

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

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

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## **INTRODUCTORY SECTION**

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
LISTING OF CITY OFFICIALS  
SEPTEMBER 30, 2009**

**ELECTED OFFICIALS**

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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**

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City Clerk	Harold Olsen
Police Chief	Tom Burluson
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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## INDEPENDENT AUDITORS' REPORT

February 9, 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, 2009, 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.

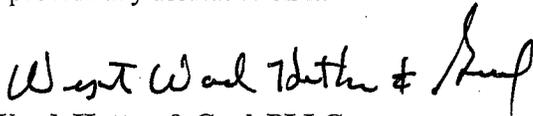
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bay St. Louis, Mississippi, as of September 30, 2009, 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 February 9, 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 47 through 50 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 schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, 2009**

**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, 2009. 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, 2009 by \$77,181,984. Of this amount unrestricted net assets of \$3,545,287 may be used to meet organizations ongoing obligations to citizens and creditors.
- The total net assets increased by \$36,748,452. Of this amount \$9,290,476, was associated with governmental and \$27,457,976 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 \$13,189,027, an increase of \$888,047.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,182,456 or 61% 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, 2009**

**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 parks 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 2009, 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, 2009**

**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.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**Government-wide Financial Analysis**

Table 1 below presents the City's condensed statement of net assets as of September 30, 2009 derived from the government-wide Statement of Net Assets.

	Governmental		Business-type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 26,222,555	\$ 26,404,007	\$ 30,765	\$ 517,075	\$ 26,253,320	\$ 26,921,082
Noncurrent assets	<u>24,488,893</u>	<u>16,495,289</u>	<u>51,483,351</u>	<u>23,873,767</u>	<u>75,972,244</u>	<u>40,369,056</u>
Total assets	<u>50,711,448</u>	<u>42,899,296</u>	<u>51,514,116</u>	<u>24,390,842</u>	<u>102,225,564</u>	<u>67,290,138</u>
Other liabilities	16,961,543	14,271,595	869,615	896,774	17,831,158	15,168,369
Long-term liabilities	<u>4,047,764</u>	<u>8,216,036</u>	<u>3,164,658</u>	<u>3,472,201</u>	<u>7,212,422</u>	<u>11,688,237</u>
Total liabilities	<u>21,009,307</u>	<u>22,487,631</u>	<u>4,034,273</u>	<u>4,368,975</u>	<u>25,043,580</u>	<u>26,856,606</u>
Net assets:						
Invested in capital assets,						
net of related debt	18,251,158	9,561,130	48,681,374	20,778,561	66,932,532	30,339,691
Restricted	6,704,165	6,928,876	-	-	6,704,165	6,928,876
Unrestricted	<u>4,746,818</u>	<u>3,921,659</u>	<u>(1,201,531)</u>	<u>(756,694)</u>	<u>3,545,287</u>	<u>3,164,965</u>
Total net assets	<u>\$ 29,702,141</u>	<u>\$ 20,411,665</u>	<u>\$ 47,479,843</u>	<u>\$ 20,021,867</u>	<u>\$ 77,181,984</u>	<u>\$ 40,433,532</u>

At September 30, 2009, the City's assets exceeded liabilities by \$77,181,984. By far the largest portion of the City's net assets (87%) reflects its investment in capital assets, less any related debt used to acquire or construct those assets. The unrestricted net assets of \$3,545,287 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 38 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, 2009, 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, 2009**

**Government-wide Financial Analysis (Continued)**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 718,831	\$ 776,565	\$ 2,919,347	\$ 2,888,897	\$ 3,638,178	\$ 3,665,462
Operating grants	758,771	566,397	-	-	758,771	566,397
Capital grants	<u>41,083,741</u>	<u>17,052,020</u>	<u>39,006</u>	<u>-</u>	<u>41,122,747</u>	<u>17,052,020</u>
Total program revenues	<u>42,561,343</u>	<u>18,394,982</u>	<u>2,958,353</u>	<u>2,888,897</u>	<u>45,519,696</u>	<u>21,283,879</u>
General revenues						
Property taxes	1,560,147	2,041,269	-	-	1,560,147	2,041,269
Sales taxes	1,669,510	1,346,696	-	-	1,669,510	1,346,696
Franchise taxes	309,640	285,388	-	-	309,640	285,388
Gaming revenue	2,787,662	2,766,955	-	-	2,787,662	2,766,955
Interest earnings	78,314	277,882	3,893	16,886	82,207	294,768
Lease revenue	19,230	20,833	-	-	19,230	20,833
Other	<u>119,287</u>	<u>1,145,957</u>	<u>-</u>	<u>-</u>	<u>119,287</u>	<u>1,145,957</u>
Total general revenues	<u>6,543,790</u>	<u>7,884,980</u>	<u>3,893</u>	<u>16,886</u>	<u>6,547,683</u>	<u>7,901,866</u>
Total revenues	<u>49,105,133</u>	<u>26,279,962</u>	<u>2,962,246</u>	<u>2,905,783</u>	<u>52,067,379</u>	<u>29,185,745</u>
<b>Program expenses</b>						
General government	1,622,818	3,557,664	-	-	1,622,818	3,557,664
Public safety	4,126,445	2,698,938	-	-	4,126,445	2,698,938
Public works	3,610,768	1,614,310	-	-	3,610,768	1,614,310
Highways and streets	-	561,720	-	-	-	561,720
Economic development	-	455,793	-	-	-	455,793
Culture and recreation	1,667,491	319,578	-	-	1,667,491	319,578
Health and welfare	-	28,154	-	-	-	28,154
Interest	372,426	271,055	-	-	372,426	271,055
Water, sewer and gas	<u>-</u>	<u>-</u>	<u>3,918,979</u>	<u>2,771,694</u>	<u>3,918,979</u>	<u>2,771,694</u>
Total program expenses	<u>11,399,948</u>	<u>9,507,212</u>	<u>3,918,979</u>	<u>2,771,694</u>	<u>15,318,927</u>	<u>12,278,906</u>
Change before transfers	37,705,185	16,772,750	(956,733)	134,089	36,748,452	16,906,839
Transfers	<u>(28,414,709)</u>	<u>(14,388,348)</u>	<u>28,414,709</u>	<u>14,388,348</u>	<u>-</u>	<u>-</u>
<b>Change in net assets</b>	9,290,476	2,384,402	27,457,976	14,522,437	36,748,452	16,906,839
Beginning net assets	<u>20,411,665</u>	<u>18,054,398</u>	<u>20,021,867</u>	<u>5,499,430</u>	<u>40,433,532</u>	<u>23,553,828</u>
<b>Ending net assets</b>	<u>\$ 29,702,141</u>	<u>\$ 20,438,800</u>	<u>\$ 47,479,843</u>	<u>\$ 20,021,867</u>	<u>\$ 77,181,984</u>	<u>\$ 40,460,667</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

***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 \$13,189,027 an increase of \$888,047 in comparison with the prior year. 47% percent or \$6,182,456 of this combined fund balance is unreserved, while the remainder is reserved for capital projects, debt service and rebuilding.

- **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 \$27,457,976 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, 2009**

**Capital Asset and Long-Term Debt Activity**

Capital Asset Activity

At September 30, 2009, the City reported \$24,457,449 in net capital assets for governmental activities and \$51,411,198 in capital assets for business-type activities. This represents a combined increase of \$35,624,802 in capital assets during the 2009 fiscal year.

**City of Bay St. Louis's Capital Assets  
(net of depreciation)**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	2009	2008	2009	2008	2009	2008
Land	\$ 1,116,633	\$ 907,633	\$ -	\$ -	\$ 1,116,633	\$ 907,633
Buildings & Improvements	3,121,454	3,189,049	46,980	47,977	3,168,434	3,237,026
Machinery & Equipment	862,452	663,381	71,476	65,323	933,928	728,704
Infrastructure & Systems	11,017,603	9,501,983	50,820,291	22,949,715	61,837,894	32,451,698
Vehicles	1,456,125	1,531,791	18,809	18,809	1,474,934	1,550,600
Construction in progress	<u>6,883,182</u>	<u>657,608</u>	<u>453,642</u>	<u>710,576</u>	<u>7,336,824</u>	<u>1,368,184</u>
Total	<u>\$ 24,457,449</u>	<u>\$ 16,451,445</u>	<u>\$ 51,411,198</u>	<u>\$ 23,792,400</u>	<u>\$ 75,868,647</u>	<u>\$ 40,243,845</u>

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$12,380,373 in outstanding debt, excluding compensated absences. 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 34-36 of this report.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**City of Bay St. Louis's Outstanding Debt**

**General Obligation, Revenue Bonds and Other Loans**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	2009	2008	2009	2008	2009	2008
Bonds Payable	\$ 1,906,291	\$ 2,586,086	\$ -	\$ -	\$ 1,906,291	\$ 2,586,086
Revenue Bonds	-	-	2,729,824	3,013,839	2,729,824	3,013,839
Notes Payable	7,008,408	6,143,408	735,850	735,850	7,744,258	6,879,258
Leases Payable	-	4,229	-	-	-	4,229
<b>Total</b>	<u>\$ 8,914,699</u>	<u>\$ 8,733,723</u>	<u>\$ 3,465,674</u>	<u>\$ 3,749,689</u>	<u>\$ 12,380,373</u>	<u>\$ 12,483,412</u>

As a result of hurricane Katrina in August 2005, the City of Bay Saint Louis continues to experience an unprecedented capital rebuilding process paid from federal funding sources. The \$35,624,802 increase in capital assets during the 2009 fiscal year is due to the federal recovery effort and not as a result of governmental operating activities.

Use of cash reserves to cover operating expenses continues into the 2011 fiscal year due to continuing economic conditions. Management expects to continue to see increases in net assets due to the continued capital asset recovery projects and not as a result of governmental activity.

**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, 2009**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 6,941,358	\$ 718,139	\$ 7,659,497
Receivables, net	727,583	555,371	1,282,954
Due from other governments	12,781,490	-	12,781,490
Internal balances	1,655,053	(1,655,053)	-
Inventory	-	146,631	146,631
Prepaid insurance	233,485	-	233,485
Restricted assets:			
Cash and cash equivalents	3,883,586	265,677	4,149,263
Total current assets	<u>26,222,555</u>	<u>30,765</u>	<u>26,253,320</u>
<b>Noncurrent Assets</b>			
Capital assets:			
Land and construction in progress	7,999,815	453,642	8,453,457
Other capital assets, net of accumulated depreciation	16,457,634	50,957,556	67,415,190
Bond issuance costs, net	31,444	72,153	103,597
Total noncurrent assets	<u>24,488,893</u>	<u>51,483,351</u>	<u>75,972,244</u>
 Total assets	 <u>50,711,448</u>	 <u>51,514,116</u>	 <u>102,225,564</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	7,584,567	192,519	7,777,086
Retainage payable	805,667	-	805,667
Accrued interest	218,855	96,324	315,179
Deferred revenues	3,274,696	-	3,274,696
Bonds payable	715,000	310,000	1,025,000
Notes payable	4,300,000	-	4,300,000
Compensated absences, current	62,758	5,095	67,853
Payable from restricted assets:			
Customer deposits	-	265,677	265,677
Total current liabilities	<u>16,961,543</u>	<u>869,615</u>	<u>17,831,158</u>
<b>Noncurrent Liabilities</b>			
Bonds payable, net of deferred loss on bond refunding	1,191,291	2,419,824	3,611,115
Notes payable	2,708,408	735,850	3,444,258
Compensated absences	148,065	8,984	157,049
Total long-term liabilities	<u>4,047,764</u>	<u>3,164,658</u>	<u>7,212,422</u>
 Total liabilities	 <u>21,009,307</u>	 <u>4,034,273</u>	 <u>25,043,580</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	18,251,158	48,681,374	66,932,532
Restricted net assets	6,704,165	-	6,704,165
Unrestricted net assets	4,746,818	(1,201,531)	3,545,287
 Total net assets	 <u>\$ 29,702,141</u>	 <u>\$ 47,479,843</u>	 <u>\$ 77,181,984</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, 2009**

	Expenses	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
<b>Governmental activities:</b>							
General government	\$ 1,622,818	\$ 397,667	\$ 239,157	\$ 2,952,592	\$ 1,966,598	\$ -	\$ 1,966,598
Public safety	4,126,445	321,164	519,614	2,889,105	(396,562)	-	(396,562)
Streets and public properties	3,610,768	-	-	32,242,048	28,631,280	-	28,631,280
Culture and recreation	1,667,491	-	-	2,999,996	1,332,505	-	1,332,505
Interest	372,426	-	-	-	(372,426)	-	(372,426)
Total governmental activities	11,399,948	718,831	758,771	41,083,741	31,161,395	-	31,161,395
<b>Business-type activities:</b>							
Water, sewer and gas	3,918,979	2,919,347	-	39,006	-	(960,626)	(960,626)
Total business - type activities	3,918,979	2,919,347	-	39,006	-	(960,626)	(960,626)
Total	\$ 15,318,927	\$ 3,638,178	\$ 758,771	\$ 41,122,747	31,161,395	(960,626)	30,200,769
General revenues:							
					1,560,147	-	1,560,147
					1,669,510	-	1,669,510
					309,640	-	309,640
					2,787,662	-	2,787,662
					78,314	3,893	82,207
					19,230	-	19,230
					119,287	-	119,287
					(28,414,709)	28,414,709	-
					(21,870,919)	28,418,602	6,547,683
					9,290,476	27,457,976	36,748,452
					20,411,665	20,021,867	40,433,532
					\$ 29,702,141	\$ 47,479,843	\$ 77,181,984

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, 2009**

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Other Governmental Funds	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 3,016,544	\$ 3,855,018	\$ 875	\$ 68,921	\$ 6,941,358
Receivables:					
Sales taxes	191,391	-	-	-	191,391
Franchise taxes	90,440	-	-	-	90,440
Gaming receivable	278,006	-	-	-	278,006
Property tax	25,937	-	-	-	25,937
Court revenue	114,200	-	-	-	114,200
Other	27,609	-	-	-	27,609
Due from other governments	177,077	9,225,638	3,378,775	-	12,781,490
Due from other funds	2,617,020	11,644	-	-	2,628,664
Prepaid expenditures	233,485	-	-	-	233,485
Restricted assets:					
Cash and cash equivalents	556,663	-	-	3,326,923	3,883,586
Total assets	<u>\$ 7,328,372</u>	<u>\$ 13,092,300</u>	<u>\$ 3,379,650</u>	<u>\$ 3,395,844</u>	<u>\$ 27,196,166</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Accounts payable	\$ 167,755	\$ 4,102,233	\$ 3,189,323	\$ -	\$ 7,459,311
Retainage payable	-	626,984	178,683	-	805,667
Accrued wages payable	125,256	-	-	-	125,256
Compensated absences	62,758	-	-	-	62,758
Due to other funds	-	961,967	11,644	-	973,611
Deferred revenues	-	4,580,536	-	-	4,580,536
Total liabilities	355,769	10,271,720	3,379,650	-	14,007,139
<b>Fund Balances</b>					
Nonspendable	233,485	-	-	-	233,485
Restricted	556,662	2,820,580	-	3,326,923	6,704,165
Committed	-	-	-	68,921	68,921
Unassigned	6,182,456	-	-	-	6,182,456
Total fund balance	<u>6,972,603</u>	<u>2,820,580</u>	<u>-</u>	<u>3,395,844</u>	<u>13,189,027</u>
Total liabilities and fund balance	<u>\$ 7,328,372</u>	<u>\$ 13,092,300</u>	<u>\$ 3,379,650</u>	<u>\$ 3,395,844</u>	<u>\$ 27,196,166</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, 2009**

**Total governmental funds balance (Exhibit C)** \$ 13,189,027

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	30,050,723	
Less: accumulated depreciation	<u>(5,593,274)</u>	24,457,449

Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds. (8,933,408)

Compensated absences are not due and payable in the current period expenditures and therefore are not reported in the governmental funds. (148,065)

Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds. (218,855)

Certain other long-term assets are not available to pay current period expenditures and therefore, are deferred in the fund financial statements 1,305,840

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. 50,153

**Net assets of governmental activities (Exhibit A)** \$ 29,702,141

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, 2009**

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Other Governmental Funds	Total
<b>Revenues</b>					
Taxes:					
Property	\$ 1,560,147	\$ -	\$ -	\$ -	\$ 1,560,147
Sales	1,669,510	-	-	-	1,669,510
Franchise	309,640	-	-	-	309,640
Licenses and permits	397,667	-	-	-	397,667
Intergovernmental	1,465,335	31,589,158	8,116,713	-	41,171,206
Charges for services	43,378	-	-	-	43,378
Fines and forfeits	277,786	-	-	-	277,786
Interest	37,768	40,546	-	-	78,314
Lease revenue	19,230	-	-	-	19,230
Gaming revenue	2,787,662	-	-	-	2,787,662
Miscellaneous	119,194	-	-	93	119,287
Total revenues	<u>8,687,317</u>	<u>31,629,704</u>	<u>8,116,713</u>	<u>93</u>	<u>48,433,827</u>
<b>Expenditures</b>					
Current:					
General government	2,700,073	105,918	276,449	-	3,082,440
Public safety	3,672,895	1,200,189	1,913,579	-	6,786,663
Streets and public properties	3,261,899	2,059,755	495,270	98,250	5,915,174
Culture and recreation	454,615	269,005	2,531,501	-	3,255,121
Debt service:					
Principal	-	-	-	694,229	694,229
Interest	-	-	-	262,444	262,444
Total expenditures	<u>10,089,482</u>	<u>3,634,867</u>	<u>5,216,799</u>	<u>1,054,923</u>	<u>19,996,071</u>
Excess (deficiency) of revenues over expenditures	<u>(1,402,165)</u>	<u>27,994,837</u>	<u>2,899,914</u>	<u>(1,054,830)</u>	<u>28,437,756</u>
<b>Other financing sources:</b>					
Loan proceeds	865,000	-	-	-	865,000
Transfers in	-	-	-	4,283,596	4,283,596
Transfers out	<u>(1,383,682)</u>	<u>(28,414,709)</u>	<u>(2,899,914)</u>	<u>-</u>	<u>(32,698,305)</u>
Total other financing sources	<u>(518,682)</u>	<u>(28,414,709)</u>	<u>(2,899,914)</u>	<u>4,283,596</u>	<u>(27,549,709)</u>
Net change in fund balance	(1,920,847)	(419,872)	-	3,228,766	888,047
Fund balance - October 1	<u>8,893,450</u>	<u>3,240,452</u>	<u>-</u>	<u>167,078</u>	<u>12,300,980</u>
Fund balance - September 30	<u>\$ 6,972,603</u>	<u>\$ 2,820,580</u>	<u>\$ -</u>	<u>\$ 3,395,844</u>	<u>\$ 13,189,027</u>

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, 2009**

**Net change in fund balances - total governmental funds (Exhibit D)** \$ 888,047

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.

	9,197,673	
Capital outlay		
Depreciation	(1,145,746)	8,051,927

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.

(45,923)

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.

(170,771)

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.

671,305

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.

	28,477	
Compensated absences		
Accrued interest	(109,982)	
Bond amortization	(22,604)	

**Change in net assets of governmental activities (Exhibit B)** \$ 9,290,476

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, 2009**

	<u>Utility Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 718,139
Accounts receivable, net	555,371
Inventory	<u>146,631</u>
Total unrestricted current assets	<u>1,420,141</u>
Current Restricted Assets	
Cash	<u>265,677</u>
Total restricted assets	<u>265,677</u>
<b>Noncurrent Assets</b>	
Buildings	118,603
Machinery and equipment	430,740
Vehicles	188,087
Water and Sewer system	58,839,518
Construction in process	<u>453,642</u>
	60,030,590
Less: accumulated depreciation	<u>8,619,392</u>
Net property, plant and equipment	<u>51,411,198</u>
Noncurrent Other Assets	
Bond Issuance costs, net	<u>72,153</u>
Total noncurrent other assets	<u>72,153</u>
Total assets	<u>53,169,169</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued expenses	192,519
Accrued interest	96,324
Compensated absences	5,095
Due to other funds	1,655,053
Bonds payable	310,000
Customer deposits	<u>265,677</u>
Total current liabilities	<u>2,524,668</u>
<b>Noncurrent Liabilities</b>	
Bonds payable	2,419,824
Notes payable	735,850
Compensated absences	<u>8,984</u>
Total noncurrent liabilities	<u>3,164,658</u>
Total liabilities	<u>5,689,326</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	48,681,374
Restricted	-
Unrestricted	<u>(1,201,531)</u>
Total net assets	<u>\$ 47,479,843</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, 2009**

	<u>Utility Fund</u>
<b>Operating Revenues</b>	
Charges for services	\$ 2,919,347
Total operating revenues	<u>2,919,347</u>
<b>Operating Expenses</b>	
Salaries and related expenses	689,664
Natural gas purchase	616,372
Garbage	173,266
Wastewater treatment	465,980
Supplies	60,629
Repairs and maintenance	23,324
Other services and charges	443,934
Depreciation expense	1,260,928
Amortization expense	<u>20,204</u>
Total operating expenses	<u>3,754,301</u>
<b>Operating Income</b>	(834,954)
<b>Non-Operating Revenues (Expenses)</b>	
Intergovernmental revenues	39,006
Interest earnings	3,893
Interest expense	<u>(164,678)</u>
Total non-operating revenue (expenses)	(121,779)
Transfers in	<u>28,414,709</u>
<b>Change in Net Assets</b>	27,457,976
<b>Net assets beginning of year</b>	<u>20,021,867</u>
<b>Net assets end of year</b>	<u>\$ 47,479,843</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, 2009**

	<b>Utility Fund</b>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 2,823,664
Payments to employees	(699,760)
Payments to suppliers	(60,629)
Payments for contractual services	(833,536)
Payments for other goods and services	(439,603)
Net cash provided by operating activities	790,136
<b>Cash Flows From Financing Activities</b>	
Principal payments on debt	(295,000)
Intergovernmental revenues	39,006
Interest expense	(126,710)
Transfers in	28,414,709
Net cash provided by financing activities	28,032,005
<b>Cash Flows From Investing Activities</b>	
Interest received	3,893
Acquisition of capital assets	(28,879,726)
Net cash (used) by investing activities	(28,875,833)
Net increase in cash and cash equivalents	(53,692)
Cash and cash equivalents:	
Beginning of year	1,037,508
End of year	\$ 983,816
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income (loss)	\$ (834,954)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,260,928
Amortization expense	20,204
(Increase) decrease in current assets:	
Accounts receivable	(107,607)
Inventory	27,660
Increase (decrease) in current liabilities:	
Accounts payable	(90,488)
Due from other funds	512,565
Compensated absences	(10,096)
Customer deposits	11,924
Net cash (used) by operating activities	\$ 790,136

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

	<b>Utility Fund</b>		
	Current Assets	Current Restricted Assets	Total
Cash and cash equivalents - October 1	\$ 783,755	\$ 253,753	\$ 1,037,508
Net increase/(decrease)	(65,616)	11,924	(53,692)
Cash and cash equivalents - September 30	\$ 718,139	\$ 265,677	\$ 983,816

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, 2009**

**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, 2009.

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, 2009**

**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.

*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:

**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.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

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.

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.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

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 help 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, 2009**

**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, 2009, 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, 2009**

**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, 2009**

**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, 2009, is as follows:

	Cash on Hand	Checking and Savings Accounts	Total
Governmental Activities			
General Fund	\$ 215	\$ 3,572,992	\$ 3,573,207
Disaster Recovery Fund	-	3,855,018	3,855,018
CDBG Grant Fund	-	875	875
Other Governmental Funds	-	3,395,844	3,395,844
Business-type Activities			
Utility Fund	<u>100</u>	<u>983,716</u>	<u>983,816</u>
Total cash and cash equivalents	<u>\$ 315</u>	<u>\$ 11,808,445</u>	<u>\$ 11,808,760</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2009 are covered by FDIC insurance or by collateral. The City’s deposits are not subject to custodial credit risk.

At September 30, 2009, deposits (including restricted deposits) are as follows:

	Bank Balance	Carrying Amount
Cash and cash equivalents	\$ 12,076,937	\$ 11,808,445

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, 2009, the City did not have any funds in certificates of deposits.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 2: CASH AND INVESTMENTS (Continued)**

The City maintained the following restricted cash as of September 30, 2009:

Governmental Activities:	
Cash and cash equivalents	
Restricted for capital projects - 2003 bond proceeds	\$ 535,877
Restricted for debt service reserves	3,326,923
Restricted for unemployment claims	<u>20,786</u>
Total restricted cash and cash equivalents- governmental activities	3,883,586
Business-type Activities	
Cash and cash equivalents	
Restricted for customer utility deposits	<u>265,677</u>
Total restricted cash government-wide	<u>\$ 4,149,263</u>

**NOTE 3: REVENUE AND RECEIVABLES**

Receivables at September 30, 2009 consist of the following:

	Governmental Activities	Business-type Activities	Total
Sales tax	\$ 191,391	\$ -	\$ 191,391
Franchise taxes	90,440	-	90,440
Gaming	278,006	-	278,006
Property tax	25,937	-	25,937
Court revenue	456,799	-	456,799
Accounts	-	1,819,121	1,819,121
Other	<u>27,609</u>	<u>-</u>	<u>27,609</u>
Total receivables	1,070,182	1,819,121	2,889,303
Less: allowance for doubtful receivables	<u>(342,599)</u>	<u>(1,263,750)</u>	<u>(1,606,349)</u>
Total receivables, net	<u>\$ 727,583</u>	<u>\$ 555,371</u>	<u>\$ 1,282,954</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2009**

**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 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 prorata 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 proceeding 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, 2009, 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, 2009 are as follows:

Real property	\$ 87,899,857
Personal property	6,682,009
Public utilities	2,680,607
Automobiles	15,212,014
Mobile homes	<u>84,203</u>
 Total	 <u><u>\$ 112,558,690</u></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, 2009, 2008 and 2007.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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 \$1,669,510. Sales tax receivable consists of taxes collected in August and September 2009 not received by the City until October and November 2009.

(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, 2009 is \$139,737 and the amount of gaming device tax is \$100,800, 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 \$2,547,125 in boarding fees for the year ended September 30, 2009, which is included in gaming revenue.

**NOTE 4: DUE FROM OTHER GOVERNMENTS**

Due from other governments consist of the following as of September 30, 2009:

	Governmental Activities
Due from FEMA	\$ 9,225,638
Due from CDBG	3,410,924
Due from the State of Mississippi	78,919
Due from County	66,009
Total receivables, net	\$ 12,781,490

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2009 is as follows:

	Balance October 1, 2008	Additions	Sales/Transfers Adjustments	Balance September 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 907,633	\$ 209,000	\$ -	\$ 1,116,633
Construction in progress	<u>657,608</u>	<u>8,309,264</u>	<u>(2,083,690)</u>	<u>6,883,182</u>
Total capital assets not being depreciated	<u>1,565,241</u>	<u>8,518,264</u>	<u>(2,083,690)</u>	<u>7,999,815</u>
Capital assets being depreciated:				
Buildings	3,592,153	-	16,500	3,608,653
Machinery and equipment	1,095,259	381,859	-	1,477,118
Improvements/ Infrastructure	12,041,747	13,329	2,067,190	14,122,266
Vehicles	<u>2,608,296</u>	<u>284,221</u>	<u>(49,646)</u>	<u>2,842,871</u>
Total capital assets being depreciated	<u>19,337,455</u>	<u>679,409</u>	<u>2,034,044</u>	<u>22,050,908</u>
Less accumulated depreciation:				
Buildings	(403,104)	(84,095)	-	(487,199)
Machinery and equipment	(431,878)	(182,788)	-	(614,666)
Improvements/ Infrastructure	(2,539,764)	(564,899)	-	(3,104,663)
Vehicles	<u>(1,076,505)</u>	<u>(313,964)</u>	<u>3,723</u>	<u>(1,386,746)</u>
Total accumulated depreciation	<u>(4,451,251)</u>	<u>(1,145,746)</u>	<u>3,723</u>	<u>(5,593,274)</u>
Total capital assets being depreciated, net	<u>14,886,204</u>	<u>(466,337)</u>	<u>2,037,767</u>	<u>16,457,634</u>
Governmental activities capital assets, net	<u>\$ 16,451,445</u>	<u>\$ 8,051,927</u>	<u>\$ (45,923)</u>	<u>\$ 24,457,449</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 5: CAPITAL ASSETS (Continued)**

	Balance October 1, 2008	Additions	Sales/Transfers Adjustments	Balance September 30, 2009
Business - type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 710,576	\$ 28,868,352	\$ (29,125,286)	\$ 453,642
Total capital assets not being depreciated	<u>710,576</u>	<u>28,868,352</u>	<u>(29,125,286)</u>	<u>453,642</u>
Capital assets being depreciated:				
Buildings	118,603	-	-	118,603
Machinery and equipment	419,365	11,374	-	430,739
Water, sewer and gas system	29,714,232	-	29,125,286	58,839,518
Vehicles	<u>188,087</u>	<u>-</u>	<u>-</u>	<u>188,087</u>
Total capital assets being depreciated	<u>30,440,287</u>	<u>11,374</u>	<u>29,125,286</u>	<u>59,576,947</u>
Less accumulated depreciation:				
Buildings	(70,626)	(997)	-	(71,623)
Machinery and equipment	(354,042)	(5,221)	-	(359,263)
Water, sewer and gas system	(6,764,517)	(1,254,710)	-	(8,019,227)
Vehicles	<u>(169,278)</u>	<u>-</u>	<u>-</u>	<u>(169,278)</u>
Total accumulated depreciation	<u>(7,358,463)</u>	<u>(1,260,928)</u>	<u>-</u>	<u>(8,619,391)</u>
Total capital assets being depreciated, net	<u>23,081,824</u>	<u>(1,249,554)</u>	<u>29,125,286</u>	<u>50,957,556</u>
Business -type activities capital assets, net	<u>\$ 23,792,400</u>	<u>\$ 27,618,798</u>	<u>\$ -</u>	<u>\$ 51,411,198</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 209,477
Public safety	262,538
Streets and public properties	656,787
Culture and recreation	<u>16,944</u>
Total governmental activities	<u>\$ 1,145,746</u>
Business-type Activities	
Water, sewer and gas	<u>\$ 1,260,928</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**NOTE 6: LONG-TERM DEBT**

Changes in outstanding debt during the year ended September 30, 2009 are as follows:

	Payable at 10/1/2008	Additions	Reductions	Payable at 9/30/2009	Due in one year
<b>Governmental Activities</b>					
Bonds payable	\$ 2,615,000	\$ -	\$ 690,000	\$ 1,925,000	\$ 715,000
Notes payable	6,143,408	865,000	-	7,008,408	4,300,000
Capital leases payable	4,229	-	4,229	-	-
Compensated absences payable	<u>254,075</u>	<u>-</u>	<u>43,252</u>	<u>210,823</u>	<u>62,758</u>
	9,016,712	865,000	737,481	9,144,231	5,077,758
Less deferred loss on bond refunding	<u>(28,914)</u>	<u>-</u>	<u>10,205</u>	<u>(18,709)</u>	<u>-</u>
Total governmental activities	<u>8,987,798</u>	<u>865,000</u>	<u>727,276</u>	<u>9,125,522</u>	<u>5,077,758</u>
<b>Business-type Activities</b>					
Bonds payable	3,110,000	-	295,000	2,815,000	310,000
Note payable	735,850	-	-	735,850	-
Compensated absences	<u>24,175</u>	<u>-</u>	<u>10,096</u>	<u>14,079</u>	<u>5,095</u>
	3,870,025	-	305,096	3,564,929	315,095
Less deferred loss on bond refunding	<u>(96,161)</u>	<u>-</u>	<u>10,985</u>	<u>(85,176)</u>	<u>-</u>
Total business type activities	<u>3,773,864</u>	<u>-</u>	<u>294,111</u>	<u>3,479,753</u>	<u>315,095</u>
Total government	<u>\$ 12,761,662</u>	<u>\$ 865,000</u>	<u>\$ 1,021,387</u>	<u>\$ 12,605,275</u>	<u>\$ 5,392,853</u>

(A) Bonds Payable

At September 30, 2009, the City's outstanding bonds payable are described as follows:

	Date of Issue	Final Maturity Date	Rates	Original Issue	Balance 9/30/2009
<b>Governmental Activities:</b>					
GO Bond, Series 2003	8/27/2003	8/1/2013	1.0% -3.9%	\$ 2,000,000	\$ 900,000
GO Refunding Bond, Series 2005	5/2/2005	8/1/2011	5.0%-7.0%	<u>3,275,000</u>	<u>1,025,000</u>
				5,275,000	1,925,000
Less deferred loss on bond refunding				<u>(63,781)</u>	<u>(18,709)</u>
Total governmental activities				<u>5,211,219</u>	<u>1,906,291</u>
<b>Business-type Activities:</b>					
GO Water, Sewer, and Gas System					
Refunding Bonds, Series 2005	4/26/2005	7/1/2017	3.0% - 4.3%	4,290,000	2,815,000
Less deferred loss on bond refunding				<u>(133,716)</u>	<u>(85,167)</u>
Total business-type activities				<u>4,156,284</u>	<u>2,729,833</u>
Total bonds payable at year end				<u>\$ 9,367,503</u>	<u>\$ 4,636,124</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 6: LONG-TERM DEBT (Continued)**

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	
2010	\$ 715,000	\$ 57,823	\$ 310,000	\$ 114,915	\$ 1,197,738
2011	740,000	36,191	325,000	102,515	1,203,706
2012	230,000	13,813	340,000	89,515	673,328
2013	240,000	7,200	355,000	75,915	678,115
2014	-	-	365,000	61,715	426,715
2015-2019	-	-	1,120,000	94,035	1,214,035
Total	<u>\$ 1,925,000</u>	<u>\$ 115,027</u>	<u>\$ 2,815,000</u>	<u>\$ 538,610</u>	<u>\$ 5,393,637</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.

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 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 and utility funds.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 6: LONG-TERM DEBT (Continued)**

(B) Notes Payable

At September 30, 2009 the City's outstanding notes payable are described as follows:

	Date Issued	Final Maturity Date	Rates	Original Issue	Balance September 30, 2009
<b>Governmental Activities:</b>					
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%	1,050,000	1,050,000
State of Mississippi	8/1/2007	8/1/2010	4.50%	<u>4,300,000</u>	<u>4,300,000</u>
				7,008,408	7,008,408
<b>Business-type Activities:</b>					
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>\$ 7,744,258</u>	<u>\$ 7,744,258</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.

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.

Principal and interest maturities will be as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities		Total Requirements
	Principal	Interest	Principal	Interest	
2010	\$ 4,300,000	\$ 170,570	\$ -	\$ -	\$ 4,470,570
2011	<u>2,708,408</u>	<u>176,967</u>	<u>735,850</u>	<u>67,595</u>	<u>3,688,820</u>
Total	<u>\$ 7,008,408</u>	<u>\$ 347,537</u>	<u>\$ 735,850</u>	<u>\$ 67,595</u>	<u>\$ 8,159,390</u>

(C) Legal Debt Margin

The City's legal debt limit for general obligation bonds is \$16,883,804, of which is approximately \$14,950,000 is available to the City for further borrowing.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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, 2009:

<b>Due From</b>	<b>Due To</b>		<b>Total</b>
	General Fund	Disaster Recovery Fund	
Disaster Recovery Fund	\$ 961,967	\$ -	\$ 961,967
CDBG Grant Fund	-	11,644	11,644
Utility Fund	<u>1,655,053</u>	-	<u>1,655,053</u>
Total	<u>\$ 2,617,020</u>	<u>\$ 11,644</u>	<u>\$ 2,628,664</u>

(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, 2009:

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 7: INTERFUND TRANSACTIONS (Continued)**

<u>Transfer out</u>	<u>Transfer in</u>		<u>Total</u>
	<u>Other Governmental Funds</u>	<u>Utility Fund</u>	
<b>Governmental Activities:</b>			
General Fund	\$ 1,383,682	\$ -	\$ 1,383,682
Disaster Recovery Fund	-	28,414,709	28,414,709
CDBG Grant Fund	<u>2,899,914</u>	<u>-</u>	<u>2,899,914</u>
Total	<u>\$ 4,283,596</u>	<u>\$ 28,414,709</u>	<u>\$ 32,698,305</u>

The transfers from the Disaster Recovery 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.

**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 \$6,182,456 at September 30, 2009. Prepaid expenditures of \$233,485 are considered Nonspendable Fund Balance.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

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

**Other Funds**

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

Katrina Relief Fund donations in the amount of \$68,921.

The following summarizes restricted net assets at September 30, 2009:

<b>General Fund</b>	
Restricted for capital projects - 2003 bond proceeds	\$ 535,876
Restricted for unemployment	<u>20,786</u>
Total General Fund	<u>556,662</u>
<b>Disaster Recovery Fund</b>	
Restricted for capital projects - FEMA grant	2,820,580
<b>Other Governmental Funds</b>	
Restricted for debt service reserves	<u>3,326,923</u>
Total restricted assets - governmental activities	<u>6,704,165</u>
Total restricted assets government-wide	<u>\$ 6,704,165</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, 2009, the City paid a total of \$173,266 for solid waste services, included in the business-type activities expenses in the statement of activities. The City is jointly and severally liable for all of the liabilities of the Authority.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 9: JOINT VENTURES (Continued)**

The Authority is also classified as a joint venture between the City of Bay St. Louis and other members. The following is synopsis of the Authority's financial statements as of and for the year ended June 30, 2009.

**STATEMENT OF NET ASSETS**

<b>ASSETS</b>	
Current assets	<u>\$ 1,027,890</u>
 <b>LIABILITIES</b>	
Current and other liabilities	<u>-</u>
 <b>NET ASSETS</b>	
Unrestricted	<u>\$ 1,027,890</u>

**CHANGES IN NET ASSETS**

Operating revenues	\$ 2,062,571
Operating expenses	(1,839,938)
Non-operating revenues (expenses)	<u>35,599</u>
Increase in net assets	<u>\$ 258,232</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 \$465,980, for the year ended September 30, 2009, 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, 2009**

**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, 2009:

**STATEMENT OF NET ASSETS**

<b>ASSETS</b>	
Current assets	\$ 889,771
Non-current assets	<u>48,422,946</u>
Total assets	<u>49,312,717</u>
 <b>LIABILITIES</b>	
Current and other liabilities	10,369,255
Long-term debt outstanding	<u>10,738,066</u>
Total liabilities	<u>21,107,321</u>
NET ASSETS	<u>\$ 28,205,396</u>

**CHANGES IN NET ASSETS**

Operating revenues	\$ 2,041,175
Operating expenses	(2,668,275)
Non-operating revenues	<u>24,759,937</u>
Increase in net assets	<u>\$ 24,132,837</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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 2009. 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, 2009, 2008 and 2007 were \$515,687, \$493,463, and \$386,653, 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, 2009**

**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, 2009, which will be paid from existing grants:

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 11: COMMITMENTS AND CONTIGENCIES (Continued)**

<b>Governmental Activities:</b>	<b>Project Budget</b>	<b>Money Spent to Date</b>	<b>Remaining Commitment</b>
Gustav PW Project	\$ 486,564	\$ 2,025	\$ 484,539
PW 0641 Fishing Pier	2,462,176	-	2,462,176
PW 5594 Storm Drainage Infrastructure	5,981,347	3,523,179	2,458,168
PW 5700 Roads & Sidewalks	2,535,120	1,447,983	1,087,137
PW 6026 Commagere Ball Park	266,348	40,470	225,878
PW 6049 Athletic Complex	259,409	49,712	209,697
PW 9516 Street Signs	154,750	71,325	83,425
CDBG Main St. Fire Station	2,736,500	1,795,875	940,625
CDBG Longfellow Drive	3,000,000	14,256	2,985,744
CDBG Athletic Complex	1,000,000	48,043	951,957
CDBG Depot Renovations	1,195,520	33,404	1,162,116
CDBG Planning Grant	268,000	213,000	55,000
CDBG Harbor Study	162,500	152,569	9,931
CDBG Washington Street	3,000,000	16,291	2,983,709
CDBG City Hall Annex	200,000	16,500	183,500
CDBG Water Towers	762,549	22,126	740,423
CDBG Old City Hall	1,395,520	38,351	1,357,169
CDBG Pier & Harbor	13,475,437	30,954	13,444,483
CDBG Waterfront Improvements	7,263,500	1,379,590	5,883,910
CDBG Ward 5&6 Drainage	264,000	82,056	181,944
CDBG Community Center & VCJ School	6,690,200	843,712	5,846,488
CDBG Boys and Girls Club	1,359,863	35,085	1,324,778
CDBG Fire Station Hwy 603	1,458,723	186,599	1,272,124
CDBG Depot District Improvements	1,201,488	81,943	1,119,545
CDBG Downtown Streetscape Project	2,740,165	279,064	2,461,101
CDBG Senior Citizens Center	1,466,608	30,186	1,436,422
CDBG New City Hall	<u>4,200,000</u>	<u>2,936,092</u>	<u>1,263,908</u>
 Total Governmental Activities	 <u>65,986,287</u>	 <u>13,370,390</u>	 <u>52,615,897</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 11: COMMITMENTS AND CONTIGENCIES (Continued)**

**Business-type Activities:**

PW 5959 Gas System	\$ 10,401,204	\$ 9,873,666	\$ 527,538
PW 5872 Potable Water System	23,743,828	12,120,487	11,623,341
PW 5936 Sewer System	25,842,566	19,831,307	6,011,259
PW 5710 Lift Stations 2,7,27,32,34 & 35	767,592	478,918	288,674
PW 5782 Lift Station #1	567,425	38,025	529,400
PW 7200 Wastewater	957,352	25,052	932,300
PW 0954 Beach Road Utilities	<u>6,689,898</u>	<u>1,463,563</u>	<u>5,226,335</u>
 Total Business-type Activities	 <u>68,969,865</u>	 <u>43,831,018</u>	 <u>25,138,847</u>
 Total Government-wide Activities:	 <u>\$ 134,956,152</u>	 <u>\$ 57,201,408</u>	 <u>\$ 77,754,744</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, 2009**

**NOTE 13: SUBSEQUENT EVENTS**

Subsequent to September 30, 2009, the City has entered into construction contracts and change orders totaling approximately \$14,200,000 and \$3,650,000 for governmental and business-type activities, respectively, which will be paid from proceeds of FEMA and CDBG grants.

In July 2010, the board approved a resolution authorizing and directing the issuance of General Obligation Katrina Loan Refunding Bonds, Series 2010, of the City of Bay St. Louis, in the principal amount of \$1,075,000 to raise money for the purpose of refinancing the outstanding amounts of the City's \$4,270,094 Promissory Note, Series 2009.

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 \$600,000 subsequent to September 30, 2009.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE I**

**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, 2009**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,610,637	\$ 1,712,899	\$ 1,581,998	(130,901)
Sales	1,600,000	1,716,225	1,689,520	(26,705)
Franchise	288,000	267,058	220,050	(47,008)
Licenses and permits	402,000	393,196	389,985	(3,211)
Intergovernmental	1,289,083	1,606,614	1,732,489	125,875
Charges for services	42,500	43,378	43,378	-
Fines and forfeits	202,500	157,051	151,420	(5,631)
Interest	105,000	44,986	37,077	(7,909)
Lease revenue	19,200	19,500	17,628	(1,872)
Gaming revenues	2,862,700	2,601,446	2,509,656	(91,790)
Miscellaneous	149,722	71,136	198,867	127,731
Total revenues	<u>8,571,342</u>	<u>8,633,489</u>	<u>8,572,068</u>	<u>(61,421)</u>
<b>EXPENDITURES</b>				
General government	2,855,629	2,632,757	2,761,978	(129,221)
Public Safety	4,088,857	3,921,130	3,758,231	162,899
Streets and public properties	4,242,835	2,925,501	3,454,582	(529,081)
Culture and Recreation	848,811	476,921	459,569	17,352
Total general government	<u>12,036,132</u>	<u>9,956,309</u>	<u>10,434,360</u>	<u>(478,051)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,464,790)</u>	<u>(1,322,820)</u>	<u>(1,862,292)</u>	<u>(539,472)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance Proceeds	-	155,101	-	(155,101)
Loan proceeds	900,000	865,000	865,000	-
Total other financing sources	<u>900,000</u>	<u>1,020,101</u>	<u>865,000</u>	<u>(155,101)</u>
Excess of revenues and other sources over expenditures	<u>(2,564,790)</u>	<u>(302,719)</u>	<u>(997,292)</u>	<u>\$ (694,573)</u>
Fund balance - beginning	<u>2,782,891</u>	<u>2,782,891</u>		
Fund balance - ending	<u>\$ 218,101</u>	<u>\$ 2,480,172</u>		
Fund balance - October 1 - GAAP basis, restated			8,893,450	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Changes in receivables			373,149	
Change in due from other governments			(267,154)	
Change in prepaid expenses			(83,719)	
Change in accrued expenses			(1,099,156)	
Change in deferred revenue			153,325	
Fund balance - September 30 - GAAP basis			<u>\$ 6,972,603</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, 2009**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>				
Intergovernmental	\$ 50,052,080	\$ 42,969,742	\$ 19,094,721	\$ (23,875,021)
Interest	-	-	111,045	111,045
Total revenues	50,052,080	42,969,742	19,205,766	(23,763,976)
<b>EXPENDITURES</b>				
General government	-	-	90,193	(90,193)
Streets and public properties	50,052,080	42,969,742	27,981,503	14,988,239
Culture and Recreation	-	-	115,919	(115,919)
Total general government	50,052,080	42,969,742	28,187,615	14,782,127
Excess of revenues and other sources over expenditures	-	-	(8,981,849)	\$ (8,981,849)
Fund balance - beginning	\$ -	\$ -		
Fund balance - October 1 - GAAP basis			3,240,452	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year			5,680,736	
Changes in deferred revenues			6,876,762	
Change in due from other governments			(3,995,521)	
Change in accrued expenses			(3,995,521)	
Fund balance - September 30 - GAAP basis			\$ 2,820,580	

**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, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Intergovernmental	\$ 30,390,296	\$ 2,234,598	\$ 5,134,513	\$ 2,899,915
Miscellaneous	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>30,890,296</u>	<u>2,234,598</u>	<u>5,134,513</u>	<u>2,899,915</u>
<b>EXPENDITURES</b>				
General government	4,120,600	-	3,109,269	(3,109,269)
Public Safety	3,352,590	-	1,969,119	(1,969,119)
Streets and public properties	2,940,165	-	524,471	(524,471)
Culture and Recreation	<u>20,476,941</u>	<u>2,234,598</u>	<u>1,648,926</u>	<u>585,672</u>
Total general government	<u>30,890,296</u>	<u>2,234,598</u>	<u>7,251,785</u>	<u>(5,017,187)</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>-</u>	\$ (2,117,272)	<u>\$ (2,117,272)</u>
Fund balance - beginning	<u>-</u>	<u>-</u>		
Fund balance - ending	<u>\$ -</u>	<u>\$ -</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			2,982,200	
Change in due from other governments			<u>(864,928)</u>	
Change in accrued expenses				
Fund balance - September 30 - GAAP basis			<u>\$ -</u>	

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE BUDGETARY COMPARISON SCHEDULE (NON-GAAP)**  
**GENERAL FUND AND DISASTER RECOVERY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**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 is adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is the department level. The City 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, Disaster Recovery Fund and CDBG Grant Fund exceeding the budget limitation.

**CITY OF BAY ST. LOUIS, MISSISSIPI  
SCHEDULE OF SURETY BONDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Name	Position	Surety	Bond
Les Fillingame	Mayor	Wellington Associates	\$ 100,000
Phillip D. Seal, Jr.	Councilperson	RLI Surety Company	\$ 100,000
Wendy McDonald	Councilperson	Wellington Associates	\$ 100,000
Jeffrey Reed	Councilperson	RLI Surety Company	\$ 100,000
Ray Kidd	Councilperson	RLI Surety Company	\$ 100,000
Joey Boudin	Councilperson	CNA/Western Surety	\$ 100,000
William J. Compretta	Councilperson	RLI Surety Company	\$ 100,000
William E. Taylor	Councilperson	RLI Surety Company	\$ 100,000
David Kolf	City Clerk	Liberty Mutual	\$ 100,000
Katherine Smith	Comptroller	Liberty Mutual	\$ 100,000
Madeline Prendergast	Court Clerk	RLI Surety Company	\$ 50,000
Melanie Raboteau	Deputy City Clerk	RLI Surety Company	\$ 50,000
Clemintine Sheppard	Deputy City Clerk	RLI Surety Company	\$ 50,000
Sandra Day	Deputy City Clerk	RLI Surety Company	\$ 50,000
Laura Griffith	Deputy City Clerk	RLI Surety Company	\$ 50,000
Charlene Black	Notary Bond	RLI Surety Company	\$ 5,000
Carolyn Adams	Deputy City Clerk	RLI Surety Company	\$ 50,000
Cindy Elliot	Deputy Court Clerk	RLI Surety Company	\$ 50,000
Patricia Tice	Deputy Court Clerk	RLI Surety Company	\$ 50,000
Mary Ann Bremer	Notary Bond	RLI Surety Company	\$ 5,000
Paula Fairconnetue	Notary bond	RLI Surety Company	\$ 5,000
Police Department	Departmental	RLI Surety Company	\$ 50,000
Fire Department	Departmental	RLI Surety Company	\$ 50,000

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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 Authority			
Community Development Block Grant -Entitlement Grant	14.218	R101-06-001-1	\$ 79,402
Community Development Block Grant -Entitlement Grant	14.218	R103-112-01-KCR	1,342,705
Community Development Block Grant -Entitlement Grant	14.218	R103-112-02-KCR	1,345,469
Community Development Block Grant -Entitlement Grant	14.218	R103-112-01-KP	32,850
Community Development Block Grant -Entitlement Grant	14.218	R109-112-03-KCR	812,212
Community Development Block Grant -Entitlement Grant	14.218	R109-112-06-KCR	325,310
Community Development Block Grant -Entitlement Grant	14.218	R109-112-05-KCR	115,218
Community Development Block Grant -Entitlement Grant	14.218	R109-112-04-KCR	453,359
Community Development Block Grant -Entitlement Grant	14.218	R118-112-01-HCCR	2,936,092
Community Development Block Grant -Entitlement Grant	14.218	R118-112-02-HCCR	30,186
Community Development Block Grant -Entitlement Grant	14.218	R118-112-03-HCCR	35,086
Community Development Block Grant -Entitlement Grant	14.218	R118-112-04-HCCR	71,331
Community Development Block Grant -Entitlement Grant	14.218	R118-112-05-HCCR	39,006
Community Development Block Grant -Entitlement Grant	14.218	R118-112-06-HCCR	38,352
Community Development Block Grant -Entitlement Grant	14.218	R118-112-07-HCCR	68,082
Community Development Block Grant -Entitlement Grant	14.218	R118-112-08-HCCR	82,057
Community Development Block Grant -Entitlement Grant	14.218	R118-112-09-HCCR	33,405
Community Development Block Grant -Entitlement Grant	14.218	R118-112-10-HCCR	16,500
Community Development Block Grant -Entitlement Grant	14.218	R118-112-11-HCCR	30,954
Community Development Block Grant -Entitlement Grant	14.218	R118-112-12-HCCR	16,292
Community Development Block Grant -Entitlement Grant	14.218	R103-112-03-KP	<u>152,569</u>
			8,056,437
Home Investment Partnership Program	14.239	M03-SG-280-150	75,000
Total U. S. Department of Housing and Urban Development			<u>8,131,437</u>

(Continued)

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

U. S. Department of Homeland Security

Passed through State of Mississippi

Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1794-DR-MS	145,700
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1604-DR-MS	30,826,331
Hazard Mitigation Grant	97.039	1604-212	915,911
Total U. S. Department of Homeland Security			<u>31,887,942</u>

U.S. Department of Justice

Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580	18PGCP540Z	135,377
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2006-DH-BX-0438	65,030
Total U. S. Department of Justice			<u>200,407</u>

U.S. Department of Transportation

Passed through State of Mississippi

Department of Public Safety the Division of Public Safety State & Community Highway Safety - NHTSA	20.600	09-PT-202-1	48,678
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Total Federal Financial Assistance			<u>\$ 40,268,464</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

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

*Certified Public Accountants*

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2510 - 14TH STREET

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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*

February 9, 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, 2009, which collectively comprise the City of Bay St. Louis, Mississippi's basic financial statements and have issued our report thereon dated February 9, 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. 2009-1, 2009-2, 2009-3, 2009-4, and 2009-5.

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 2009-1, 2009-2, 2009-3 and 2009-4.

We noted certain matters that we reported to management of City of Bay St. Louis, Mississippi, in a separate letter dated February 9, 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.



Wright, Ward, Hatten & Guel, PLLC  
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

February 9, 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, 2009. 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, 2009.

## Internal Control Over Compliance

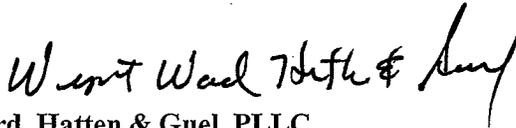
Management of the City of Bay St. Louis, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of 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

February 9, 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, 2009, and have issued our report dated February 9, 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.

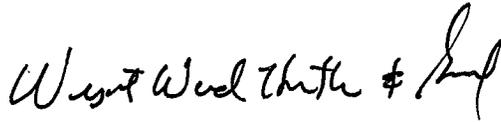
The Honorable Mayor and Members of City Council  
City of Bay St. Louis, Mississippi

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, Disaster Recovery Fund and the CDBG Grant Fund exceeded the final amended budget. We understand that most all of the FEMA and CDBG expenditures are actually paid out after the monies are received from the granting agencies, however, the budgets were not properly amended to reflect these payments.

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 set forth in the budgetary process described by the Mississippi State Auditor and state law.



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, 2009**

**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? No

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

Dollar threshold used to distinguish between Type A and Type B programs: \$1,208,054

Auditee qualified as low risk auditee? No

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

### **2009-1 Criteria: Improper Payroll reporting/Recordkeeping/Review      *Prior year finding***

*Condition:* During our testing of payroll we noted that the time on the time cards or work orders was not added correctly or incomplete resulting in unapproved time or overtime for certain employees.

*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.

*Effect:* This causes the City to incur unnecessary costs due to the payment of penalties, late fees or other costs that are unapproved or non budgeted overtime and creates the opportunity for misappropriation of funds by inadequate review of payroll and related payroll records before payroll is processed.

*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.

### **2009-2 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.

**2009-3 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. 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 to which item pertains to and original invoices are not properly cancelled and/or missing approval of payment with other pertinent information.

*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, City personnel attach the check stub to the invoices once they are paid but the original invoices itself is not properly cancelled reflecting payment, approval, and cancellation.

*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 an original invoice is not properly cancelled and filed

*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. We also recommend that the accounts payable clerk use a paid stamp to mark all invoices as paid to avoid duplicate payment.

**2009-4** *Criteria:* Improper safeguarding of inventory and scrap assets     *Prior year finding*

Proper procedures over inventory supplies and scrap material require safeguarding these items from misappropriation and theft and to keep these items in a locked and secured area with limited access.

*Condition:* During our audit testing it came to our attention that inventory supplies and scrap material from various City projects had been misappropriated.

*Cause:* There are not adequate controls and policies over the inventory of supplies or scrap material therefore creating the opportunity for misappropriation.

*Effect:* This creates an unnecessary cost to the City for replacement of these supplies. The treatment of scrap materials as being waste material by City employees overlooks the potential cash value which is lost revenue to the City.

*Recommendation:* We recommend that policies and procedures be communicated and enforced to all employees regarding their responsibilities and treatment of City inventory of supplies, scrap material, and all other property. Inventory and scrap materials should also be kept in a secure and locked location with limited access.

**2009-5** *Criteria:* Utility collection procedures

Proper procedures over utility 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.

*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.

*Cause:* Cutoff procedures are not being followed on utility customers who are not paying their utility bill in full each month.

*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. Improvement in proper collection and cutoff procedures is needed.

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None



Corrective Action Plan  
For the Year Ended September 30, 2009

**Section 2: Financial Statement Findings**

**Finding 2009-1:** *Prior year finding*

*Condition:* During our testing of payroll we noted that the time on the time cards or work orders was not added correctly or incomplete resulting in unapproved time or overtime for certain employees.

*Corrective Action:* As of January 1, 2011, the cutoff for payroll has been moved back two days to allow for review and corrections of all timecards. Several new time keeping systems have been considered and ultimately a new time keeping system must be adopted.

**Finding 2009-2:** *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:* As of February 2011, The City Council is reviewing a new employee handbook which will incorporate better written policies and procedures as well as an appendix with job titles and job descriptions. The Finance Department is reviewing the Mississippi Municipal Accounting Manual with all employees and reviewing compliance with various laws and regulations. In addition, a draft code of conduct has been written, but has not been presented for review as of February 2011.

**Finding 2009-3:** *Prior year finding*

*Condition:* Purchase orders are dated after the invoice to which item pertains to and original invoices are not properly cancelled and/or missing approval of payment with other pertinent information.

*Corrective Action:* All invoices are stamped. As of February 2011, Finance is still working with some departments to resolve compliance with Purchase Orders.

**Finding 2009-4:** *Prior year finding*

*Condition:* During our audit testing it came to our attention that inventory supplies and scrap material from various City projects had been misappropriated.

*Corrective Action:* A City Yard Manager has been appointed to control inventory and scrap materials. As of February 2011, the city has surpluses over \$70 thousand dollars of scrap and surplus equipment in an effort to maintain manageable inventory levels. A secured inventory area has been constructed in the Public Works building.

**Finding 2009-5:**

*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.

*Corrective Action:* City Ordinance (Sec. 94-46) does not require payment of the entire monthly bill. Ordinance (Sec. 94-46) is subjective regarding delinquent status of accounts and does not provide standard cutoff procedures. It is recommended that Ordinance Sec. 94-46 sub-section b be re-written to ensure objective standard cutoff procedures for delinquent accounts are followed.