CITY OF BAY ST. LOUIS, MISSISSIPPI
ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2012

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CITY OF BAY ST. LOUIS, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2012

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

City Clerk	David Kolf
Police Chief	Mike DeNardo
Fire Chief	Pam San Fillipo
City Attorney	Don Rafferty

INDEPENDENT AUDITOR'S 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 AUDITOR'S REPORT

July 22, 2013

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, 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, 2012, 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, each major fund, and the aggregate remaining fund information of the City of Bay St. Louis, Mississippi, as of September 30, 2012, 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 July 22, 2013, 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 44 through 47 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 combining non-major fund financial statements on pages 48-49 are presented for purposes of additional analysis and are not a required part of the financial statements. 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. These statements 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 Surety Bond Schedule on page 50 is other supplemental information that is required by the Mississippi State Auditor's Office and is presented as other supplemental information that is not subject to auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Wright Ward Hatten & Guel

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, 2012

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 for the fiscal year ended September 30, 2012. 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, 2012 by $118,057,159. Of this amount unrestricted net assets is $2,863,670.

- The total net assets decreased by $2,225,074 which includes a prior period adjustment of $261,509. Of this amount $313,303, was associated with governmental and $1,911,771 with business-type activities, respectively. This decrease is due mainly to the closeout of ongoing Katrina capital recovery projects funded by FEMA and depreciation expense in the Utility fund.

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $2,618,301, a decrease of $1,547,191 which includes a prior period adjustment of $31,362.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $791,019 or 10.1% 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.

Overview of the Financial Statements (Continued)

Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The major business-type activities of the City of Bay Saint Louis include providing water, sewer, natural gas and garbage collection services to the residents of the City of Bay Saint Louis.

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

Fund Financial Statements

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

- Governmental funds

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

  In fiscal year 2012, the City maintains five 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.

Overview of the Financial Statements (Continued)

- Proprietary Funds

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. Refer to Note 1 in the financial statements for more detailed information on the elements of the financial statements.

Other Information

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

General Fund Budgetary Highlights

During the fiscal year ended September 30, 2012, the City Council adopted amendments to the budget. As the impact of the sluggish economy continued, budgeted general fund revenues were decreased by $2,097,012. The property tax budget was reduced $281,782. Sales tax budgeted revenue was decreased by $68,259 due to smaller than anticipated sales tax receipts. The budget for intergovernmental revenues was decreased $1,559,411 due to accounting for these receipts in another fund. The budget for licenses and permits was decreased by approximately $17,550 due to a decrease in building permit revenues as new construction fell. Gaming budgeted revenues were decreased $162,577 due to the decrease in projected gaming revenue. Miscellaneous revenue increased due to the increase in other revenue sources. To partially offset the decreased revenues, total budgeted expenditures were decreased by $1,723,274 mainly by reducing expenditures in general government, public safety and streets and public properties. Additionally, the budget for transfers out was decreased by $974,079 from the water and sewer fund.

Government-wide Financial Analysis

Table 1 below presents the City's condensed statement of net assets as of September 30, 2012 derived from the government-wide Statement of Net Assets.

	Governmental Activities		Business-type Activities		Total
	2012	2011	2012	2011	2012
Current and other assets	$ 5,049,803	$ 7,622,838	$ 878,024	$ 1,343,810	$ 5,927,827
Noncurrent assets	55,473,955	55,012,006	62,788,649	63,924,244	118,262,604
Total assets	60,523,758	62,634,844	63,666,673	65,268,054	124,190,431
Other liabilities	2,752,931	3,839,255	872,120	911,579	3,625,051
Long-term liabilities	1,065,442	1,341,243	1,442,779	1,790,097	2,508,221
Total liabilities	3,818,373	5,180,498	2,314,899	2,701,676	6,133,272
Net assets:					
Invested in capital assets, net of related debt	54,057,713	53,362,081	60,956,341	61,617,655	115,014,054
Restricted	179,435	248,753	-	-	179,435
Unrestricted	2,468,237	3,843,512	395,433	948,723	2,863,670
Total net assets	$ 56,705,385	$ 57,454,346	$ 61,351,774	$ 62,566,378	$ 118,057,159

At September 30, 2012, the City's assets exceeded liabilities by $118,057,159. By far the largest portion of the City's net assets (97%) reflects its investment in capital assets, less any related debt used to acquire or construct those assets. The unrestricted net assets of $2,863,670 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 37 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, 2012, as derived from the government-wide Statement of Activities.

Government-wide Financial Analysis (Continued)

	Governmental Activities		Business-Type Activities		Total
	2012	2011	2012	2011	2012
Revenues					
Program revenues					
Charges for services	$ 275,206	$ 354,904	$ 2,593,071	$ 2,739,945	$ 2,868,277
Operating grants	495,040	722,668	-	-	495,040
Capital grants	2,741,613	16,118,122	-	-	2,741,613
Total program revenues	3,511,859	17,195,694	2,593,071	2,739,945	6,104,930
General revenues					
Property taxes	1,951,555	1,922,632	-	-	1,951,555
Sales taxes	1,134,718	1,109,791	-	-	1,134,718
Franchise taxes	361,287	363,949	-	-	361,287
Gaming revenue	2,278,922	2,379,557	-	-	2,278,922
Interest earnings	4,591	9,470	652	419	5,243
Donations	350,150	-	-	-	350,150
Lease revenue	77,119	55,031	-	-	77,119
Other	368,432	530,144	-	-	368,432
Total general revenues	6,526,774	6,370,574	652	419	6,527,426
Total revenues	10,038,633	23,566,268	2,593,723	2,740,364	12,632,356
Program expenses					-
General government	2,656,852	2,057,782	-	-	2,656,852
Public safety	3,362,535	3,176,472	-	-	3,362,535
Public works	693,060	2,869,035	-	-	693,060
Culture and recreation	2,360,011	777,626	-	-	2,360,011
Interest	53,516	84,716	-	-	53,516
Water, sewer and gas	-	-	5,730,369	6,000,046	5,730,369
Harbor	-	-	1,087	-	1,087
Total program expenses	9,125,974	8,965,631	5,731,456	6,000,046	14,857,430
Change before transfers	912,659	14,600,637	(3,137,733)	(3,259,682)	(2,225,074)
Transfers	(1,225,962)	(5,300,893)	1,225,962	5,300,893	-
Special item - SCDL loan forgiveness	-	3,316,816	-	735,850	-
Change in net assets	(313,303)	12,616,560	(1,911,771)	2,777,061	(2,225,074)
Beginning net assets, restated	57,018,688	44,837,786	63,263,545	59,789,317	120,282,233
Ending net assets	$ 56,705,385	$ 57,454,346	$ 61,351,774	$ 62,566,378	$ 118,057,159

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 $2,618,301 a decrease of ($1,547,191) in comparison with the prior year which includes a prior period adjustment of ($31,362). 30% percent or $791,019 of this combined fund balance is unassigned, while the remainder is restricted for capital projects, debt service, and police vehicles. Approximately 11% or $276,621 of this combined fund balance is committed for recreational activities and municipal reserves.

- 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 unassigned fund balance to total fund balance expenditures. At the end of 2012, the general fund unassigned fund balance represents 10% 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 Funds

The Utility fund had a decrease in total net assets of $2,641,093 at the end of the fiscal year in comparison with the prior year which includes a prior period adjustment in the amount of $157,636. This decrease is mostly due to depreciation of the utility system.

The Harbor fund had an increase in total net assets of $1,426,489 at the end of the fiscal year in comparison with the prior year which includes a prior period adjustment in the amount of $539,531. This increase is in capital assets, net of related debt from the construction in process of the Harbor.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2012, the City reported $55,467,443 in net capital assets for governmental activities and $62,744,138 in capital assets for business-type activities. This represents a combined decrease of $717,863 in capital assets during the 2012 fiscal year. Additional information on the City of Bay St. Louis' capital assets can be found in Note 5: Capital Assets on pages 31-32.

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

	Governmental Activities		Business-type Activities		Total
	2012	2011	2012	2011	2012
Land	$ 1,116,633	$ 1,116,633	$ -	$ -	$ 1,116,633
Buildings & Improvements	23,937,510	23,321,855	43,980	44,980	23,981,490
Machinery & Equipment	735,540	850,311	258,970	63,667	994,510
Infrastructure & Systems	22,544,549	15,980,986	60,762,300	63,736,839	83,306,849
Vehicles	483,093	688,433	10,393	10,393	493,486
Construction in progress	6,650,118	12,517,221	1,668,495	598,126	8,318,613
Total	$ 55,467,443	$ 54,475,439	$ 62,744,138	$ 64,454,005	$ 118,211,581

Long-Term Debt Activity

At the end of the current fiscal year, the City had $3,521,582 in outstanding debt. Additional information on the City of Bay St. Louis' long-term debt can be found in Note 6: Long-Term Debt on pages 33-35 of this report.

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

	Governmental Activities		Business-type Activities		Total
	2012	2011	2012	2011	2012
Bonds Payable	$ 1,100,000	$ 1,437,500	$ -	$ -	$ 1,100,000
Revenue Bonds	-	-	1,787,797	2,116,805	1,787,797
Capital Leases Payable	309,730	195,109	-	-	309,730
Compensated Absences	280,260	310,663	43,795	47,528	324,055
Total	$ 1,689,990	$ 1,943,272	$ 1,831,592	$ 2,164,333	$ 3,521,582

Economic Outlook

With no significant planned changes in tax rates or in other forms of revenue subject to adjustment by the City, revenues are expected to remain flat. During fiscal 2013 and into the foreseeable future, gaming revenues, which the city has relied on as a significant source of operating revenue, is projected to remain flat. Sales tax revenue has increased with the addition of a grocery store and redevelopment of the downtown beachfront area, but this increase is not yet offsetting the decrease of gaming revenues. During fiscal 2013, the City of Bay Saint Louis is operating on less gaming and sales tax than was collected 10 years ago.

Utility revenues for water and sewer have not changed in more than 15 years. It is becoming difficult for the City to operate a utility enterprise on rates dating back to the 1990's. Waste water treatment costs have increased significantly in the past two years.

Going into the 2014 fiscal year, City management is going to face the difficult issues of identifying sources of cost savings, increasing revenues, or lowering the level of services provided to the community.

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, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 652,736	$ 665,366	$ 1,318,102
Receivables, net	578,367	337,203	915,570
Due from other governments	2,737,723	-	2,737,723
Internal balances	533,949	(533,949)	-
Inventory	-	89,120	89,120
Prepaid insurance	192,664	42,000	234,664
Restricted assets:			
Cash and cash equivalents	354,364	278,284	632,648
Total current assets	5,049,803	878,024	5,927,827
Noncurrent Assets			
Capital assets:			
Land and construction in progress	7,766,751	1,668,495	9,435,246
Other capital assets, net of accumulated depreciation	47,700,692	61,075,643	108,776,335
Bond issuance costs, net	6,512	44,511	51,023
Total noncurrent assets	55,473,955	62,788,649	118,262,604
Total assets	60,523,758	63,666,673	124,190,431
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	1,975,513	186,043	2,161,556
Rental Deposits	17,000	-	17,000
Accrued interest	2,970	18,979	21,949
Deferred revenues	132,900	-	132,900
Bonds payable	347,500	355,000	702,500
Capital leases payable	80,144	-	80,144
Compensated absences, current	196,904	33,813	230,717
Payable from restricted assets:			
Customer deposits	-	278,285	278,285
Total current liabilities	2,752,931	872,120	3,625,051
Noncurrent Liabilities			
Bonds payable, net of deferred loss on bond refunding	752,500	1,432,797	2,185,297
Capital leases payable	229,586	-	229,586
Compensated absences	83,356	9,982	93,338
Total long-term liabilities	1,065,442	1,442,779	2,508,221
Total liabilities	3,818,373	2,314,899	6,133,272
NET ASSETS			
Invested in capital assets, net of related debt	54,057,713	60,956,341	115,014,054
Restricted for:			
Debt Service	179,435	-	179,435
Unrestricted net assets	2,468,237	395,433	2,863,670
Total net assets	$ 56,705,385	$ 61,351,774	$ 118,057,159

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, 2012

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	$ 2,656,852	$ 175,450	$ 240,066	$ 38,691	$ (2,202,645)	$ -	$ (2,202,645)
Public safety	3,362,535	99,756	233,478	107,055	(2,922,246)	-	(2,922,246)
Streets and public properties	693,060	-	21,496	28,211	(643,353)	-	(643,353)
Culture and recreation	2,360,011	-	-	2,567,656	207,645	-	207,645
Interest	53,516	-	-	-	(53,516)	-	(53,516)
Total governmental activities	9,125,974	275,206	495,040	2,741,613	(5,614,115)	-	(5,614,115)
Business-type activities:							
Water, sewer and gas	5,730,369	2,593,071	-	-		(3,137,298)	(3,137,298)
Harbor	1,087	-	-	-		(1,087)	(1,087)
Total business - type activities	5,731,456	2,593,071	-	-		(3,138,385)	(3,138,385)
Total	$ 14,857,430	$ 2,868,277	$ 495,040	$ 2,741,613	(5,614,115)	(3,138,385)	(8,752,500)
General revenues:							
Property taxes					1,951,555	-	1,951,555
Sales taxes					1,134,718	-	1,134,718
Franchise taxes					361,287	-	361,287
Gaming revenue					2,278,922	-	2,278,922
Interest earnings					4,591	652	5,243
Donations					350,150	-	350,150
Lease revenues					77,119	-	77,119
Other revenue					368,432	-	368,432
Transfers					(1,225,962)	1,225,962	-
Total general revenues and transfers					5,300,812	1,226,614	6,527,426
Change in net assets					(313,303)	(1,911,771)	(2,225,074)
Net assets - beginning of year, restated					57,018,688	63,263,545	120,282,233
Net assets - end of year					$ 56,705,385	$ 61,351,774	$ 118,057,159

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

FUND LEVEL FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

EXHIBIT C

CITY OF BAY ST. LOUIS, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Other Governmental Funds	Total
Assets					
Cash and cash equivalents	$ 360,982	$ 6,418	$ 32,937	$ 252,399	$ 652,736
Receivables:					
Sales taxes	176,026	-	-	-	176,026
Franchise taxes	95,685	-	-	-	95,685
Gaming receivable	158,986	-	-	-	158,986
Property tax	21,697	-	-	-	21,697
Court revenue	109,185	-	-	-	109,185
Other	16,788	-	-	-	16,788
Due from other governments	325,853	2,330,709	81,161	-	2,737,723
Due from other funds	476,492	15,502	-	57,457	549,451
Prepaid expenditures	192,664	-	-	-	192,664
Restricted assets:					
Cash and cash equivalents	347,334	-	-	7,030	354,364
Total assets	$ 2,281,692	$ 2,352,629	$ 114,098	$ 316,886	$ 5,065,305
Liabilities and Fund Balance					
Liabilities					
Accounts payable	$ 454,962	$ 1,479,190	$ 41,361	$ -	$ 1,975,513
Rental Deposits	17,000	-	-	-	17,000
Compensated absences	196,904	-	-	-	196,904
Due to other funds	15,502	-	-	-	15,502
Deferred revenues	242,085	-	-	-	242,085
Total liabilities	926,453	1,479,190	41,361	-	2,447,004
Fund Balances					
Nonspendable:					
Prepaid Insurance	192,664	-	-	-	192,664
Restricted:					
Debt Service	172,405	-	-	64,487	236,892
Public Safety Vehicles	174,929	-	-	-	174,929
Capital Outlay	-	873,439	72,737	-	946,176
Committed:					
Recreational	24,222	-	-	-	24,222
Municipal Reserves	-	-	-	252,399	252,399
Unassigned	791,019	-	-	-	791,019
Total fund balance	1,355,239	873,439	72,737	316,886	2,618,301
Total liabilities and fund balance	$ 2,281,692	$ 2,352,629	$ 114,098	$ 316,886	$ 5,065,305

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, 2012

Total governmental funds balance (Exhibit C)		$ 2,618,301
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	65,527,730	
Less: accumulated depreciation	10,060,287	55,467,443
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds as liabilities.		(1,409,730)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds as liabilities.		(83,356)
Accrued interest not due and payable in the current period and therefore not reported in the funds as a liability.		(2,970)
Court receivables are other long-term assets tht are not available in the current period to pay for expenditures and, therefore, are deferred in the funds.		109,185
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.		6,512
Net assets of governmental activities (Exhibit A)		$ 56,705,385

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

EXHIBIT D

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Other Governmental Funds	Total
Revenues					
Taxes:					
Property	$ 1,951,555	$ -	$ -	$ -	$ 1,951,555
Sales	1,134,718	-	-	-	1,134,718
Franchise	361,287	-	-	-	361,287
Licenses and permits	175,450	-	-	-	175,450
Intergovernmental	808,695	190,591	2,237,366	-	3,236,652
Fines and forfeits	109,820	-	-	-	109,820
Interest	2,073	-	-	2,515	4,588
Lease revenue	77,119	-	-	-	77,119
Gaming revenue	2,278,922	-	-	-	2,278,922
Donations	350,150	-	-	-	350,150
Miscellaneous	368,432	-	-	-	368,432
Total revenues	7,618,221	190,591	2,237,366	2,515	10,048,693
Expenditures					
Current:					
General government	2,250,735	-	38,691	-	2,289,426
Public safety	3,069,377	66,094	10,000	-	3,145,471
Streets and public properties	2,002,064	295,401	51,903	-	2,349,368
Culture and recreation	417,768	130,773	1,735,869	-	2,284,410
Debt service:					
Principal	60,308	-	-	337,500	397,808
Interest	8,972	-	-	38,034	47,006
Total expenditures	7,809,224	492,268	1,836,463	375,534	10,513,489
Excess (deficiency) of revenues over expenditures	(191,003)	(301,677)	400,903	(373,019)	(464,796)
Other financing sources:					
Lease proceeds	174,929	-	-	-	174,929
Transfers in	1,119,364	266,094	-	295,436	1,680,894
Transfers out	(768,846)	(1,620,316)	(517,694)	-	(2,906,856)
Total other financing sources	525,447	(1,354,222)	(517,694)	295,436	(1,051,033)
Net change in fund balance	334,444	(1,655,899)	(116,791)	(77,583)	(1,515,829)
Fund balance - October 1	1,052,157	2,529,338	189,528	394,469	4,165,492
Prior period adjustment	(31,362)	-	-	-	(31,362)
Fund balance - October 1, restated	1,020,795	2,529,338	189,528	394,469	4,134,130
Fund balance - September 30	$ 1,355,239	$ 873,439	$ 72,737	$ 316,886	$ 2,618,301

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, 2012

Net change in fund balances - total governmental funds (Exhibit D)		$ (1,515,829)
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 deprecition expense.		
Capital outlay	2,881,106	
Depreciation	(1,879,215)	1,001,891
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.		(9,887)
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.		222,879
Fine revenue is recognized on the modified accrual basis in the funds since it is not available for current financial resources.		(10,064)
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.		
Compensated absences	2,893	
Accrued interest	1,324	
Bond amortization	(6,510)	(2,293)
Change in net assets of governmental activities (Exhibit B)		$ (313,303)

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 FUNDS
SEPTEMBER 30, 2012

	Utility Fund	Harbor Fund	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 415,232	$ 250,134	$ 665,366
Accounts receivable, net	337,203	-	337,203
Inventory	89,120	-	89,120
Prepaid Expenses	42,000	-	42,000
Total unrestricted current assets	883,555	250,134	1,133,689
Current Restricted Assets			
Cash	278,284	-	278,284
Total restricted assets	278,284	-	278,284
Noncurrent Assets			
Buildings	118,603	-	118,603
Machinery and equipment	622,276	-	622,276
Vehicles	103,951	-	103,951
Water and Sewer system	74,848,694	-	74,848,694
Construction in process	492,140	1,176,355	1,668,495
	76,185,664	1,176,355	77,362,019
Less: accumulated depreciation	14,617,881	-	14,617,881
Net property, plant and equipment	61,567,783	1,176,355	62,744,138
Noncurrent Other Assets			
Bond Issuance costs, net	44,511	-	44,511
Total noncurrent other assets	44,511	-	44,511
Total assets	62,774,133	1,426,489	64,200,622
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	186,043	-	186,043
Accrued interest	18,979	-	18,979
Compensated absences	33,813	-	33,813
Due to other funds	533,949	-	533,949
Bonds payable	355,000	-	355,000
Customer deposits	278,285	-	278,285
Total current liabilities	1,406,069	-	1,406,069
Noncurrent Liabilities			
Bonds payable	1,432,797	-	1,432,797
Compensated absences	9,982	-	9,982
Total noncurrent liabilities	1,442,779	-	1,442,779
Total liabilities	2,848,848	-	2,848,848
NET ASSETS			
Invested in capital assets, net of related debt	59,779,986	1,176,355	60,956,341
Unrestricted	145,299	250,134	395,433
Total net assets	$ 59,925,285	$ 1,426,489	$ 61,351,774

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 FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Utility Fund	Harbor Fund	Total
Operating Revenues			
Charges for services	$ 2,593,071	$ -	$ 2,593,071
Total operating revenues	2,593,071	-	2,593,071
Operating Expenses			
Salaries and related expenses	810,891	-	810,891
Natural gas purchase	220,659	-	220,659
Garbage	318,963	-	318,963
Wastewater treatment	638,362	-	638,362
Supplies	162,591	-	162,591
Repairs and maintenance	6,963	-	6,963
Other services and charges	468,846	1,087	469,933
Depreciation expense	2,994,273	-	2,994,273
Amortization expense	20,206	-	20,206
Total operating expenses	5,641,754	1,087	5,642,841
Operating Income	(3,048,683)	(1,087)	(3,049,770)
Non-Operating Revenues (Expenses)			
Interest earnings	513	139	652
Interest expense	(86,115)	-	(86,115)
Loss on asset disposal	(2,500)	-	(2,500)
Total non-operating revenue (expenses)	(88,102)	139	(87,963)
Transfers			
Transfers in	544,618	887,906	1,432,524
Transfers out	(206,562)	-	(206,562)
Net Transfers	338,056	887,906	1,225,962
Change in Net Assets	(2,798,729)	886,958	(1,911,771)
Net assets beginning of year	62,566,378	-	62,566,378
Prior period adjustment	157,636	539,531	697,167
Net assets beginning of year, restated	62,724,014	539,531	63,263,545
Net assets end of year	$ 59,925,285	$ 1,426,489	$ 61,351,774

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Utility Fund	Harbor Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	$ 2,447,778	$ -	$ 2,447,778
Payments to employees	(814,625)	-	(814,625)
Payments to suppliers	(271,011)	-	(271,011)
Payments for contractual services	(647,805)	-	(647,805)
Payments for other goods and services	(475,808)	(1,087)	(476,895)
Net cash provided by operating activities	238,529	(1,087)	237,442
Cash Flows From Financing Activities			
Principal payments on debt	(340,000)	-	(340,000)
Interest expense	(89,515)	-	(89,515)
Transfer out	(206,562)	-	(206,562)
Transfers in	544,618	887,906	1,432,524
Net cash provided by financing activities	(91,459)	887,906	796,447
Cash Flows From Investing Activities			
Interest received	513	139	652
Acqusition of capital assets	(650,082)	(636,824)	(1,286,906)
Net cash (used) by investing activities	(649,569)	(636,685)	(1,286,254)
Net increase in cash and cash equivalents	(502,499)	250,134	(252,365)
Cash and cash equivalents:			
Beginning of year	1,196,015	-	1,196,015
End of year	$ 693,516	$ 250,134	$ 943,650
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income (loss)	$ (3,048,683)	$ (1,087)	$ (3,049,770)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	2,994,273	-	2,994,273
Amoritization expense	20,206	-	20,206
(Increase) decrease in current assets:			
Accounts receivable	(154,914)	-	(154,914)
Inventory	58,815	-	58,815
Prepaid expenses	(41,998)	-	(41,998)
Increase (decrease) in current liabilities:			
Accounts payable	53,424	-	53,424
Due from other funds	351,520	-	351,520
Compensated absences	(3,734)	-	(3,734)
Customer deposits	9,620	-	9,620
Net cash (used) by operating activities	$ 238,529	$ (1,087)	$ 237,442

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

	Utility Fund		
	Current Assets	Current Restricted Assets	Total
Cash and cash equivalents - October 1	$ 927,351	$ 268,664	$ 1,196,015
Net increase/(decrease)	(261,985)	9,620	(252,365)
Cash and cash equivalents - September 30	$ 665,366	$ 278,284	$ 943,650

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

NOTES TO FINANCIAL STATEMENTS

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 and Gas Services, Social and Recreational Services, 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, 2012.

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

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 funds:

General Fund

The 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 in the Statement of Net Assets. The City has presented the following major proprietary funds:

Utility Fund

The Utility fund is used to account for the provision of water, sewer and gas services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water, sewer and gas system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Harbor Fund

The Harbor fund accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing boat slips to the residents of the City of Bay St. Louis will be financed or recovered primarily through user charges in the form of rental receipts.

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 and 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.

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 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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An allowance has been provided for in the Utility 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, 2012, 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.

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:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in 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.

The compensated absences liability is computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2012. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Intergovernmental Revenues in Governmental Funds

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

Q. 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, 2012, is as follows:

	Cash on Hand	Checking and Savings Accounts	Total
Governmental Activities			
General Fund	$ 3,796	$ 704,520	$ 708,316
Disaster Recovery Fund	-	6,418	6,418
CDBG Fund	-	32,937	32,937
Other Governmental Funds	-	259,429	259,429
Business - type Activities			-
Utility Fund	100	693,416	693,516
Harbor Fund	-	250,134	250,134
	$ 3,896	$ 1,946,854	$ 1,950,750

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

NOTE 2: CASH AND INVESTMENTS (Continued)

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, 2012 are covered by FDIC insurance or by collateral. The City's deposits are not subject to custodial credit risk.

At September 30, 2012, deposits (including restricted deposits) are as follows:

	Bank Balance	Carrying Amount
Cash	$ 2,560,779	$ 1,946,854

The City maintained the following restricted cash as of September 30, 2012:

Governmental Activities	
Cash	
Restricted for capital projects	$ 172,405
Lease proceeds	174,929
Restricted for debt service reserves	7,030
Total restricted cash - governmental activities	354,364
Business - type Activities	
Cash	
Restricted for customer utility deposits	278,284
Total restricted cash government-wide	$ 632,648

NOTE 3: REVENUE AND RECEIVABLES

Receivables at September 30, 2012 consist of the following:

	Governmental Activities	Business-type Activities	Total
Sales tax	$ 176,026	$ -	$ 176,026
Franchise taxes	95,685	-	95,685
Gaming	158,986	-	158,986
Property tax	21,697	-	21,697
Court revenue	436,740	-	436,740
Utility accounts	-	1,623,335	1,623,335
Other	16,788	9,473	26,261
Total receivables	905,922	1,632,808	2,538,730
Less: allowance for doubtful receivables	(327,555)	(1,295,605)	(1,623,160)
Total receivables, net	$ 578,367	$ 337,203	$ 915,570

(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 the City Council after a series of public hearings to receive citizens' objections. The City bills the real and personal property taxes, and the County collects them. The County bills and collects the ad valorem and mobile home taxes for the City. These taxes are remitted by the County monthly to the City. In addition, the County also remits to the City a prorate share of road and bridge taxes that they collect.

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2012, was 17.75 mills or $17.75 per $1,000 of assessed valuation.

NOTE 3: REVENUE AND RECEIVABLES (Continued)

A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2012 are as follows:

Real property	$	100,494,542
Personal property		6,143,659
Public utilities		2,365,028
Automobiles		11,377,661
Mobile homes		86,540
Total	$	120,467,430

The tax levies for the City were 14.00 mills for the General Fund, 1.0 mill for the 2010 Bond, and 2.75 mills for the Library for a total of 17.75 mills for the year ending September 30, 2012.

(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 $1,134,718 a 2.2% increase from the prior year. Sales tax receivable consists of taxes collected in August and September 2012 but not received by the City until October and November 2012.

(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, 2012 is $122,959 and the amount of gaming device tax is $117,300, 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 $2,038,663 in boarding fees for the year ended September 30, 2012; this is a decrease of 4.6% in comparison with the prior year. This amount is included in gaming revenue.

NOTE 4: DUE FROM OTHER GOVERNMENTS

Due from other governments consist of the following as of September 30, 2012:

	Governmental Activities
Due from the State of Mississippi	$ 291,787
Due from Hancock County	34,066
Due from FEMA	2,330,709
Due from CDBG	81,161
Total receivables, net	$ 2,737,723

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 is as follows:

	Balance October 1	Additions	Sales/Transfers Adjustments	Balance September 30
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,116,633	$ -	$ -	$ 1,116,633
Construction in progress	12,517,221	2,341,918	(8,209,021)	6,650,118
Total capital assets not being depreciated	13,633,854	2,341,918	(8,209,021)	7,766,751
Capital assets being depreciated:				
Buildings	24,002,251	74,799	1,020,499	25,097,549
Machinery and equipment	2,049,030	84,994	15,000	2,149,024
Improvements/ Infrastructure	20,433,202	379,395	7,157,022	27,969,619
Vehicles	2,659,502	-	(114,715)	2,544,787
Total capital assets being depreciated	49,143,985	539,188	8,077,806	57,760,979
Less accumulated depreciation:				
Buildings	(680,396)	(484,260)	4,617	(1,160,039)
Machinery and equipment	(1,198,719)	(208,215)	(6,550)	(1,413,484)
Improvements/ Infrastructure	(4,452,216)	(979,404)	6,550	(5,425,070)
Vehicles	(1,971,069)	(207,336)	116,711	(2,061,694)
Total accumulated depreciation	(8,302,400)	(1,879,215)	121,328	(10,060,287)
Total capital assets being depreciated, net	40,841,585	(1,340,027)	8,199,134	47,700,692
Governmental activities capital assets, net	$ 54,475,439	$ 1,001,891	$ (9,887)	$ 55,467,443

NOTE 5: CAPITAL ASSETS (Continued)

	Balance October 1	Additions	Sales/Transfers Adjustments	Balance September 30
Business - type activities:				
Capital assets not being depreciated:				
Construction in progress	$ 598,126	$ 1,070,369	$ -	$ 1,668,495
Total capital assets not being depreciated	598,126	1,070,369	-	1,668,495
Capital assets being depreciated:				
Buildings	118,603	-	-	118,603
Machinery and equipment	430,739	216,537	(25,000)	622,276
Water, sewer and gas system	74,848,694	-	-	74,848,694
Vehicles	103,951	-	-	103,951
Total capital assets being depreciated	75,501,987	216,537	(25,000)	75,693,524
Less accumulated depreciation:				
Buildings	(73,623)	(1,000)	-	(74,623)
Machinery and equipment	(367,072)	(18,734)	22,500	(363,306)
Water, sewer and gas system	(11,111,855)	(2,974,539)	-	(14,086,394)
Vehicles	(93,558)	-	-	(93,558)
	(11,646,108)	(2,994,273)	22,500	(14,617,881)
Total capital assets being depreciated, net	63,855,879	(2,777,736)	(2,500)	61,075,643
Business -type activities capital assets, net	$ 64,454,005	$ (1,707,367)	$ (2,500)	$ 62,744,138

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$ 385,323
Public safety	360,666
Streets and public properties	905,046
Culture and recreation	228,180
Total governmental activities depreciation	$ 1,879,215
Business-type Activities	
Water, sewer and gas	$ 2,994,273

NOTE 6: LONG-TERM DEBT

Changes in outstanding debt during the year ended September 30, 2012 are as follows:

Governmental Activities	Payable at October 1	Additions	Principal Reductions	Payable at September 30	Principal Due in One Year
Bonds payable	$ 1,437,500	$ -	$ 337,500	$ 1,100,000	$ 347,500
Capital leases payable	195,109	174,929	60,308	309,730	80,144
Compensated absences payable	310,663	194,015	224,418	280,260	196,904
Total governmental activities	1,943,272	368,944	622,226	1,689,990	624,548
Business-type Activities					
Bonds payable	2,180,000	-	340,000	1,840,000	355,000
Compensated absences	47,528	30,503	34,236	43,795	33,813
	2,227,528	30,503	374,236	1,883,795	388,813
Less deferred loss on bond refinancing	(63,195)	-	10,992	(52,203)	-
Total business - type activities	2,164,333	30,503	385,228	1,831,592	388,813
Total government - wide	$ 4,107,605	$ 399,447	$ 1,007,454	$ 3,521,582	$ 1,013,361

(A) Bonds Payable

At September 30, 2012, the City's outstanding bonds payable are described as follows:

	Date of Issue	Maturity Date	Rates	Original Issue	Balance September 30
Governmental Activities:					
GO Bond, Series 2003	8/27/2003	8/1/2013	2.75-3.9%	$ 2,000,000	$ 240,000
GO Katrina Loan Refinancing Bond, Series 2010	7/20/2010	3/1/2020	2.47%	1,075,000	860,000
Total governmental activities				$ 3,075,000	$ 1,100,000
Business-type Activities:					
GO Water, Sewer, and Gas System Refunding Bonds, Series 2005	4/6/2005	7/1/2017	3.0% - 4.3%	$ 4,290,000	$ 1,840,000
Less deferred loss on bond refunding				(133,716)	(52,205)
Total business-type activities				4,156,284	1,787,795
Total bonds payable at year end				$ 7,231,284	$ 2,887,795

NOTE 6: LONG-TERM DEBT (Continued)

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

Year Ending	Governmental Activities		Business-type Activities		Total
September 30,	Principal	Interest	Principal	Interest	Requirements
2013	$ 347,500	$ 27,115	$ 355,000	$ 75,915	$ 805,530
2014	107,500	17,259	365,000	61,715	551,474
2015	107,500	14,604	380,000	47,115	549,219
2016	107,500	11,949	380,000	31,440	530,889
2017	107,500	9,293	360,000	15,480	492,273
2018-2020	322,500	11,949	-	-	334,449
Total	$ 1,100,000	$ 92,169	$ 1,840,000	$ 231,665	$ 3,263,834

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

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

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

(B) Capital Leases Payable

The City entered into a lease agreement with Bancorp South Equipment Finance on April 28, 2011 for the purchase of three tractors in the amount of $211,441. These assets and lease are reflected in the Governmental Activities column of the Statement of Net Assets.

NOTE 6: LONG-TERM DEBT (Continued)

	Governmental Activities
Equipment	$ 211,441
Less accumulated depreciation	(22,202)
	$ 189,239

The City entered into a lease agreement with First Capital Equipment Leasing Corporation on April 16, 2012 for the purchase of five police vehicles with package equipment installed in the amount of $174,929. As of September 30, 2012, the vehicles were not completed for delivery; therefore the lease amount of $174,929 is reflected in the Statement of Net Assets as restricted cash.

The following is an analysis of the leased assets included in machinery and equipment:

Year ending September 30:		
	2013	$ 88,766
	2014	90,866
	2015	92,664
	2016	54,477
Total minimum lease payments		326,773
Less amount representing interest		(17,043)
Present value of minimum lease payments		$ 309,730

(C) Legal Debt Margin

The City's legal debt limit for general obligation bonds is $18,070,115 of which approximately $16,970,000 is available to the City for further borrowing.

NOTE 7: INTER-FUND 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).

NOTE 7: INTER-FUND TRANSACTIONS (Continued)

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, 2012:

	Due From			
Due To	General Fund	Disaster Fund	Other Governmental Funds	Total
General Fund	$ -	$ 15,502	$ -	$ 15,502
Utility Fund	476,492	-	57,457	533,949
Total	$ 476,492	$ 15,502	$ 57,457	$ 549,451

(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 and 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, 2012:

	Transfers In					
Transfers Out	General Fund	Disaster Recovery Fund	Other Governmental Funds	Utility Fund	Harbor Fund	Total
General Fund	$ -	$ 66,094	$ 295,436	$ 131,250	$ 276,066	$ 768,846
Disaster Recovery Fund	996,780	-	-	413,048	210,488	1,620,316
CDBG Grant Fund	116,022	-	-	320	401,352	517,694
Utility Fund	6,562	200,000	-	-	-	206,562
	$ 1,119,364	$ 266,094	$ 295,436	$ 544,618	$ 887,906	$ 3,113,418

The transfers from the General fund into the Other Governmental funds were for the establishment of a reserve in the Municipal Reserve fund and the transfers to the Disaster Recovery fund, Utility fund and the Harbor fund were for expenditures paid from the General fund for those other funds. The transfers from the Disaster Recovery fund and the CDBG Grant fund into the Utility fund and the Harbor fund were for construction and other expenditures that were reimbursed through federal grants and accounted for in the Disaster Recovery fund or CDBG Grant fund but were actual expenses of the Utility fund and Harbor fund. The transfers from the Disaster Recovery fund into the General fund were for reimbursements of disaster related expenditures that were paid out of the General fund.

NOTE 8: FUND BALANCES & RESTRICED NET ASSETS

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 a 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 the 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 the 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 an unassigned fund balance of $791,019 at September 30, 2012. Prepaid expenditures of $192,664 are considered nonspendable fund balance, $24,222 is considered committed fund balance for recreational purposes and $172,405 is restricted for the 2003 Bond fund, and $174,929 is restricted as lease proceeds for the purchase of five police vehicles.

Other Funds

The amounts restricted in the Disaster Recovery fund and the CDBG Grant fund is considered restricted fund balance for grantor funded disaster recovery and rebuilding efforts after Hurricane Katrina. The amount restricted in the Other Governmental fund is for amounts that are restricted for debt service as reported in the Debt Service fund.

The following non-major fund has a committed fund balance designated for specific purposes:

Municipal Reserve Fund	$252,399

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

The following summarizes restricted net assets on the Statement of Net Assets at September 30, 2012:

2003 Bond fund	$ 172,405
Debt Service	7,030
	$ 179,435

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, 2012, the City paid a total of $318,963 for solid waste services, included in the business-type activities expenses in the statement of activities. The City pays $6.50 per residential solid waste pickup. The City is jointly and severally liable for all of the liabilities of the Authority.

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

NOTE 9: JOINT VENTURES (Continued)

The following is synopsis of the Authority's financial statements as of and for the year ended June 30, 2012:

STATEMENT OF NET ASSETS

ASSETS		
Current assets	$	1,071,737
LIABILITIES		
Current and other liabilities		167,889
NET ASSETS		
Unrestricted	$	903,848

CHANGES IN NET ASSETS

Operating revenues	$	1,550,829
Operating expenses		(2,017,650)
Non-operating revenues (expenses)		13,001
Increase in net assets	$	(453,820)

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 $638,362 for the year ended September 30, 2012, 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 billing system as an assessment for the 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.

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.

NOTE 9: JOINT VENTURES (Continued)

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, 2012:

STATEMENT OF NET ASSETS

ASSETS	
Current assets	$ 1,682,077
Non-current assets	148,862,115
	150,544,192
LIABILITIES	
Current and other liabilities	2,497,720
Long-term debt outstanding	13,298,016
	15,795,736
NET ASSETS	$ 134,748,456

CHANGE IN NET ASSETS

Operating revenues	$ 2,006,075
Operating expenses	(2,839,586)
Non-operating revenues	19,934,572
Increase in net assets	$ 19,101,061

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 a 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.

NOTE 10: RETIREMENT PLANS (Continued)

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 9.0% of their annual covered salary. The City is required to contribute an actuarially determined rate of annual payroll which is 14.26% as of September 30, 2012. 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, 2012, 2011 and 2010 were $537,749, $540,441, and $594,447, 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.

NOTE 11: COMMITMENTS AND CONTINGENCIES

(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.

NOTE 11: COMMITMENTS AND CONTINGENCIES (Continued)

(C) Contract Commitments

The City had the following contract commitments with respect to unfinished capital projects as of September 30, 2012, which will be paid from existing grants:

Governmental Activity	Project Budget	Money Spent to Date	Remaining Commitment
CDBG Waterfront Improvements	$ 9,515,650	$ 6,325,196	$ 3,190,454
McDonald Park	205,894	187,894	18,000
Spanish Trail Sidewalk & Lights	892,514	48,574	843,940
Main Street Lighting	1,049,328	88,454	960,874
Total governmental activity	11,663,386	6,650,118	5,013,268
Business - type Activity			
Utility Fund			
PW 5782 Lift Station #1	527,027	510,703	16,324
Public Water Fluoridation Project	163,235	21,835	141,400
Total utility activity	690,262	532,538	157,724
Harbor Fund			
PW 0641 Jimmy Rutherford Pier	2,462,176	291,472	2,170,704
CDBG Pier & Harbor	16,673,594	847,444	15,826,150
DMR Pier & Harbor	940,278	38,938	901,340
Total harbor activity	20,076,048	1,177,854	18,898,194
Total business - type activity	20,766,310	1,710,392	19,055,918
Total government - wide	$ 32,429,696	$ 8,360,510	$ 24,069,186

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.

NOTE 12: RISK MANAGEMENT (Continued)

(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.

NOTE 13: PRIOR PERIOD ADJUSTMENT

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

	Governmental Activities Exhibit B	Exhibit D	Business - Type Activities Exhibit B & Exhibit F
Correct property clean up accounts receivable	$ (43,363)	$ (43,363)	$ -
Correct prior year transfer of utility capital assets	131,250	131,250	131,250
Correct court fine receivable reporting	-	(119,249)	-
Reclassify construction in process	(523,545)	-	565,917
Total adjustments	(435,658)	(31,362)	697,167
Beginning net assets/ fund balance	57,454,346	4,165,492	62,566,378
Beginning net assets/ fund balance, restated	$ 57,018,688	$ 4,134,130	$ 63,263,545

NOTE 14: SUBSEQUENT EVENTS

The City has evaluated subsequent events through July 22, 2013, which is the date the financial statements are available to be issued.

The City has awarded and amended construction contracts by change orders increasing total construction by approximately $21,519,862. These construction contracts are funded from proceeds of FEMA and CDBG grants and primarily consist of construction of the Harbor.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (with Budget to GAAP Differences)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes:				
Property	$ 2,237,000	$ 1,955,218	$ 1,955,218	$ -
Sales	1,200,000	1,131,741	1,131,741	-
Franchise	376,000	368,870	368,870	-
Licenses and permits	193,000	175,450	175,450	-
Intergovernmental	2,633,102	1,073,691	1,073,691	-
Fines and forfeits	131,500	112,952	113,012	60
Interest	3,000	2,073	2,073	-
Lease revenue	80,000	77,119	77,119	-
Gaming revenues	2,445,000	2,282,423	2,282,423	-
Miscellaneous	675,000	697,053	697,067	14
Total revenues	9,973,602	7,876,590	7,876,664	74
EXPENDITURES				
General government	2,357,491	2,234,930	2,235,030	(100)
Public Safety	3,181,071	3,149,775	3,149,775	-
Streets and public properties	3,353,802	1,789,495	1,789,495	-
Culture and Recreation	420,763	415,653	415,653	-
Total general government	9,313,127	7,589,853	7,589,953	(100)
Excess (deficiency) of revenues over expenditures	660,475	286,737	286,711	(26)
OTHER FINANCING SOURCES (USES)				
Loan & Bond Proceeds	-	15,464	15,464	-
Transfers in	284,040	6,562	6,562	-
Transfers out	(1,519,515)	(545,436)	(545,436)	-
Total other financing sources	(1,235,475)	(523,410)	(523,410)	-
Excess of revenues and other sources over expenditures	(575,000)	(236,673)	(236,699)	$ (26)
Fund balance - beginning	575,000	236,673		
Fund balance - ending	$ -	$ -		
Fund balance - October 1 - GAAP basis, restated			1,020,795	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Receivable/revenue adjustments			1,013,824	
Payable/expenditure adjustments			(442,681)	
Fund balance - September 30 - GAAP basis			$ 1,355,239	

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, 2012

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Intergovernmental	$ 3,637,176	$ 1,209,584	$ 1,524,332	$ 314,748
Interest	-	1,477	1,477	-
Total revenues	3,637,176	1,211,061	1,525,809	314,748
EXPENDITURES				
General government	-	136,137	136,137	-
Streets and public properties	-	295,275	295,275	-
Culture and Recreation	2,462,176	235,128	235,128	-
Total general government	2,462,176	666,540	666,540	-
Excess of revenues and other sources over expenditures	1,175,000	544,521	859,269	314,748
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(1,659,998)	(1,659,998)	-
Total other financing sources	-	(1,659,998)	(1,659,998)	-
Excess of revenues and other sources over expenditures	1,175,000	(1,115,477)	(800,729)	$ 314,748
Fund balance - beginning	-	299,724		
Fund balance - ending	$ 1,175,000	$ (815,753)		
Fund balance - October 1 - GAAP basis, restated			2,529,338	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Receivable/revenue adjustments			(1,069,124)	
Payable/expenditure adjustments			213,954	
Fund balance - September 30 - GAAP basis			$ 873,439	

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, 2012

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Intergovernmental	$ 15,925,713	$ 3,235,595	$ 2,237,366	$ (998,229)
Total revenues	15,925,713	3,235,595	2,237,366	(998,229)
EXPENDITURES				
General government	29,222	133,922	57,847	76,075
Public Safety	21,491	46,706	31,491	15,215
Streets and public properties	175,000	565,753	238,622	327,131
Culture and Recreation	15,700,000	2,489,214	2,146,868	342,346
Total general government	15,925,713	3,235,595	2,474,828	760,767
Excess of revenues and other sources over expenditures	$ -	$ -	$ (237,462)	$ (237,462)
Fund balance - October 1 - GAAP basis, restated			189,528	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Payable/expenditure adjustments			120,671	
Fund balance - September 30 - GAAP basis			$ 72,737	

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 Council 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, Disaster Recovery Fund budget and the CDBG Grant Fund are adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is the department level. The City Clerk's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Council 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.

NOTE B: EXCESS OF EXPENDITURES OVER BUDGET

The General Fund budget to actual comparison schedule reflects an excess of expenditures over revenues for the year ended September 30, 2012.

The excess of expenditures over revenues in the CDBG Grant Fund is due to capital outlay and the delay in receiving federal grant reimbursements.

COMBINING FINANCIAL STATEMENTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	Municipal Reserve Fund	Debt - Service Fund	Total Other Governmental Funds
ASSETS			
Cash and cash equivalents	$ 252,399	$ 7,030	$ 259,429
Due from other funds	-	57,457	57,457
Total assets	$ 252,399	$ 64,487	$ 316,886
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ -	$ -	$ -
Total liabilities	-	-	-
Fund balances:			
Restricted, reported in non-major:			
Debt service	-	64,487	64,487
Committed, reported in non-major:			
Municipal Reserve	252,399	-	252,399
Total fund balances	252,399	64,487	316,886
Total liabilities and fund balances	$ 252,399	$ 64,487	$ 316,886

CITY OF BAY ST. LOUIS, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Municipal Reserve Fund	Debt Service Fund	Total Other Governmental Funds
REVENUES			
Interest	$ 2,358	$ 157	$ 2,515
Total revenues	2,358	157	2,515
EXPENDITURES			
Current:			
Debt Service:			
Principal	-	337,500	337,500
Interest	-	38,034	38,034
Total Expenditures	-	375,534	375,534
Excess (deficiency) of revenues over expenditures	2,358	(375,377)	(373,019)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	295,436	295,436
Total other financing sources (uses)	-	295,436	295,436
Change in Fund Balance	2,358	(79,941)	(77,583)
Fund balances - beginning	250,041	144,428	394,469
Fund balances - ending	$ 252,399	$ 64,487	$ 316,886

OTHER SUPPLEMENTARY INFORMATION

CITY OF BAY ST. LOUIS, MISSISSIPPI
SURETY BOND SCHEDULE
SEPTEMBER 30, 2012

Name	Position	Surety	Bond
Les Filllingame	Mayor	Liberty Mutual	$ 100,000
Phillip D. Seal, Jr.	Councilperson	RLI Surety	100,000
Wendy McDonald	Councilperson	RLI Surety	100,000
Jeffery Reed	Councilperson	RLI Surety	100,000
Ray Kidd	Councilperson	RLI Surety	100,000
Joey Boudin	Councilperson	CNA Surety	100,000
William J. Compretta	Councilperson	RLI Surety	100,000
William E. Taylor	Councilperson	RLI Surety	100,000
David Kolf	City Clerk	Liberty Mutual	100,000
Katherine Smith	Comptroller	Liberty Mutual	100,000
Peggy Averhart	Court Clerk	RLI Surety	50,000
Melanie Raboteau	Deputy City Clerk	RLI Surety	50,000
Clementine Sheppard	Deputy City Clerk	RLI Surety	50,000
Sandra Day	Deputy City Clerk	RLI Surety	50,000
Laura Griffith	Deputy City Clerk	RLI Surety	50,000
Charlene Black	Notary Bond	Southgroup	5,000
Carolyn Adams	Deputy City Clerk	RLI Surety	50,000
Cindy Elliot	Deputy City Clerk	RLI Surety	50,000
Patricia Tice	Deputy City Clerk	RLI Surety	50,000
Patricia Tice	Notary Bond	Southgroup	5,000
Mary Ann Bremer	Notary Bond	Southgroup	5,000
Paula Fairconnetue	Notary Bond	Southgroup	5,000
Police Department	Departmental	RLI Surety	50,000
Fire Department	Departmental	RLI Surety	50,000

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-through Grantors Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed through State of Mississippi Development Authority			
Community Development Block Grant - Entitlement Grant	14.218	R103-112-02-KCR	$ 1,705,869
Community Development Block Grant - Entitlement Grant	14.218	R109-112-03-KCR	10,000
Community Development Block Grant - Entitlement Grant	14.218	R109-112-06-KCR	10,000
Community Development Block Grant - Entitlement Grant	14.218	R109-112-04-KCR	10,000
Community Development Block Grant - Entitlement Grant	14.218	R109-112-05-KCR	10,000
Community Development Block Grant - Entitlement Grant	14.218	R118-112-01-HCCR	28,691
Community Development Block Grant - Entitlement Grant	14.218	R118-112-03-HCCR	10,000
Community Development Block Grant - Entitlement Grant	14.218	R118-112-04-HCCR	10,000
Community Development Block Grant - Entitlement Grant	14.218	R118-112-07-HCCR	33,821
Community Development Block Grant - Entitlement Grant	14.218	R118-112-11-HCCR	400,902
Community Development Block Grant - Entitlement Grant	14.218	R118-112-12-HCCR	8,082
Total U. S. Department of Housing and Urban Development			2,237,365
U.S. Department of Justice			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580		148,457
Public Safety Partnership & Community Policing Grant	16.710	2010UMWX0176	33,313
Total U. S. Department of Justice			181,770
U.S. Department of Transportation			
Passed through State of Mississippi			
Department of Public Safety the Division of Public Safety Planning			
State & Community Highway Safety - NHTSA	20.600	12-TA-202-1	841
Total U.S. Department of Transportation			841
U. S. Department of Health and Human Services			
Centers for Disease Control and Prevention			
Preventative Health and Health Services Block Grant	93.991		21,835
Total U. S. Department of Health and Human Services			21,835
U. S. Department of Homeland Security			
Passed through State of Mississippi			
Diaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1604-DR-MS	954,150
Diaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		186,534
Hazard Mitigation Grant	97.039	1604-367	62,778
Total U. S. Department of Homeland Security			1,203,462
Total Federal Financial Assistance			$ 3,645,273

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards includes 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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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*

July 22, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, 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, 2012, which collectively comprise City of Bay St. Louis, Mississippi's basic financial statements and have issued our report thereon dated July 22, 2013. 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

Management of City of Bay St. Louis, Mississippi is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 2012-1 and 2012-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies 2012-2 and 2012-4.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain other matters that we reported to management of the City of Bay St. Louis, Mississippi in a separate letter dated July 22, 2013.

The City of Bay St. Louis, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of corrective action plan. We did not audit the City of Bay St. Louis, Mississippi's responses 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

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

July 22, 2013

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

Compliance

We have audited City of Bay St. Louis, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Bay St. Louis, Mississippi's major federal programs for the year ended September 30, 2012. 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'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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

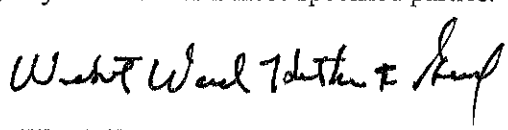
Internal Control over Compliance

Management of 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of management, City Council, others within the entity, 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

July 22, 2013

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, 2012, and have issued our report dated July 22, 2013. 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 instance of noncompliance with state laws and regulations. Our finding and recommendation is as follows:

Finding

Court fine receivables are not properly maintained. We noted instances where payments and adjustments were not reflected in individual case files, and some adjustments were made without proper documentation and approval. We also noted that bench warrants were inconsistently issued. Also, court assessments were overpaid because the collections were not accurately reconciled to the general ledger.

Recommendation

We recommend that the court department review the active files monthly to ensure that each case is reviewed and that all correspondence is documented within the files, and the court department should consistently issue warrants for non-payment. We also recommend that management ensure that proper procedures are in place for timely remittance of all court assessments. We recommend that court fine

revenue is reconciled monthly from the court software system to the general ledger accounting system and that any discrepancies are corrected immediately. A court fine receivable report should be generated monthly and reviewed for proper financial reporting and collection.

Response

Management is reconciling the court assessments to the general ledger to ensure accuracy. The overpayment occurred due to an audit adjustment entry which changed the payables balances in prior years and was not reversed. The state assessment charges are a result of daily court deposits and each deposit is verified as to where revenue is booked to the City or to a payables account to be sent to the State of Mississippi.

The Court staff will improve recordkeeping in the case files to accurately record fine waivers, changes and allowances for time served. The Court Clerk is working to issue warrants for non-payment of fines and non-appearances in Court.

The instances of noncompliance of the prior year have been corrected by management, unless it is specifically stated otherwise in the findings and recommendations noted above.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the finding in this report to ensure that corrective action has been taken.

Wright Ward Hatten & Guel

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

1.	Type of Auditors' Report Issued	Unqualified
2.	Internal Control over Financial Reporting:	
	a. Material weakness (es) identified	Yes
	b. Significant deficiency (ies) identified not considered to be material weaknesses?	Yes
3.	Noncompliance material to financial statements noted?	No

Federal Awards

4.	Internal control over major programs:	
	a. Material weakness (es) identified?	No
	b. Significant deficiency (ies) identified not considered to be material weaknesses?	No
5.	Type of auditors' report issued on compliance for major programs:	Unqualified
6.	Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No
7.	Identification of major programs:	
	a. 14.218 U.S. Department of Housing and Urban Development Community Development Block Grants – Entitlement Grants to Cities	
8.	Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
9.	Auditee qualified as low risk auditee?	No
10.	Prior year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior? audit findings as discussed in Section_.315 (b) of OMB Circular A-133?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-1: Procurement and Purchasing *Prior year finding*

Criteria: Proper internal controls over purchasing and accounts payable require that payments to vendors should be made from the original invoice (not a quote or statement). To ensure that software internal controls are utilized, the purchasing department should enter every invoice number exactly as recorded on the invoice. Invoices should be cancelled once they are paid, by stamping "PAID" on the original invoice to prevent duplication of payment.

Condition: We noted instances where invoices were paid twice and payments were made from copies of invoices or from quotes.

Cause: The accounts payable department paid vendors from copies of invoices and repair orders. It appears that invoices are inconsistently entered into the accounts payable software, and this allows for payment of invoices that have previously been paid. A thorough review of the claims docket was not performed to detect duplicate payments had been made.

Effect: The City can incur expenditures that are unbudgeted, unallowable or improperly authorized from lack of following proper procurement procedures. This also creates an opportunity for misappropriation of City funds through improper disbursements that could be in violation of state laws and other guidelines. Vendors could be overpaid which could affect budgeted appropriations.

Recommendation: We recommend that all payments should be made from original invoices, that invoice numbers are entered exactly as they are on the invoice, and that all invoices are stamped as "PAID" to avoid duplicate payments. We recommend that management scrutinize each claims docket before presentation to the Council to avoid improper or duplicate vendor payments.

2012-2: Building Permits

Criteria: The City's ordinance requires that all new building construction and remodels are to have a valid building permit and if necessary, be renewed.

Condition: We noted inconsistent treatment regarding fee assessments and instances where permit fees were not assessed or waived entirely which violates the City's ordinance. We also noted that permit applications were incomplete and not signed by the applicant or a city official and that files were missing documentation notating inspections.

Cause: The permit department inconsistently charges citizens for various permits, and in several cases, no fees were charged for shed or fence permits. Fee waivers were not approved by Council. In some cases, the permit department did not follow up on construction projects in progress, and once completed, they did not verify that previous issues had been addressed.

Effect: Noncompliant applicants/construction projects are in violation of the City's ordinance. This creates a shortfall of permit revenue because the fees are waived or not collected for some

projects. The City is incurring personnel costs because they are required to inspect all projects, but they are receiving no revenue for these particular projects. In some cases, building projects may be non-compliant due to lack of follow-up, lack of final inspections, and lack of certificates of occupancy.

Recommendation: We recommend that all building projects have a completed and signed application on file with all applicable fees assessed and collected. If management determines that a wavier is appropriate, it should be approved by the Council and documented within the minutes. The City should maintain a listing of open permits and timely review the list to ensure that all applicants are paying renewal fees every six months and that follow-up and final inspections are completed.

2012-3: Court Fines and Related Assessments

Criteria: Proper accounting for court fine revenue is required to accurately determine court assessments and court fine receivables for each court case. The court department is required to accurately account for and record court fine receivables. The City is required to submit monthly court assessments to various agencies within the City and the State to determine the amount of assessments due.

Condition: Court fine receivables are not properly maintained. We noted instances where payments and adjustments were not reflected in individual case files, and some adjustments were made without proper documentation and approval. We also noted that bench warrants were inconsistently issued. Also, court assessments were overpaid because the collections were not accurately reconciled to the general ledger.

Cause: The City's court department is not following up on offender's payments, nor or they properly documenting payments and correspondence. The department is making modifications to some records, and they are not getting management approval. Management is not reconciling the court assessment reports to the general ledger to ensure accuracy.

Effect: Inadequate review of receivables can result in noncompliance with State laws and inaccurate court fine receivables which could cause inaccuracies within the City's financial statements. Overpayment of court assessments decreases the amount of cash available for the City to utilize for legitimate expenditures.

Recommendation: We recommend that the court department review the active files monthly to ensure that each case is reviewed and that all correspondence is documented within the files, and the court department should consistently issue warrants for non-payment. We also recommend that management ensure that proper procedures are in place for timely remittance of all court assessments. We recommend that court fine revenue is reconciled monthly from the court software system to the general ledger accounting system and that any discrepancies are corrected immediately. A court fine receivable report should be generated monthly and reviewed for proper financial reporting and collection.

2012-4: Rental of City Facilities

Criteria: The City should implement policies and procedures to ensure that deposits are consistently collected in a timely manner and determine before rental date that deposits paid by check have funds that are available. The City should adhere to the cancellation policy for all rental facilities. The City should also restrict access into all rental facilities for the limited period of rental time.

Condition: We noted that deposits were not collected for all events, and in some cases deposits and payments made to the City did not have time to clear the issuer's bank to ensure that the funds were available. It appears the cancellation policy is not enforced for all rental facilities. Also as noted, the City has allowed renters to keep the keys to the facility for several days; therefore, allowing renters unlimited access.

Cause: The City's rental manager inconsistently charges renters a deposit fee. Deposit fees ensure proper clean up by the renter and restitution for possible damages. Also, it appears that there were inconsistencies regarding hours charged for usage of the facilities, and it was noted that renters were keeping the keys to the facilities beyond the rental period, allowing unlimited access to the rental facility.

Effect: In cases where a deposit was not collected, the City would have no recourse in cases of improper cleaning or damages to the facilities. For renters who were not charged based on actual hours of usage, the City has a loss of revenue. The City could have additional liability for allowing renters to keep the keys for any facility for any amount of time not rented.

Recommendation: We recommend that the City enforce the terms of the rental contracts for all rental facilities. We also recommend that the City charge renters based on actual time used including setup time. We recommend that the City ensure that facility keys are returned to City personnel in a timely manner.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There are no federal awards findings for the year ended September 30, 2012.

CORRECTIVE ACTION PLAN AND SUMMARY OF PRIOR YEAR FINDINGS

BAY SAINT LOUIS
A PLACE APART

Corrective Action Plan
For the Year Ended September 30, 2012

Section 2: Financial Statement Findings

Finding 2012-1: *Prior year finding*

Condition: We noted instances where invoices were paid twice and payments were made from copies of invoices or from quotes.

Corrective Action: The one significant duplicate payment resulted from an insurance invoice being received from both the underwriting company and the insurance broker. This was identified and the City was reimbursed in full for the duplicate payment amount. A review of the claims docket is performed to detect duplicate payments and errors.

Finding 2012-2:

Condition: We noted inconsistent treatment regarding fee assessments and instances where permit fees were not assessed or waived entirely which violates the City's ordinance. We also noted that permit applications were incomplete and not signed by the applicant or a city official and that files were missing documentation notating inspections.

Corrective Action: One commercial project was not assessed a building permit fee because it is a Federally Funded project which did not include a budget for permits. It has been a long time practice of the City of Bay Saint Louis not to charge government entities when grant funded projects did not include permit fees. Management feels changing the ordinance to assess a fee to cover the cost of the inspections but waive permit fees for large federally funded government projects may be something for the City Council to consider.

Commercial permit fee processes are being reviewed and changed to standardize the fee calculation and remove the current process which involves manually calculating permit fee based on numerous variables within the project.

City management will ensure that the Building Department continues to improve recordkeeping. Charges for shed and fence permits will be reviewed with the building department staff.

Finding 2012-3:

Condition: Court fine receivables are not properly maintained. We noted instances where payments and adjustments were not reflected on individual case files, and some adjustments were made without proper documentation and approval. We also noted that bench warrants were

inconsistently issued. Also, court assessments were overpaid because the collections were not accurately reconciled to the general ledger.

Corrective Action: Management is reconciling the court assessments to the general ledger to ensure accuracy. The overpayment occurred due to an audit adjustment entry which changed the payables balances in prior years and was not reversed. The state assessment charges are a result of daily court deposits and each deposit is verified as to where revenue is booked to the City or to a payables account to be sent to the State of Mississippi.

The Court staff will improve recordkeeping in the case files to accurately record fine waivers, changes and allowances for time served. The Court Clerk is working to issue warrants for non-payment of fines and non-appearances in Court.

Finding 2012-4:

Condition: We noted that deposits were not collected for all events, and in some cases deposits and payments made to the City did not have time to clear the issuer's bank to ensure that the funds were available. The City also lacks a written cancellation policy for all rental facilities. Also as noted, the City has allowed renters to keep the keys to the facility for several days; therefore, allowing a renter unlimited access.

Corrective Action: Management agrees with the cancellation policy and deposit policy being incorporated into the rental agreement. The key return policy can also be added to the rental agreement. Last minute rentals, sometimes even the day of the event, have occurred too soon to allow the deposit to be banked prior the event. Management is planning to install a drop box to allow keys to be returned from outside the building.

BAY SAINT LOUIS
A PLACE APART

Summary of Prior Year Audit Findings
For the Year Ended September 30, 2012

Finding Number	Prior Year Finding
2011-6	Improper Cash Management

Condition: During testing of certain federally funded projects we noted that receipts from granting agencies were not timely deposited into the City's depository account.

Recommendation: We recommend that all receipts be timely deposited into the City's proper depository account. We also recommend that Community Development Block Grant vendor invoices be submitted for Council approval for payment simultaneously with the request for cash, so when the federal funds are received the invoices can be paid immediately.

Corrective Action: Various federally funded projects had advance payments sent to the City prior to invoicing by contractors. The City would hold the checks until three days prior to making payment to be in compliance with the requirement to disburse funds within three days of receipt.

The process of funding projects has changed to submit cash requests for reimbursement rather than receiving advance payments. Most of the projects have closed out and are complete. The City is not holding any advance payments for any projects.

City of Bay St. Louis • P.O. Box 2550 • Bay St. Louis, MS 39521 • 2550