock County, Mississippi, late in fiscal year 1994. The Authority was officially incorporated in March 1998 pursuant to an incorporation agreement entered into in December 1997.

During the year ended September 30, 2010, the City paid a total of \$164,851 for solid waste services, included in the business-type activities expenses in the statement of activities. The City pays \$6.45 per residential solid waste pickup. The City is jointly and severally liable for all of the liabilities of the Authority.

The Authority is also classified as a joint venture between the City of Bay St. Louis and other members.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 9: JOINT VENTURES (Continued)

The following is synopsis of the Authority's financial statements as of and for the year ended June 30, 2010.

STATEMENT OF NET ASSETS

ASSETS	
Current assets	<u>\$ 1,368,068</u>
 LIABILITIES	
Current and other liabilities	<u>176,640</u>
 NET ASSETS	
Unrestricted	<u>\$ 1,191,428</u>

CHANGES IN NET ASSETS

Operating revenues	\$ 2,065,474
Operating expenses	(1,936,160)
Non-operating revenues (expenses)	<u>34,184</u>
Increase in net assets	<u>\$ 163,498</u>

Complete financial statements can be obtained from the Authority's Administrator by calling (228) 467-2770.

Hancock County Utility Authority

The District provides for the operation and maintenance of the sewer treatment plant on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facility.

The costs associated with the contract total \$178,305, for the year ended September 30, 2010, and have been included in the business-type activities expenses in the statement of activities. A fee has been added to rates charged by the Utility System as an assessment for the Wastewater District.

The City's obligation to pay operational costs of the District was in conjunction with the obligations of all other public agencies similarly contracting with the District, including the City of Waveland and Hancock County, Mississippi. Whenever any public agency shall default in the payment to the District of its respective payment, the District may adjust the contract sums of the remaining public agencies which are not in default so as to increase their contract sums by a proportional amount.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 9: JOINT VENTURES (Continued)

Accordingly, the City was jointly and severally liable for all of the liabilities of the District. The District is classified as a joint venture between the City of Bay St. Louis and the other members.

In April 2009, the City entered into an agreement with Hancock County Utility Authority (Authority) whereby the Authority conveyed the wastewater collection system (once constructed by the Authority and accepted by the City) to the City for the purpose of collecting and transporting wastewater to the Authority's treatment plant for treatment and discharge.

The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2010:

STATEMENT OF NET ASSETS

ASSETS	
Current assets	\$ 1,494,862
Non-current assets	<u>97,390,597</u>
Total assets	<u>98,885,459</u>
LIABILITIES	
Current and other liabilities	10,279,224
Long-term debt outstanding	<u>12,547,913</u>
Total liabilities	<u>22,827,137</u>
NET ASSETS	<u>\$ 76,058,322</u>

CHANGES IN NET ASSETS

Operating revenues	\$ 1,920,675
Operating expenses	(2,629,186)
Non-operating revenues	<u>48,421,414</u>
Increase in net assets	<u>\$ 47,712,903</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 10: RETIREMENT PLANS

(A) Public Employees' Retirement System

The City participates in a retirement system administered by the Public Employees' Retirement System of Mississippi (PERS). The system is a defined benefit plan and includes multi-employer, cost sharing pension plan as described below:

Plan description and provisions

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

Description of Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary. The City is required to contribute an actuarially determined rate of annual payroll which is 12.0% for the year 2010. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ended September 30, 2010, 2009 and 2008 were \$594,447, \$515,687, and \$493,463, respectively equal to the required contributions for the year.

(B) Deferred Compensation Plan

The City, through PERS, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 11: COMMITMENTS AND CONTIGENCIES

(A) Litigation

The City is party to various legal proceedings which normally occur in 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.

(B) Grants and Awards

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally federal and state governments. Any disallowed expenses, including amounts already collected, might constitute a liability of the applicable funds. The City does not believe any contingent liabilities are material.

(C) Contract Commitments

The City had the following contract commitments with respect to unfinished capital projects as of September 30, 2010, which will be paid from existing grants:

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 11: COMMITMENTS AND CONTIGENCIES (Continued)

Governmental Activity	Project Budget	Money Spent to Date	Remaining Commitment
PW 0641 Fishing Pier	\$ 2,462,176	\$ 21,077	\$ 2,441,099
PW 5594 Storm Drainage Infrastructure	6,562,066	810,876	5,751,190
PW 5700 Roads & Sidewalks	3,161,183	604,376	2,556,807
PW 6026 Commagere Ball Park	307,120	307,120	-
PW 6049 Athletic Complex	290,902	290,902	-
PW 9516 Street Signs	154,750	71,325	83,425
PW 6148 McDonald Park	185,403	-	185,403
CDBG Main St. Fire Station	2,988,257	2,988,257	-
CDBG Longfellow Drive	3,000,000	1,002,807	1,997,193
CDBG Athletic Complex	1,000,000	979,262	20,738
CDBG Depot Renovations	1,195,520	326,058	869,462
CDBG Planning Grant	268,000	213,000	55,000
CDBG Harbor Study	162,500	152,569	9,931
CDBG Washington Street	3,021,546	661,368	2,360,178
CDBG City Hall Annex	200,000	181,802	18,198
CDBG Historic City Hall	1,395,520	429,299	966,221
CDBG Pier & Harbor	13,475,437	172,666	13,302,771
CDBG Waterfront Improvements	6,772,505	4,342,377	2,430,128
CDBG Ward 5&6 Drainage	264,000	82,056	181,944
CDBG Community Center & VCJ School	6,690,200	5,499,494	1,190,706
CDBG Boys and Girls Club	1,359,863	171,607	1,188,256
CDBG Fire Station Hwy 603	1,655,364	1,655,364	-
CDBG Depot District Improvements	1,201,488	115,218	1,086,270
CDBG Downtown Streetscape Project	2,740,165	2,513,280	226,885
CDBG Senior Citizens Center	919,004	373,991	545,013
CDBG New City Hall	4,200,000	2,936,092	1,263,908
CDBG New City Hall Improvements	748,706	615,338	133,368
MDOT Hwy 603 Lights	<u>635,705</u>	<u>583,069</u>	<u>52,636</u>
Total Governmental Activity	<u>\$ 67,017,380</u>	<u>\$ 28,100,650</u>	<u>\$ 38,916,730</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 11: COMMITMENTS AND CONTIGENCIES (Continued)

<u>Business - type Activity</u>	<u>Project Budget</u>	<u>Money Spent to Date</u>	<u>Remaining Commitment</u>
PW 5710 Lift Stations 2,7,27,32,34 & 35	\$ 527,049	\$ 24,549	\$ 502,500
PW 5782 Lift Station #1	567,425	6,815	560,610
PW 7200 Wastewater	777,624	54,633	722,991
CDBG Water Tanks	762,549	239,706	522,843
PW 5765 Lift Stations	<u>1,544,917</u>	<u>93,212</u>	<u>1,451,705</u>
Total Business - type Activity	<u>\$ 4,179,564</u>	<u>\$ 418,915</u>	<u>\$ 3,760,649</u>

NOTE 12: RISK MANAGEMENT

The City is covered for significant losses through commercial insurance carriers except for the following, which are covered through self-insurance risk pools.

(A) Self-Insurance – Workers Compensation Fund

The City is one of approximately 250 members in the Mississippi Municipal Workers' Compensation Group, Inc. This non-profit corporation is a self-insurance workers' compensation fund organized under the non-profit laws of the State of Mississippi. The group is self-insured under statutory workers compensation protection up to \$1,000,000. Members are jointly and severally liable for the obligations for the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

(B) Self-Insurance Liability Fund

The City is one of approximately 250 members in the Mississippi Municipal Liability Plan. The Plan is a private non-profit corporation organized under the laws of the State of Mississippi. The plan provides liability and tort claims insurance for its members up to \$500,000 and \$50,000 per occurrence, respectively. The plan is totally self-insured with claims and expenses paid out of the premiums and the members are jointly and severally liable for any claims and expenditures beyond the premium base. The possibility of additional liability exists, but that amount, if any cannot be determined.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 13: PRIOR PERIOD ADJUSTMENT

The City had the following adjustments to beginning fund balance and net assets, respectively which are reflected in the following schedule:

	Exhibit B	Exhibit D
Correct prior year compensated absences	\$ (158,892)	\$ (158,892)
Correct prior year construction in progress	(39,005)	-
Total adjustments	(197,897)	(158,892)
Beginning net assets/fund balance	29,702,141	6,972,603
Beginning net assets/fund balance, restated	\$ 29,504,244	\$ 6,813,711

NOTE 14: SUBSEQUENT EVENTS

Subsequent to September 30, 2010, the City has amended construction contracts by change orders reducing total construction by approximately \$524,250. These construction contracts are funded from proceeds of FEMA and CDBG grants.

In January 2011, the U.S. Department of Homeland Security Federal Emergency Management Agency granted the City full cancellation of the Special Community Disaster Loans (SCDL) which was first issued to the City in December 2005. The total loan amount forgiven under Section 417(c) (1) of the Stafford Act (42 U.S.C. 5184) was \$4,052,666. The City was allowed to draw the remaining amount of approximately \$608,408 subsequent to September 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (with Budget to GAAP Differences)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Taxes:				
Property	\$ 1,784,000	\$ 1,646,924	\$ 1,663,966	17,042
Sales	1,800,000	1,140,909	1,148,578	7,669
Franchise	297,000	340,266	340,266	-
Licenses and permits	448,100	256,633	270,236	13,603
Intergovernmental	844,000	767,229	919,149	151,920
Non-governmental grant revenue	-	507,785	507,785	-
Charges for services	45,000	-	-	-
Fines and forfeits	243,500	146,458	159,457	12,999
Interest	75,000	4,815	5,135	320
Lease revenue	19,500	17,175	20,380	3,205
Gaming revenues	3,030,000	2,382,270	2,514,263	131,993
Miscellaneous	120,500	699,816	758,362	58,546
Total revenues	<u>8,706,600</u>	<u>7,910,280</u>	<u>8,307,577</u>	<u>397,297</u>
EXPENDITURES				
General government	3,288,351	2,284,581	1,993,517	291,064
Public Safety	4,565,482	4,122,686	4,181,206	(58,520)
Streets and public properties	4,295,598	2,285,011	2,765,391	(480,380)
Culture and Recreation	464,680	421,247	418,432	2,815
Total general government	<u>12,614,111</u>	<u>9,113,525</u>	<u>9,358,546</u>	<u>(245,021)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,907,511)</u>	<u>(1,203,245)</u>	<u>(1,050,969)</u>	<u>152,276</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	626,000	243,950	(382,050)
Transfers out	<u>(710,000)</u>	<u>(834,331)</u>	<u>(1,834,331)</u>	<u>(1,000,000)</u>
Total other financing sources	<u>(710,000)</u>	<u>(208,331)</u>	<u>(1,590,381)</u>	<u>(1,382,050)</u>
Excess of revenues and other sources over expenditures	<u>(4,617,511)</u>	<u>(1,411,576)</u>	<u>(2,641,350)</u>	<u>\$ (1,229,774)</u>
Fund balance - beginning	<u>2,480,172</u>	<u>2,480,172</u>		
Fund balance - ending	<u>\$ (2,137,339)</u>	<u>\$ 1,068,596</u>		
Fund balance - October 1 - GAAP basis, restated			6,972,603	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Changes in receivables			(63,337)	
Change in prepaid expenses			(9,115)	
Change in accrued expenses			(698,807)	
Change in transfers out			(3,746,290)	
Change in transfers in			(175,029)	
Change from loan proceeds			<u>1,075,000</u>	
Fund balance - September 30 - GAAP basis			<u>\$ 713,675</u>	

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (with Budget to GAAP Differences)
DISASTER RECOVERY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Intergovernmental	\$ 34,461,453	\$ 15,683,028	\$ 16,901,639	\$ 1,218,611
Interest	-	9,552	10,194	642
Total revenues	34,461,453	15,692,580	16,911,833	1,219,253
EXPENDITURES				
General government	272,669	205,745	297,467	(91,722)
Public safety	51,079	37,902	1,234,233	(1,196,331)
Streets and public properties	30,412,711	14,698,384	15,542,074	(843,690)
Culture and Recreation	3,007,247	705,257	707,577	(2,320)
Total general government	33,743,706	15,647,288	17,781,351	(2,134,063)
Excess of revenues and other sources over expenditures	\$ 717,747	\$ 45,292	(869,518)	\$ (914,810)
Fund balance - October 1 - GAAP basis			2,820,580	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Changes in deferred revenues			1,804,930	
Change in due from other governments			(1,872,028)	
Change in accrued expenses			2,423,385	
Transfers in			1,054,733	
Fund balance - September 30 - GAAP basis			\$ 5,362,082	

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (with Budget to GAAP Differences)
CDBG GRANT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Intergovernmental	\$ 26,763,102	\$ 17,442,356	\$ 17,193,397	\$ (248,959)
Total revenues	<u>26,763,102</u>	<u>17,442,356</u>	<u>17,193,397</u>	<u>(248,959)</u>
EXPENDITURES				
General government	2,631,007	678,408	678,408	-
Public Safety	2,320,329	2,816,816	2,787,906	28,910
Streets and public properties	5,121,741	4,990,152	4,940,515	49,637
Culture and Recreation	<u>16,597,025</u>	<u>8,956,980</u>	<u>8,759,116</u>	<u>197,864</u>
Total general government	<u>26,670,102</u>	<u>17,442,356</u>	<u>17,165,945</u>	<u>276,411</u>
Excess of revenues and other sources over expenditures	<u>\$ 93,000</u>	<u>\$ -</u>	\$ 27,452	<u>\$ 27,452</u>
Fund balance - October 1 - GAAP basis, restated			-	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year			373,375	
Change in due from other governments			(452,422)	
Change in accrued expenses			75,738	
Transfers in			<u>75,738</u>	
Fund balance - September 30 - GAAP basis			<u>\$ 24,143</u>	

**CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF SURETY BONDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

NOTE A: BUDGETARY DATA

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

1. The City clerk's office prepares estimates of available revenue and the department directors submit proposed expenditure budgets to the City Clerk by June 1 of each year.
2. The Mayor and the department directors review expenditure budgets and necessary revisions are made.
3. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the Mayor.
4. The Mayor submits the proposed budget to the Board by August 1 and public hearings are conducted to obtain taxpayer comments.
5. The final budget is approved by September 15 and is published in a local newspaper on or before September 30.
6. The budget is formally amended at the first meeting in September each year. However, budget revisions are made throughout the year (prior to September), as reallocations of funds are necessary, a budget deficit is indicated, or circumstances change which dictate the need for budget amendment.
7. Formal budget integration is employed as a management control device during the fiscal year for the general fund.
8. The general fund budget and the disaster recovery fund budget are adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is the department level. The City Clerk's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Board approval. However, department heads may make transfers of appropriations within a department. Budgetary controls are implemented through the City Clerk's office through the use of budget to actual reports. Any purchase requisition that will cause a line item to exceed its budget will be disallowed by the City Clerk. The department head will then be required to make an inter-department budget transfer or request a budget amendment.

Expenditure Limitations and Liabilities

The City is in violation of Section 21-35-15, Miss. Code Ann. (1972) for the expenditures of the General Fund exceeding the budget limitation.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

Name	Position	Surety	Bond
Les Fillingame	Mayor	Liberty Mutual	\$100,000.00
Phillip D. Seal, Jr.	Councilperson	RLI Surety Company	\$100,000.00
Wendy McDonald	Councilperson	Liberty Mutual	\$100,000.00
Jeffrey Reed	Councilperson	RLI Surety Company	\$100,000.00
Ray Kidd	Councilperson	RLI Surety Company	\$100,000.00
Joey Boudin	Councilperson	Western Surety	\$100,000.00
William J. Compretta	Councilperson	RLI Surety Company	\$100,000.00
William E. Taylor	Councilperson	RLI Surety Company	\$100,000.00
David Kolf	City Clerk	Liberty Mutual	\$100,000.00
Katherine Smith	Comptroller	Liberty Mutual	\$100,000.00
Madeline Prendergast	Court Clerk	RLI Surety Company	\$ 50,000.00
Melanie Raboteau	Deputy City Clerk	RLI Surety Company	\$ 50,000.00
Clementine Sheppard	Deputy City Clerk	RLI Surety Company	\$ 50,000.00
Sandra Day	Deputy City Clerk	RLI Surety Company	\$ 50,000.00
Laura Griffith	Deputy City Clerk	RLI Surety Company	\$ 50,000.00
Charlene Black	Notary Bond	RLI Insurance Company	\$ 5,000.00
Carolyn Adams	Deputy City Clerk	RLI Surety Company	\$ 50,000.00
Cindy Elliot	Deputy City Clerk	RLI Surety Company	\$ 50,000.00
Patricia Tice	Notary Bond	RLI Surety Company	\$ 5,000.00
Patricia Tice	Deputy City Clerk	RLI Surety Company	\$ 50,000.00
Mary Ann Bremer	Notary Bond	RLI Surety Company	\$ 5,000.00
Paula Fairconnetue	Notary Bond	RLI Surety Company	\$ 5,000.00
Police Department	Departmental	RLI Surety Company	\$ 50,000.00
Fire Department	Departmental	RLI Surety Company	\$ 50,000.00

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed through State of Mississippi Development			
Community Development Block Grant -Entitlement	14.218	R101-06-001-1	\$ 69,067
Community Development Block Grant -Entitlement	14.218	R103-112-01-KCR	1,262,608
Community Development Block Grant -Entitlement	14.218	R103-112-02-KCR	2,881,496
Community Development Block Grant -Entitlement	14.218	R103-112-01-KP	35,000
Community Development Block Grant -Entitlement	14.218	R109-112-03-KCR	4,671,404
Community Development Block Grant -Entitlement	14.218	R109-112-06-KCR	2,184,441
Community Development Block Grant -Entitlement	14.218	R109-112-05-KCR	1,403,185
Community Development Block Grant -Entitlement	14.218	R109-112-04-KCR	1,058,287
Community Development Block Grant -Entitlement	14.218	R118-112-01-HCCR	438,806
Community Development Block Grant -Entitlement	14.218	R118-112-02-HCCR	343,805
Community Development Block Grant -Entitlement	14.218	R118-112-03-HCCR	136,522
Community Development Block Grant -Entitlement	14.218	R118-112-04-HCCR	907,931
Community Development Block Grant -Entitlement	14.218	R118-112-05-HCCR	239,706
Community Development Block Grant -Entitlement	14.218	R118-112-06-HCCR	389,855
Community Development Block Grant -Entitlement	14.218	R118-112-07-HCCR	934,725
Community Development Block Grant -Entitlement	14.218	R118-112-08-HCCR	161,098
Community Development Block Grant -Entitlement	14.218	R118-112-09-HCCR	292,654
Community Development Block Grant -Entitlement	14.218	R118-112-10-HCCR	139,354
Community Development Block Grant -Entitlement	14.218	R118-112-11-HCCR	139,891
Community Development Block Grant -Entitlement	14.218	R118-112-12-HCCR	645,076
Community Development Block Grant -Entitlement	14.218	R103-112-03-KP	<u>8,333</u>
Total U. S. Department of Housing and Urban			<u>18,343,244</u>

(Continued)

**CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

U. S. Department of Homeland Security

Passed through State of Mississippi

Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1794-DR-	4,155
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1604-DR-	14,354,324
Hazard Mitigation Grant	97.039	1604-212	<u>1,062,483</u>
Total U. S. Department of Homeland Security			<u>15,420,962</u>

U.S. Department of Justice

Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580	18PGCP540Z	<u>136,362</u>
Total U. S. Department of Justice			<u>136,362</u>

U.S. Department of Transportation

Passed through State of Mississippi

<i>ARRA</i> - Highway Planning and Construction Grant	20.205	STP-0032-	566,187
Department of Public Safety the Division of Public Safety			
State & Community Highway Safety - NHTSA	20.600	10-AL-202-1	<u>34,766</u>
Total U.S. Department of Transportation			<u>600,953</u>

Total Federal Financial Assistance			<u>\$ 34,501,521</u>
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NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is included in the federal grant activity of the City of Bay St. Louis, Mississippi, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B: OUTSTANDING FEDERAL LOANS

The City has outstanding loans from the Department of Homeland Security totaling \$3,444,258 which are reported in the governmental debt and business-type debt of the financial statements.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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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

October 7, 2011

To the Honorable Mayor and Councilmen
City of Bay St. Louis, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City of Bay St. Louis, Mississippi's basic financial statements and have issued our report thereon dated October 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Bay St. Louis, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures 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 Bay St. Louis, Mississippi's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Bay St. Louis, Mississippi's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2010-1, 2010-2, 2010-3, 2010-4, 2010-5, and 2010-6.

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.

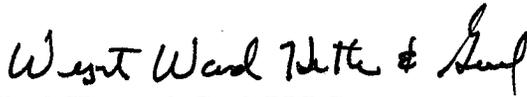
Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Bay St. Louis, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2010-1, 2010-2, 2010-3, 2010-4, 2010-5, and 2010-6

We noted certain matters that we reported to management of City of Bay St. Louis, Mississippi, in a separate letter dated October 7, 2011.

City of Bay St. Louis, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Bay St. Louis, Mississippi's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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Gulfport, Mississippi

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 7, 2011

To the Honorable Mayor and Councilmen
City of Bay St. Louis, Mississippi

Compliance

We have audited the compliance of City of Bay St. Louis, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. City of Bay St. Louis, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Bay St. Louis, Mississippi City of Bay St. Louis, Mississippi's management. Our responsibility is to express an opinion on City of Bay St. Louis, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Bay St. Louis, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Bay St. Louis, Mississippi's compliance with those requirements.

In our opinion, City of Bay St. Louis, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-7.

Internal Control Over Compliance

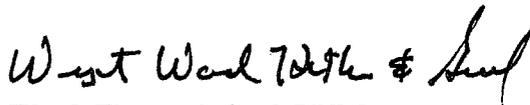
Management of the City of Bay St. Louis, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Bay St. Louis, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Bay St. Louis, Mississippi's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Bay St. Louis, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Bay St. Louis, Mississippi's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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

October 7, 2011

The Honorable Mayor and Members of City Council
City of Bay St. Louis, Mississippi

We have audited the accompanying financial statements of the City of Bay St. Louis, Mississippi as of and for the year ended September 30, 2010, and have issued our report dated October 7, 2011. 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 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 City's financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations are as follows:

Finding

During our review of the minutes of the council meetings of the City of Bay St. Louis, Mississippi we noted that the minutes were not timely approved by the council as required by Section 21-15-33 Miss. Code Ann. (1972).

Recommendation

We recommend that the council timely approve all meeting minutes and ensure that complete and accurate minutes are maintained for all meetings in accordance with state law.

The Honorable Mayor and Members of City Council
City of Bay St. Louis, Mississippi

Finding

During our review of the original and amended budget of the City of Bay St. Louis, Mississippi, we noted that the actual expenditures of the General Fund exceeded the final amended budget and that publication was not performed for budgetary amendments of 10% or more.

Recommendation

We recommend that management ensure that the budgets are properly performed and amended as necessary when adequate revenues are not available to pay for the expenditures incurred as well as budgetary amendments 10% or greater is properly publicized as set forth in the budgetary process described by the Mississippi State Auditor and state law.

Finding

During our testing of fixed assets we noted that not all city fixed assets were properly marked as in accordance with state law.

Recommendation

We recommend that policies and procedures be communicated and enforced to all employees regarding their responsibilities and treatment of City assets and that all fixed assets are properly tagged and identified annually.

Finding

During our testing of construction projects we noted numerous change orders that increased the price of the construction contracts. The city is required to follow state guidelines regarding performance and payment bonds for contracts that exceeded \$25,000 which state that the bonds should equal the contract amount.

Recommendation

We recommend that the individuals in charge of construction ensure that all performance and payment bonds are updated to reflect any changes in the contracts by change orders.



Wright, Ward, Hatten & Guel, PLLC
Gulfport, Mississippi

**CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

SECTION 1 – SUMMARY OF AUDITORS’ RESULTS

Type of Auditors’ Report Issued Unqualified

Internal Control over Financial Reporting:

Material weakness(es) identified No

Significant deficiency(ies) identified not considered to be
material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified not considered to be
material weaknesses? Yes

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with OMB Circular A-133,
Section .510(a)? No

Identification of major programs:

- 97.036 Department of Homeland Security – Public
Assistance Grants (Presidentially Declared Disasters)
- 14.218 U.S. Department of Housing and Urban Development
Community Development Block Grants –
Entitlement Grants to Cities
- 20.205 ARRA – Department of Transportation
Highway Planning and Construction Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$1,035,046

Auditee qualified as low risk auditee? No

SECTION II – FINANCIAL STATEMENT FINDINGS

2010-1 *Criteria:* Improper Payroll reporting/Recordkeeping/Review *Prior year finding*

Condition: During our testing of payroll we noted that the time on the time cards was not added correctly per U.S. Department of Labor rounding procedures or incomplete resulting in unapproved time or overtime for certain employees. We also noted that some employees had PERS adjustments and employer matches who did not actually participate in the PERS program.

Cause: Supervisor signatures were missing from the time cards for all administrative employees and it appears that there was little if any review of payroll forms or reports by the payroll clerk or management of approval and calculation of time cards. There is no reconciliation between payroll system and PERS reporting by personnel.

Effect: This causes the City to incur unnecessary costs due to the payment of penalties, late fees or other costs that are unapproved and creates the opportunity for misappropriation of funds by inadequate review of payroll and related payroll records before payroll is processed as well as inaccurate information reported to various agencies.

Recommendation: We recommend that management review all time cards before payroll is processed for approved time and review of all payroll reports. It is imperative that management allow adequate time between collection of time cards and actual verification and recalculation of time cards before payroll is processed and ensure that timecards are calculated correctly.

2010-2 *Criteria:* Code of Conduct/Conflict of interest statements *Prior year finding*

An effective internal control environment includes a clear understandable code of conduct for managers and employees to follow, job descriptions and responsibilities for every city employee position, and general operating policies and procedure so that employees will have guidelines to follow and a clear understanding of their job responsibilities as well as compliance with applicable municipal regulations. Conflict of interest statements should be maintained on all city employees with duties involving procurement and construction.

Condition: The City currently does not have a code of conduct for City employees that address compliance with various laws and regulations, nor are any written policies and procedures available to city employees for guidance in their daily operating responsibilities. The City also does not require conflict of interest statements for individuals responsible for procurement and contracting.

Cause: Employees are not aware of job descriptions and responsibilities or any compliance requirements as set forth by granting agencies or state laws and regulations thereby making the City noncompliant with these rules and regulations and creating operating ineffectiveness and inefficiencies with financial accounting and reporting and daily operations within the City. Lack of conflict of interest policies and enforcement of those policies creates opportunities for transactions to occur that are not necessarily in the best interest of the City.

Effect: This situation causes the City to be out of compliance with granting and regulatory agencies and creates opportunities for errors and omissions in data that is presented to management for decision making purposes within the City and operating ineffectiveness of public service functions.

Recommendation: We recommend that the City implement an accounting manual that incorporates general accounting procedures and policies, and encompasses the accounting rules and guidelines as set forth in the Mississippi Municipal Accounting Manual for local governments so that all employees that are responsible for compiling and reporting on various financial information for the City are knowledgeable of what is required so that the City will be compliant with various laws and regulations. We also recommend that the City have written descriptions, policies and procedures for every city employee position to help achieve operating efficiency and effectiveness within the City and that each employee's performance in their respective City positions are monitored periodically.

2010-3 *Criteria:* Improper procurement procedures and documentation

Prior year finding

Proper internal control over the purchasing and accounts payable function require that purchase orders are issued for all items that are purchased by the city that are non-service related and that all purchase orders have the proper approval by the department director and the purchasing agent. Payment should only be from original invoice not a quote or statement and once invoices are paid, they should be stamped paid on the original invoice to prevent duplication of payment.

Condition: Purchase orders are dated after the invoice. We noted instances where invoices were paid twice and in some instances sales tax was paid when it should not have been. Certain information pertaining to purchases were not obtained or properly documented in the vendor files or on the board minutes.

Cause: Items are purchased without proper procedures being followed, therefore the purchase order, if one is created is dated after the invoice is received. Also, quotes for certain purchases are not always obtained or attached to the invoices. Sole source purchases are not properly documented on the board minutes as such.

Effect: The City can incur expenditures that are not budgeted, allowable or properly authorized by not following proper procurement procedures. This also creates an opportunity for misappropriation of City funds through disbursements for personal gain if purchase orders and proper approval is not obtained before an item is purchased. The risk of duplicate payment is very high when a payment is made by quote or statement in addition to the original invoice.

Recommendation: We recommend that management enforce the procurement policies of the City which requires a purchase requisition, purchase order and proper approval before an item is obtained and to also inform purchasing personnel to ensure that proper procurement procedures are followed and documented in the vendor file. We also recommend that the accounts payable clerk be familiar with the Mississippi State purchasing law.

2010-4 *Criteria:* Improper tagging of fixed assets and no annual inventory performed

Proper procedures over fixed assets require an annual inventory to be performed and all items should be properly tagged and identified as city property.

Condition: During our audit testing it came to our attention that various items of equipment was not properly tagged or identified as city property. An annual inventory of all City assets was not performed during the fiscal year as required by state law.

Cause: There are not adequate controls and policies over the tagging of fixed assets and an annual inventory is not performed thereby creating an opportunity for misappropriation.

Effect: This creates an unnecessary exposure of the City for misappropriation or misuse of these assets as well as noncompliance with state law.

Recommendation: We recommend that policies and procedures be communicated and enforced to all employees regarding their responsibilities and treatment of City assets and that all fixed assets are properly tagged and identified as well as inventoried annually.

2010-5 *Criteria:* Utility billing and collection procedures *Prior year finding*

Proper procedures over utility billing and collection require that billing for utility services are done in a timely manner and that monies due from utility customers are collected in a timely manner in accordance with City policy and cutoff procedures are performed on citizens with outstanding utility bills. Any utility adjustments are adequately documented and approved.

Condition: During our testing of utility revenue and receivables we noted that there were several customers that had large outstanding balances and these customers were still receiving utility service and only making nominal payments in relation to their total monthly bill. We also noted that there were instances of significant “misreads” on utility bills that were mailed to customers before correction to billing was performed. Utility adjustments made to various accounts were lacking proper documentation and approval.

Cause: Cutoff procedures are not being followed on utility customers who are not paying their utility bill in full each month. There is no review of various billing reports prior to release of utility bills to catch exceptions nor is there adequate review of reports monthly to ensure collection and that the proper fees are charged to recapture various costs incurred in utility functions.

Effect: By allowing utility customers to pay a fraction of their utility bill each month is causing their account to reflect a large receivable due and reducing the operating income of the utility fund to pay for the operating expenses incurred in servicing these customers.

Recommendation: We recommend that utility customers are required to pay for the entire monthly utility bill in a timely manner in accordance with City policy. Improvement in proper

collection and cutoff procedures is needed. We also recommend that the City formally document billing and collection procedures and print monthly reports for adequate management and oversight of this department. All utility adjustments should be properly documented and approved.

2010-6 *Criteria:* Inconsistent building permit and business license procedures

Proper procedures over building permit and business licenses require that City employees follow the City's ordinance regarding the approval and issuance of building permits of all types and those payments are collected prior to the issuance of permits.

Condition: During our testing of building permits we noted that certain permit fees were unrealistically low compared to the work performed and city ordinance regarding issuance of various building permits is not adhered to. Certain building permits were issued without payment received at the time of issuance. The City is currently using two software systems for building permits and in the old system there were several accounts that needed to be closed in the system. We also noted that there were some businesses operating within the City without a valid business license or were issued a license without a fee charged.

Cause: It appears that certain projects are given inconsistent treatment for approval and issuance of permits. The City does not currently have documented policies in place to ensure that all businesses within the city limits have a valid business license.

Effect: This situation creates a potential loss of revenue and unnecessary exposure for inconsistent treatment of the issuance of these building permits. By not verifying and ensuring that all businesses within the City limits are operating under a current business license causes a loss of revenue for the city.

Recommendation: We recommend that the management enforce the City's ordinance and policies regarding the issuance of building permits and that a permit is not issued unless payment is first received. We also recommend that the City establish policies and procedures to ensure that all City businesses are operating under a current valid business license.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2010-7 *Criteria:* Improper approval of grant funded construction projects

During our testing of certain federally funded projects we noted that some construction contracts totaling approximately \$2.3 million were not properly board approved prior to issuance of the notice to proceed.

Cause: The council was not presented with the contractor recommendation for the federally constructed projects.

Questioned Costs: There are no questioned costs associated with this finding.

Effect: Lack of council approval could cause the City to incur unauthorized expenditures to federally funded projects.

Recommendation: We recommend that all federally funded construction contracts or any other professional contract are approved by council and such approval is spread on the board minutes before any work under those contracts commences.



**Corrective Action Plan
For the Year Ended September 30, 2010**

Section 2: Financial Statement Findings

Finding 2010-1: *Prior year finding*

Condition: During our testing of payroll we noted that the time on the time cards was not added correctly per U.S. Department of Labor rounding procedures or incomplete resulting in unapproved time or overtime for certain employees. We also noted that some employees had PERS adjustments and employer matches who did not actually participate in the PERS program.

Corrective Action: In January 2011 the cutoff for payroll has been moved back two days to allow for review and corrections of timecards. Review of administration time entered is done by both the Mayor and City Clerk from the payroll batch report prior to transmission of the direct deposit file. A new timekeeping system is needed and will be considered depending on budget constraints.

Finding 2010-2: *Prior year finding*

Condition: The City currently does not have a code of conduct for City employees that address compliance with various laws and regulations, nor are any written policies and procedures available to city employees for guidance in their daily operating responsibilities. The City also does not require conflict of interest statements for individuals responsible for procurement and contracting.

Corrective Action: The employee handbook has not been adopted by the City Council to address compliance with an employee code of conduct. Adoption is currently an agenda item of the City Council and final changes are being made to finalize the new handbook.

Finding 2010-3: *Prior year finding*

Condition: Purchase orders are dated after the invoice. We noted instances where invoices were paid twice and in some instances sales tax was paid when it should not have been. Certain information pertaining to purchases were not obtained or properly documented in the vendor files or on the board minutes.

Corrective Action: Staffing issues relating to Accounts Payable have resolved payment entering issues. Purchase orders may still be generated after the invoice date to allow for correct coding of purchases by the purchasing agent and not the accounts payable clerk.

Finding 2010-4:

Condition: During our audit testing it came to our attention that various items of equipment was not properly tagged or identified as city property. An annual inventory of all City assets was not performed during the fiscal year as required by state law.

Corrective Action: Annual inventory of assets was performed in 2010. An inventory ID system has been put in place to print bar code tags. Durable ID tags will be used to ensure inventory tags are not damaged or lost on heavy equipment.

Finding 2010-5: *Prior year finding*

Condition: During our testing of utility revenue and receivables we noted that there were several customers that had large outstanding balances and these customers were still receiving utility service and only making nominal payments in relation to their total monthly bill. We also noted that there were instances of significant “misreads” on utility bills that were mailed to customers before correction to billing was performed. Utility adjustments made to various accounts were lacking proper documentation and approval.

Corrective Action: The ordinance regarding disconnection of service was recently amended to allow for no discretion regarding cut off procedures. The utility manager will develop a procedure manual to document and standardize collection and adjustment processes.

Finding 2010-6:

Condition: During our testing of building permits we noted that certain permit fees were unrealistically low compared to the work performed and city ordinance regarding issuance of various building permits is not adhered to. Certain building permits were issued without payment received at the time of issuance. The City is currently using two software systems for building permits and in the old system there were several accounts that needed to be closed in the system. We also noted that there were some businesses operating within the City without a valid business license or were issued a license without a fee charged.

Corrective Action: The administration will work with the Building Department to offer additional training, documentation of procedures. A review of the ordinance for permit fees will be reviewed and amended to ensure compliance to fees.

Finding 2010-7:

Condition: During our testing of certain federally funded projects we noted that some construction contracts totaling approximately \$2.3 million were not properly board approved prior to issuance of the notice to proceed.

Corrective Action: Administration staff meetings are held prior to every council meeting to ensure proper presentation of all documentation for council meetings is submitted through the Office of the Mayor.